

ANNUAL REPORT 2012



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## 2012 in brief

### IMPORTANT EVENTS DURING 2012

- Probi received a new industrial shareholder after German company Symrise acquired 15.0% of the share capital and 15.4% of the votes.
- Probi signed a research and development agreement with German Symrise concerning oral health.
- Probi signed a business development agreement with Viva 5 to market Probi Digestis<sup>®</sup> and Probi Defendum<sup>®</sup> to new Consumer Healthcare distributors in North America.
- Probi signed a distribution and co-marketing agreement with Vifor Pharma to launch Probi Digestis and Probi Defendum in the Swiss pharmacy market.
- Heinz launched Golden Circle Healthy Life<sup>™</sup> Probiotic Juice, based on Probi Defendum, in Australia.
- Probi signed a distribution agreement with USV Ltd to launch Vibact IBS, based on Probi Digestis, in India.
- Probi signed a distribution agreement with Alvogen IPCO S.Á.R.L. to launch Probi Digestis and Probi Defendum in Taiwan.
- Probi's clinical trials in the immune system and gastrointestinal health were concluded during the year without achieving the anticipated results.
- Probi's environmental management system acquired ISO14001 certification.

### EVENTS AFTER THE BALANCE-SHEET DATE

- The Board of Directors proposes a dividend totalling MSEK 6.8 (6.8), corresponding to SEK 0.75 (0.75) per share.

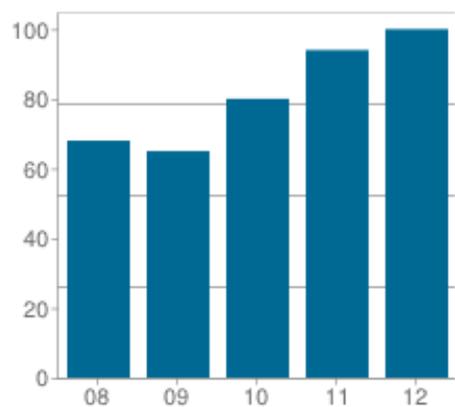
### NEW EMPLOYEES IN 2012

- Gun-Britt Fransson, Vice President Research & Development
- Malin Björklund, Product Developer
- Michael Möller Jensen, Director Marketing & Sales Consumer Healthcare

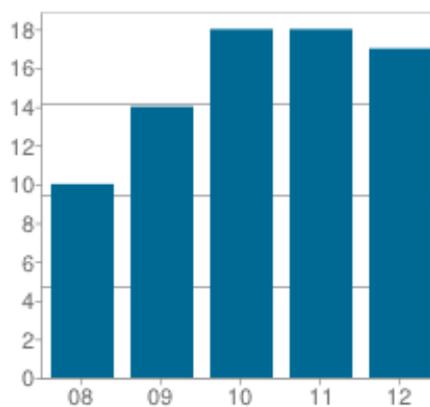
## Financial information 2012

- Net sales amounted to MSEK 99.6 (94.4), up 6%.
- Operating income before depreciation, amortisation and impairment (EBITDA) amounted to MSEK 23.6 (26.7), down 12%.
- Operating profit totalled MSEK 17.2 (17.8), down 3%.
- Total cash flow amounted to MSEK 11.1 (neg: 13.6).
- Profit after tax per share was SEK 1.48 (1.54).

### Net sales, MSEK



### Operating profit, MSEK



## CEO's statement

### We are well equipped for continued development



In 2012, our primary achievement was maintaining the positive trend we have experienced for several years in Consumer Healthcare. Total sales rose 6%, but growth was impacted when the longstanding positive sales trend for ProViva in the Swedish market was interrupted and sales declined slightly. Probi's other revenue rose 14%, largely the result of a positive trend in Consumer Healthcare.

Our gross margin was also higher compared with 2011. However, the operating margin declined due to increased personnel costs in Consumer Healthcare, to which we also reallocated resources from Functional Food. We consider this a key investment in our continued growth.

#### Commercial development

In 2012, Probi signed six new agreements with new partners. I would like to mention two agreements in particular that were signed in December. The first concerns the development of completely new probiotic-based products for oral health in partnership with the German Symrise Group. Symrise also became Probi's largest owner during the year. We look forward to developing our partnership with Symrise in 2013. The second agreement is the new partnership with Viva 5 in the US, which will enable us to intensify our development of the strategic North American Consumer Healthcare market.

#### EFSA applications

Probi's product platforms Probi Digestis<sup>®</sup> and Probi Defendum<sup>®</sup> are based on solid clinical data from a large number of clinical trials. They provide a basis for internationally competitive products that are purchased by consumers because they experience significant improvements in their health. However, Probi is in the same situation as the rest of the international probiotic industry – no one has yet been able to present sufficiently strong clinical evidence to have their health claims approved in the EU. In 2012, we concluded our two trials in immune and gastrointestinal health without achieving the anticipated results. The material from the trials is extremely comprehensive and will prove invaluable to us as we continue to develop and document our product platforms. In 2013, we will commence new trials that, in combination with our historic material, will provide data for EFSA applications.

#### Our advances provide a solid platform for continued development

It is now 20 years since Skånemejerier launched ProViva, which was a revolutionary fruit drink at the time, developed by Probi in partnership with Skånemejerier. The drink demonstrably helped consumers feel better. ProViva is now sold by DANONE and proved a significant milestone in our history.

Probi has managed to transform its R&D in IBS and the common cold into a successful business. Following the initial success with ProViva, we launched an entirely new business area in Consumer Healthcare. In recent years, we have refined our business model to also include establishing our proprietary brand Probi<sup>®</sup> among consumers.

Our operations are international and our products are now sold in about 20 countries. In parallel with this development, our sales have increased every year, with retained profitability, despite challenges in the form of a weak economy and more stringent regulatory requirements throughout the industry.

### **New research presents new opportunities**

The approximately one-hundred trillion bacteria that colonise every human body, our microbiota, are now one of the most important fields in medical research. Tools for mapping microbiota and their effects are now available, and the health benefits of macrobiotic foods are gradually being identified. As a result, more sophisticated probiotic products will be developed in the future, as well as other types of products that can manipulate our microbiota. Our focus on research provides real opportunities for participating in this advancement, and we are rigorously monitoring all developments.

R&D is also highly significant for Probi in the short-term. In addition to the new trials that will lead to EFSA applications for products that improve immunity and gastrointestinal health, separate trials involving children will commence in these areas in 2013. Another exciting project is the R&D partnership with Symrise in oral health, with which we hope to reach an entirely new market.

### **Probi is growing internationally**

Probi is growing, and Consumer Healthcare and our international sales are the main drivers of this growth. In 2012, revenue outside the Nordic region rose 25%. To secure continued growth, we have strengthened our marketing and sales organisation. In the EU, the EFSA's rejection of health claims for probiotics has led to uncertainty throughout the entire industry. Our business development is therefore focused on North America, Asia and Eastern Europe.

### **Capacity for continued advancement**

We are working tirelessly toward our long-term objective of being a leading probiotic company, also at international level, and the capacity to overcome both our long and more short-term challenges is highly favourable. We have consistently demonstrated strong business results and the many years of research behind our products provides strength amid international competition. Opportunities for acquisitions and new alliances as a means of growing faster and broadening our product portfolio and distribution channels are continuously evaluated. We have the organisational capacity for this to take place – experienced and competent employees who can think “outside the box” – as well as the financial resources with a strong balance sheet.

Lund, March 2013



Michael Oredsson, CEO

## Probi's business - Science for a good life

Probi operates in the global health products market. The company offers premium probiotics to food, health and pharmaceutical companies. In turn, these offer their customers probiotics in the form of Functional Food under such brands as ProViva, GoodBelly and Golden Circle Healthy Life, or tablets and capsules under such brands as Bion Transit and Nature Made. Probi also offers its proprietary brands, Probi Mage<sup>®</sup> and Probi Frisk<sup>®</sup>, in the Nordic market.

### VISION

Probi's vision is to be the world leader in the premium segment for probiotics by providing a top-quality product range, with profound health benefits, in the world's most important health markets.

### MISSION

Probi provides consumers the world over the opportunity to improve their health through clinically tested, effective probiotics.

### BUSINESS CONCEPT

To provide probiotics with clinically documented, positive health benefits for leading food and dietary supplement companies.

### BUSINESS AREAS

Probi's business is organised into two business areas, Functional Food and Consumer Healthcare:

#### Functional Food business area

Probi's Functional Food business area develops food that provides beneficial health effects. This takes place in partnership with leading food companies with the aim of commercialising and marketing products with high volume potential.

#### Consumer Healthcare business area

The Consumer Healthcare business area develops, markets and sells Probi probiotics in partnership with pharmaceutical companies and other companies specialised in probiotics and self-care products, under Probi's proprietary brand and those of its partners. The regulatory status of the products is either food or consumer healthcare products depending on the market.

### PROBI'S BRANDS AND PRODUCT PLATFORMS

Probi's brand strategy aims to profile Probi against both consumers and companies. The aim is that both brands, Probi Digestis<sup>®</sup> and Probi Defendum<sup>®</sup>, will hold a prominent position in the consumer packaging of Probi's partners, as either the main brand or a prominent ingredient brand. Probi registers its brands in all relevant countries and connects them to product platforms to clearly differentiate the products and make it easier for consumers when choosing a product. The platforms enable a number of partnerships for Probi – independent of partner, market and business model.

**Probi Digestis:** clinical documentation for colon irritable/IBS (irritable bowel syndrome) based on *Lactobacillus plantarum* 299v (DSM 9843).

**Probi Defendum:** clinical documentation for the prevention and relief of colds and similar infections based on a combination of the bacterial strains *Lactobacillus plantarum* HEAL9 (DSM 15312) and *Lactobacillus paracasei* 8700:2 (DSM 13434).

## PROBI'S FINANCIAL OBJECTIVES

Probi's overall objectives are to generate a return for its owners, and to generate funds for developing the business operations and creating growth. The management leads and controls the company based on the guidelines and financial objectives adopted by the Board. The financial objectives adopted in 2010 (see below) have been adapted to new conditions and are replaced by the following objectives for the fiscal years 2013 and 2014:

- At least 10% average organic growth.
- A net margin<sup>1</sup> exceeding 20%.

Probi predicts favourable growth in Asia, North America and Eastern Europe over the next few years. During this period, a generally weak trend is expected in the EU probiotics market as health claims for probiotics are not permitted and a weak economy. Probi aims to receive approval for its health claims in the EU over the next few years, which will enable an adjustment of the financial objectives.

## RESULTS OF THE OBJECTIVES THAT APPLIED UNTIL THE END OF 2012

Objective	Objective attainment
At least 25% average growth.	Organic growth in 2012 was 6% (17).
Net margin <sup>1</sup> exceeding 25%.	The net margin in 2012 was 18% (21).
Positive cash flow, excluding financing activities, amounting to at least 50% of operating income.	Cash flow excluding financing activities in 2012 was MSEK 17.9 (7.5), corresponding to 104% of operating profit (42).

1) Profit before tax as a percentage of net sales.

## STRATEGY

Probi's strategic focus is on probiotic-based products, where Probi has world-leading, patented technology. Probi's growth strategy comprises initiatives in the following areas:

### New markets:

Most of Probi's sales today are in the Nordic region and the potential for international growth is great. Markets where Probi has growth potential include Asia, North America and Eastern Europe. In the North American market, Probi will continue to focus on expanding the number of sales channels.

### New product platforms:

Probi currently has products in the gastrointestinal health and immune system niches. The research strategy is to develop additional clinical platforms and produce products in new indication areas.

### New product formats:

The development strategy in this area focuses on developing new product solutions based on Probi's existing clinical platforms, Probi Digestis and Probi Defendum. One example could be target-group-adapted combination products with probiotics plus vitamins or minerals.

## BUSINESS MODEL

Probi applies three business models adapted to business area, risk and opportunity. These business models and a summary of Probi's partnerships are described below.

## Licensing model

This model is applied in the Functional Food business area. Customers are predominantly leading food companies with the potential to achieve major sales volumes. Revenue is mainly derived from royalties from partner-generated sales. This model carries a very low risk, but Probi receives a limited portion of the revenue and the value chain. The licensee usually owns the product brand, while Probi guarantees the product through its ingredient brand.

## Product model

This model is applied in the Consumer Healthcare business area. Revenue derives from sales of ready-made products in bulk or consumer packaging to a partner or distributor. This model carries a low to medium-high risk and provides opportunities for higher revenue and a larger share of the value chain than the licensing model. The product brand is owned by the partner or distributor, while Probi guarantees the product through its ingredient brand.

## Consumer model

This model is applied in the Consumer Healthcare business area. Probi's proprietary brands are marked clearly on the packaging and in all communication. Examples include sales of Probi Frisk and Probi Mage in the Nordic market and the Swiss launch in partnership with Vifor in 2013. Revenue is derived from sales of ready-made products to a partner, or in a joint-venture model that creates opportunities for building Probi's brand among consumers. A joint venture model enables more control and generates higher revenue for Probi, but also entails higher risk since Probi contributes to marketing investments.

BUSINESS MODEL	REVENUE	RISK	REVENUE LEVEL	CUSTOMERS/PARTNERS	MARKET	PRODUCTS
LICENSING MODEL	Royalties based on partner-generated sales	Low	Low	Danone Heinz NextFoods	Nordic region Australia US	ProViva GoldenCircle Healthy Life GoodBelly
PRODUCT MODEL	Sales of goods in bulk or consumer packaging	Low/ Medium	Medium/ High	Camox Sanum Polska Proton Systems Health World Pharmavite	South Africa Poland Serbia Australia US	Based on Probi's product platforms under each distributor's brand.
CONSUMER MODEL	Sales of goods in consumer packaging	Medium	High	Bringwell Vifor	Nordic region Switzerland	Probi Mage Probi Frisk

## PROBI'S LOGOTYPE AND BRAND

The word "probiotics" is derived from the Latin word pro and the Greek word bios, which together make the word probio – for life.

Probi's logotype is a large P, which symbolises the stomach from where the probiotics spread their health benefits. There is also a red dot in the P, in the shape of a bacterium, which symbolises Probi's patented bacterium, *Lactobacillus plantarum* 299v (DSM 9843). The logotype also symbolises a figure that is looking curiously up at you.

Science for a good life – is Probi's motto and summarises the company's soul and core.

## The share

### LISTING

Probi has been listed on the NASDAQ OMX Nordic Exchange Stockholm since 2004 and trades under the symbol PROB. Probi is part of the Small Cap segment, which consists of small companies with market values up to MEUR 150. Probi belongs to the Healthcare and Biotech sectors.

### SHARE CAPITAL

In 2012, Probi's share capital remained unchanged and amounted to SEK 46,826,500 (46,826,500), divided among 9,365,300 shares. Each share carries the right to one vote and the same rights to a share in the company's assets and profit. The quotient value of the share is SEK 5.

### OWNERSHIP

The number of registered shareholders at 31 December 2012 was 4,980, compared with 4,463 at 31 December 2011. Of the total number of shares, institutional ownership accounts for about 63.9% (68.2), private owners 36.1% (31.8) and foreign owners for about 30.9% (18.2). The largest proportion of shares held by foreign owners is in Europe, corresponding to 28.6% (16.2) of the total number of shares. Probi's two principal owners, Symrise AG and Livförsäkrings AB Skandia control 24.6% of the capital and 25.2% of the votes.

### HOLDING OF TREASURY SHARES

At year-end, Probi held 250,000 treasury shares, or 2.7% of the total number of shares, with a quotient value of SEK 5 per share. These shares were acquired in 2011 for MSEK 11.8. In 2012, there was no buyback of own shares.

### OWNERSHIP CHANGES IN 2012

In 2012, German company Symrise acquired shares in Probi and became Probi's largest shareholder. At year-end, Symrise's holding corresponded to 15.0% of the capital and 15.4% of the votes according to Euroclear Sweden AB. In August 2012, Consepio divested its entire holding in Probi which, at the time, corresponded to 9.7% of the capital.

### SHARE PERFORMANCE

In 2012, Probi's share declined 15% and was listed at a closing price of SEK 44.40 (52.50) at year-end. OMX Stockholm PI rose 12% during the year. The highest and lowest prices in 2012 were SEK 67.00 (55.00) and SEK 27.10 (40.00), respectively. On 31 December 2012, Probi's total market value was MSEK 405 (492). During 2012, 7,846,447 (5,244,257) Probi shares were traded on NASDAQ OMX Nordic, corresponding to 84% (58) of the total number of shares outstanding. The average turnover of shares per trading day was 31,386 (20,728). The turnover rate, or liquidity, was 84% (54).

### DIVIDEND POLICY

The Board of Directors and the CEO propose that the 2013 Annual General Meeting approve that the company pay a dividend of SEK 0.75 per share, entailing a total dividend of MSEK 6.8 (6.8), and that the remaining retained earnings of MSEK 41.2 be carried forward. The dividend proposed by the Board of Directors comprises 51% of profit after tax for 2012.

Assuming that Probi is able to maintain a suitable capital structure in the future, and that it is deemed possible to maintain the company's financial objectives, Probi's goal is to be able to pay a dividend of 30-50% of profit after tax.

### OPTIONS PROGRAMME

Probi has no outstanding convertible loans or outstanding warrants.

## SHARE CAPITAL DEVELOPMENT

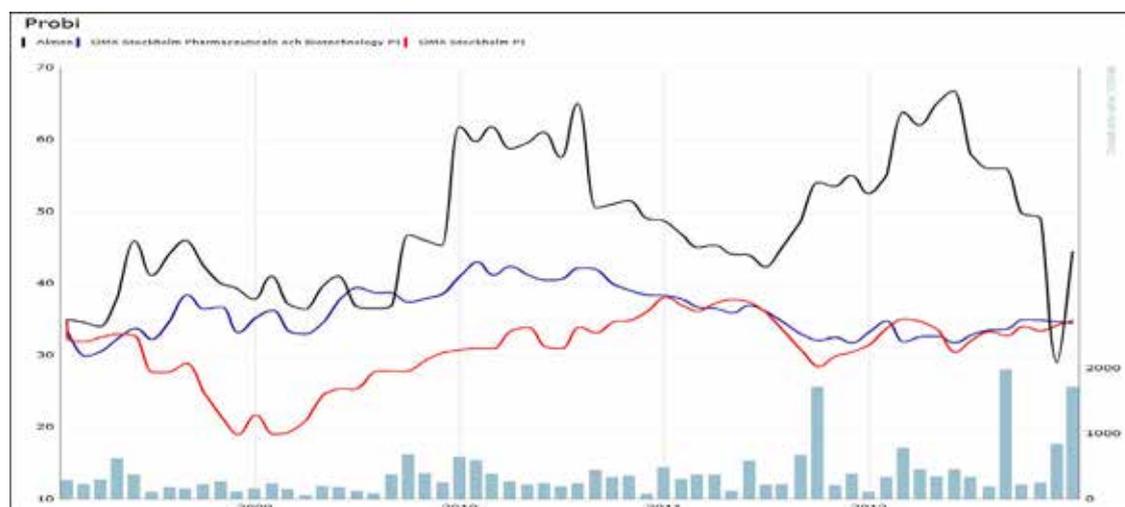
Event	Year	Issue price	Increase in no. of shares	Total no. of shares	Par value of share	Increase in share capital	Share capital
Establishment	1991		500	500	100	50,000	50,000
Bonus issue 1:1	1997		500	1,000	100	50,000	100,000
Targeted issue <sup>1</sup>	1997		150	1,150	100	15,000	115,000
Split 100:1	1997		113,850	115,000	1	-	115,000
Bonus issue 34:1	1998		3,910,000	4,025,000	1	3,910,000	4,025,000
Targeted issue <sup>2</sup>	1998		1,006,250	5,031,250	1	1,006,250	5,031,250
Bonus issue 50:10	1998		7,546,875	12,578,125	1	7,546,875	12,578,125
Targeted issue <sup>3</sup>	1998	12	1,721,875	14,300,000	1	1,721,875	14,300,000
Bonus issue 13:10	1998		18,590,000	32,890,000	1	18,590,000	32,890,000
Rights issue	2000	10	8,222,500	41,112,500	1	8,222,500	41,112,500
Reverse split 5:1	2004		-	8,222,500	5	-	41,112,500
New issue	2004		1,142,800	9,365,300	5	5,714,000	46,826,500

1) Issue targeted to founders and senior executives

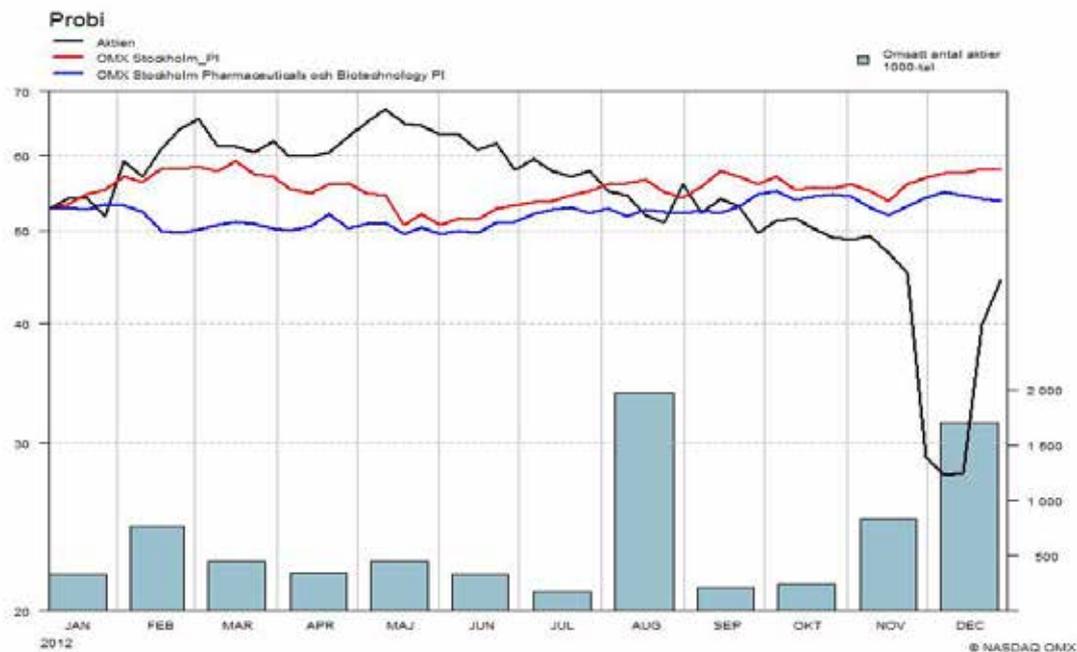
2) Issue targeted to Skånemejerier's owner group and Probi AB

3) Issue targeted to shareholders in Skånemejerier, employees of Probi AB and Skånemejerier and certain other related parties

## PRICE TREND AND TURNOVER 2008-2012



## PRICE TREND AND TURNOVER 2012



## SHAREHOLDERS

	<i>No. of shares</i>	<i>Proportion of share capital,%</i>	<i>Proportion of votes,%</i>
Symrise AG	1,402,301	15.0 %	15,4 %
Livförsäkrings AB Skandia	895,077	9.6 %	9,8 %
Fjärde AP-fonden	457,430	4.9 %	5,0 %
Göran Molin and company	364,862	3.9 %	4,0 %
Avanza pension	356,023	3.8 %	3,9 %
Bengt Jeppsson	300,000	3.2 %	3,3 %
Nordea Life & Pensions	294,517	3.1 %	3,2 %
Probi AB	250,000	2.7 %	-
Nordea Investment Funds	191,417	2.0 %	2,1 %
SSB and Trust Omnibus, OM14	169,124	1.8 %	1,9 %
Other	4,684,549	50.0 %	51,4 %
<b>Total</b>	<b>9,365,300</b>	<b>100,0 %</b>	<b>100,0 %</b>

## HOLDING PER SHAREHOLDER

	<i>No. of shareholders</i>	<i>No. of shares</i>	<i>Proportion of shares,%</i>
1 – 500	3,775	631,972	6.7 %
501 – 1,000	603	485,909	5.2 %
1,001 – 5,000	482	1,087,778	11.6 %
5,001 – 10,000	52	383,446	4.1 %
10,001 – 15,000	16	200,964	2.1 %
15,001 – 20,000	8	139,632	1.5 %
20,001 -	44	6,435,599	68.8 %
<b>Total</b>	<b>4,980</b>	<b>9,365,300</b>	<b>100.0 %</b>

## PER-SHARE DATA

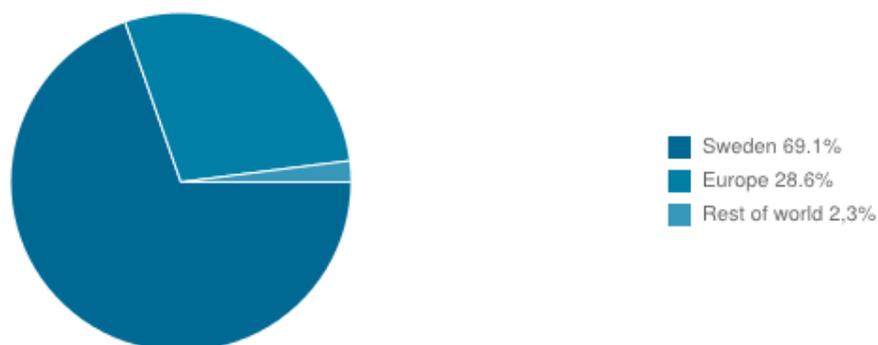
	2012	2011	2010	2009	2008
No. of shares on 31 Dec., 000s	9,365	9,365	9,365	9,365	9,365
Earnings per share, SEK	1.48	1.54	1.46	1.15	0.85
Shareholders' equity per share, SEK	13.47	12.74	13.13	12.17	11.03
Cash flow per share, SEK	1.22	-1.49	1.93	1.11	1.49
Closing share price on 31 Dec. (last price paid, SEK)	44.40	52.50	48.70	61.75	37.80
Price/equity ratio per share, multiple	3.30	4.10	3.71	5.07	3.43
P/E ratio, multiple	30.00	34.09	33.36	53.70	44.47
Dividend, SEK/share	0.75 <sup>1)</sup>	0.75	1.00	0.50	-
Market value on 31 Dec., SEK 000s	404,719	491,678	456,090	578,307	354,008

1) The Board's proposal to the Annual General Meeting on 24 April 2013.

## DISTRIBUTION INSTITUTIONAL/LEGAL ENTITIES – PRIVATE OWNERS (NO. OF SHARES)



## DISTRIBUTION SWEDISH – FOREIGN OWNERS (NO. OF SHARES)



## Probiotics market

In 2012, the global market for probiotics/probiotic food amounted to SEK 172 billion, and is expected to be worth SEK 228 billion by 2017<sup>1</sup>. Europe and parts of Asia are considered the mature markets and are also the regions that have shown greatest demand during recent years. Due to a rising population and greater prosperity, Asia is the region where demand is expected to grow most in coming years.

Positive growth is also expected in less developed markets, such as Brazil and North America, in the future. Food products in the form of yoghurt and drinks dominate the global probiotics market, and dairy products continue to hold the strongest position. Surveys show that probiotic juices remain an underdeveloped market with strong growth expectations. The dietary supplement market represents about one-tenth of the food market, but stronger growth is expected in coming years.

### TRENDS AND DRIVERS

The strong global health trend continues, driven by greater health awareness and increasing welfare problems such as excess weight, obesity, diabetes and stress. The market is also impacted by an age shift, and welfare systems are not fully equipped for this challenge. In turn, this is leading to greater interest in self-care.

The growing numbers of elderly people form a group with strong purchasing power, but younger groups are also spending money on functional food products. Accordingly, many food and pharmaceutical companies are launching products that are designed for middle-aged and older consumers.

Another strong driver is rising average incomes, due to strong economic conditions, primarily in certain Asian markets. Despite financial uncertainty, people with good incomes will continue to invest in their health.

### MARKET AND COMPETITORS

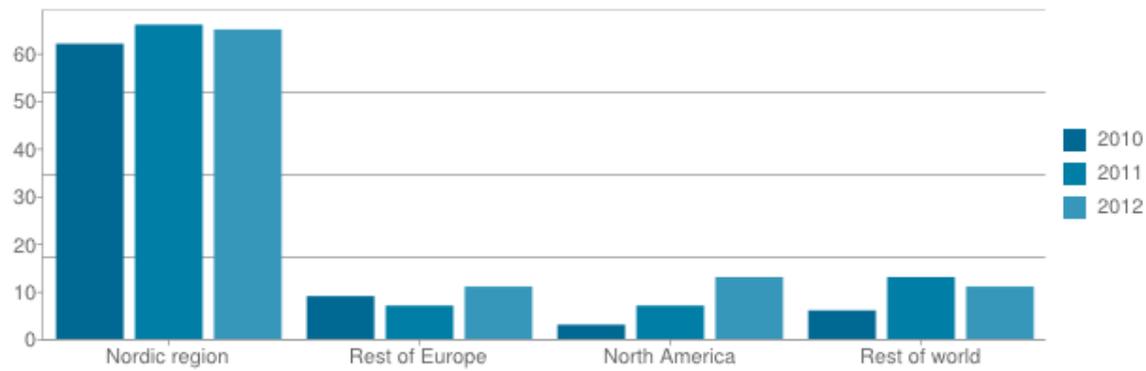
The Nordic region is Probi's largest market and accounted for 65% of revenue in 2012 (70). In Functional Food, revenue from the Nordic region dominates in the form of royalties on ProViva sales. For Consumer Healthcare, more than half of the revenue is generated in the Nordic region, through sales of Probi Mage<sup>®</sup> and Probi Frisk<sup>®</sup>, in partnership with Bringwell. After the domestic market, Consumer Healthcare's next largest markets are the US, Australia, Poland and France.

Probi operates in a competitive market and is exposed to competition in several parts of the value chain. Other companies in the market also apply the same business models as Probi, based on licensing solutions with distributors and sales of ready-made consumer products, such as BioGaia and Valio. There are also a number of players that produce and sell both bacteria cultures to other industry players as well as ready-made products. These companies include Chr.Hansen and Danisco/Dupont. Finally, Probi also competes with major food companies such as Danone and Yakult that conduct their own probiotics research and a certain amount of production.

The Functional Food market is dominated by a smaller number of food companies that are usually global operators. The dietary supplement market, in which the Consumer Healthcare business area operates, remains fragmented. In this market, Probi's competitors include international pharmaceutical companies with probiotic products in their portfolios such as Sanofi-Aventis, Merck KgaA and Novartis. There are also strong local players, such as Ferrosan and Baltex.

1) Source: Euromonitor 2013

## PROBI'S REVENUE/MARKET 2010-2012 (MSEK)



The North American market for probiotic dietary supplements, valued at approximately SEK 6.3 billion, is highly fragmented, with a large number of sales channels.

Asia is a strong growth market for functional food, but the country that consumes most probiotic dietary supplements per capita in the world is Italy, followed by Japan.

## Probiotics market

# Interview with Stellan Löfving

**Stellan Löfving** has been the editor in chief and publisher of Foodwire's publications, the leading Nordic news service for policy makers in the food sector, since 1998.

### How would you describe market trends over the past few years?

The sector is still growing, but the major blockbuster products are few and far between. The global health trend remains strong, driven by greater health awareness and increasing welfare problems such as excess weight, obesity, diabetes and stress. Markets in Europe and Sweden are impacted by an age shift, and welfare systems are not equipped for this challenge. In turn, this leads to a rising interest in self-care. Growing prosperity in Asia is leading to a middle class with greater purchasing power. In the US, the focus remains on weight issues. The European market is dominated by great uncertainty following the EFSA's rejection of many health claims that companies use in their marketing.



The European market is dominated by great uncertainty following the EFSA's rejection of many health claims that companies use in their marketing.

### What trends do you see in consumption?

I see a continued upward trend for consumption, but not necessarily in the form of pure food products, since the healthy ingredients can just as easily be delivered in tablet form, for example.

### What is your opinion of the EFSA?

Many companies perceive the EFSA as a threat due to the severity of their approach to food marketing. Some products could be forced out of the market if their original marketing arguments are not permitted, and major development investments could go to waste. And if the severity of the EFSA's assessments prevents companies in the EU from developing potentially successful products, this could pose a problem. The positive aspect is that these decisions have been made by an EU regulator, which guarantees equal treatment throughout the EU.

### What role will probiotics play in the future?

There are several factors that are positive for probiotics. The spread of antibiotic-resistant strains of bacteria, for example, which is complicating the treatment of serious illnesses. I believe that probiotics will play an increasingly significant role in self-care products – and in the health care industry, where probiotics have demonstrated an ability to accelerate rehabilitation and healing processes.

## Probiotics market

# Interview with Peter Wennström

**Peter Wennström**, founder of Healthy Marketing Team, an international consultancy that focuses on brand positioning and innovation for companies in the food and health industry.

### How would you describe market trends in recent years?

We have seen strong global growth for probiotics in all areas. However, the state of the European economy and the EFSA's health claim requirements are setting their mark on innovation. Food companies are hesitating before developing new products since they have to work so hard to get their health claims approved in the EU. But there is still a unifying driver, which is that probiotics work – and they have been part of our diet since ancient times. They are even more important today, since a stressful lifestyle and processed foods, which destroy bacteria, are driving demand.

### What are the current consumption trends?

The most significant trend is our lifestyle, but the trend toward natural products is also strong. There is a paradigm shift toward raw food and more "living" foods. Consumers are seeking alternatives to processed food. Probiotics are essentially active organisms in food that work in symbiosis with the body. The research is still in its infancy. One example is how researchers have begun studying the relationship between the gastrointestinal tract and the brain. Can depression be influenced by intestinal flora?

### What is your opinion of the EFSA?

Right now, the EFSA is an obstacle. It is very negative that the health claims for probiotics have not been approved. It sends incorrect and negative signals to consumers – that probiotics are not effective. That will soon change – the research community is not happy about the EFSA's attitude – and we will see health claims for probiotics in one or two years from now. In this context, it is also important to understand that probiotics, which work together with the body's natural and preventive healing processes, pose a challenge to parts of the pharmaceutical industry, when pharmaceutical markets are mature and stagnating.



**Probiotics market**

## Interview with Julian Mellentin



**Julian Mellentin** is head of New Nutrition Business, a consultancy firm with offices in London, the US and New Zealand. He is an internationally respected expert in food, nutrition and health.

**What are the clearest trends?**

Despite the economic challenges in Europe and the US, these markets are still growing. The 40+ group is growing, and this is when people first start investing in their health. Some 35% of the European population is aged 50 years or older and this figure will be 47% by 2030. This means that the elderly group will be one of the strongest drivers. And that is also the reason why such companies as Nestlé Health Sciences and Nutricia are designing products for this target group.

**What areas are growing?**

I predict energy products to be the most expansive market from a global perspective, and this market has also proved resistant to economic downturns. Growth was 12% in 2011, despite a high price level. Gastrointestinal-health products are another growth market. All consumers are interested in gastrointestinal health and, at present, the market is underdeveloped. Products that strengthen the immune system, for the elderly in particular, also comprise an area that will

grow. Generally speaking, all products designed for the elderly are potential growth areas.

**The role of probiotics in the future?**

Probiotic juices represent a major, global uncapped resource. But like all new product categories, this is a slowly emerging market. We will also see probiotics in products designed for specific purposes. And probiotics will obviously increase in dairy products, particularly in countries outside Europe that are not affected by the EFSA's new requirements.

**What is your prediction of the role of probiotics in the future?**

Probiotics will be recognised as a natural part of our everyday life – to prevent illness and promote well-being. We will choose a daily dose for our general well-being, and supplement that if necessary. We will also see a development in relation to probiotics and mental health.

## Business area: Functional Food

Functional Food is one of Probi's two business areas. This business area develops probiotic food with beneficial health effects. This is conducted in partnership with leading food companies with the objective of commercialising and marketing the products. In Functional Food, Probi works with the Licensing Model and receives royalty revenue.

Probiotics have a strong tradition in dairy products. With the introduction of ProViva and Golden Circle Healthy Life, Probi demonstrated that probiotics are also well-suited to fruit juice drinks and juices. Customers that use Probi's probiotics in their products are Danone (ProViva AB) in Sweden and Finland, NextFoods in the US and H.J. Heinz in Australia.

In 2012, net sales in the Functional Food business area amounted to MSEK 50.5 (49.4), corresponding to 51% of Probi's total net sales. Royalty revenue from ProViva amounted to MSEK 42.7 (44.3) in 2012. The decline tracked the total decline in the market for juices and fruit drinks in Sweden during the year. In 2013, Danone will continue to focus on developing the range, including launches of new flavours and packaging.



### HIGHLIGHTS 2012

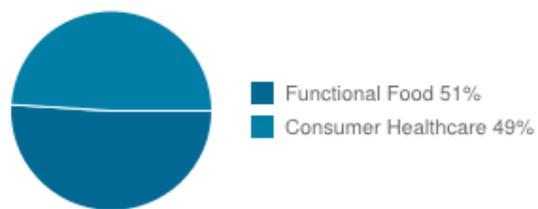
In 2012, Probi signed an agreement with H.J. Heinz in Australia regarding the launch of the first probiotic juice in the Australian market. The product range is based on Probi Defendum® and marketed under the Golden Circle Healthy Life brand.

NextFoods showed a positive trend in the North American market during the year. In 2012, Probi's royalty revenue from NextFoods' continuous sales rose 19% in local currency compared with the preceding year..

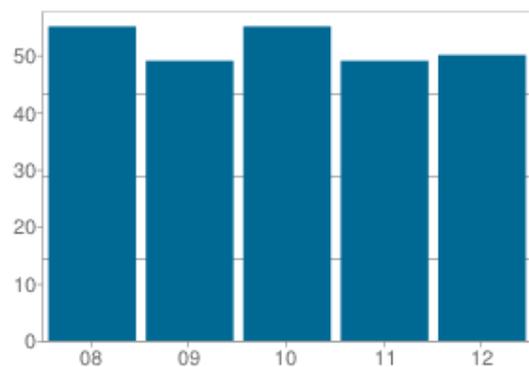
### EXAMPLES OF FOOD PRODUCTS BASED ON PROBI'S BACTERIAL STRAINS

BRAND	PARTNER/ DISTRIBUTOR	MARKETS
ProViva	Danone	Nordic region
GoodBelly	NextFoods	North America
Golden Circle Healthy Life	H.J. Heinz	Australia

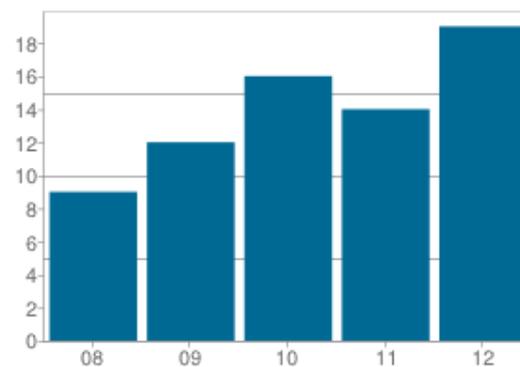
NET SALES PER BUSINESS AREA



NET SALES (MSEK) FUNCTIONAL FOOD



OPERATING PROFIT (MSEK) FUNCTIONAL FOOD



**Business area: Functional Food****Customer case: H.J. Heinz, Australia**

*In May 2012 Heinz Australia launched Golden Circle Healthy Life™ Probiotic Juice, the first probiotic juice on the Australian market.*

*The launch covered the Eastern and most densely populated parts of the country. Golden Circle Healthy Life™ Probiotic Juice is now available to consumers in all major retailers across New South Wales, Queensland and Victoria.*

*There is a relatively high level of awareness of probiotics in Australia, but traditionally consumption has been in the form of dairy products and dietary supplements. Introducing and launching a completely new category of products, such as a probiotic juice, is a commitment over time by Heinz Australia.*



## Some quick questions to Katie Saunders, General Manager, Golden Circle Business Unit, HJ Heinz in Australia.

**What were your needs/demands?**

“Through extensive research, and market testing across Australia, Golden Circle identified real opportunity for a probiotic juice. Our customers continue to ask for more innovation when it comes to the health benefits of our products, in particular drinks that boost our immune systems.”

**What were the challenges and obstacles?**

“Educating consumers on how ‘Probiotic Juice’ could assist the immune system was a major challenge for us, particularly considering that in the past probiotics have been synonymous with the dairy and vitamin categories. As research in this area grows, we continue to find new ways to communicate that to our consumers.”

**Why did you choose Probi?**

“As part of Heinz’s on-going program of technology scanning, we became aware of Probi and their successful business in the Swedish market following extensive market research. We assessed their probiotic strain and selected it because Probi had a portfolio of robust scientific supporting data and it performed well in our product range. Probi also had a focus on innovation, and collaboration, that was the perfect complement to our business model and mission statement.”

### **Your experience from working with to Probi?**

“Probi have been tremendous partners in the launch of the Golden Circle Healthy Life™ juice with probiotics, they have provided extensive support in the product development of our range.”

### **What type of product/solution did they offer?**

“The combination of technical support with open and honest communication ensured the process was fluid – through development to launch. The process felt like a partnership, more than a transaction, an impressive case study for any NPd.”

### **Can you describe the results?**

“It is still early days for this product range with less than 12 months in market, it is showing steady but slow growth.”

### **What have you learned?**

“It takes time to build awareness and change consumer behavior, you need to have patience. You also need to be able to communicate a very clear message to the consumer that will assist their decision making, which will go a long way towards driving the product’s point of difference. We need more time for consumers to appreciate the benefits of ‘Probiotic Juice’.”

### **FACTS ABOUT H.J. HEINZ**

HJ Heinz was established on the Australian market through the acquisition of Golden Circle Ltd in 2008. The company is now one of the market leaders in juice. H.J. Heinz Company Australia Limited (“Heinz Australia”) is a fully owned subsidiary by H.J. Heinz Company, one of the world’s leading food companies. The company was founded in 1869 by Henry Heinz in the USA and is well known for its tomato ketchup, soups, beans and baby food. In 2012 the company had sales close to 12 billion US dollars. The company has about 32,000 employees. Since 2013, HJ Heinz is owned by Berkshire Hathaway and 3G Capital. Heinz Australia and Golden Circle has about 1,100 employees who produce and supply consumers with food from esteemed brands such as Heinz® HP® and Weight Watchers®, meals and desserts.

## Business area: Consumer Healthcare



Consumer Healthcare is one of Probi's two business areas. The Consumer Healthcare business area develops, markets and sells Probi probiotics in partnership with pharmaceutical companies and other companies specialised in probiotics and self-care products, under Probi's proprietary brand or those of its partners. The products are mainly sold as capsules, chewable tablets or dose sachets, with a regulatory status as either food or consumer pharmaceuticals depending on the market. Probi applies two business models in Consumer Healthcare – the Product Model and the Consumer Model.

Probi has agreements in more than 40 markets and predicts major international interest for probiotic premium products. Customers in Consumer Healthcare include Pharmavite in the US, Institut Rosell, in France, Bringwell in the Nordic region, Sanum Polska in Poland, Metagenics/Health World in Australia and Camox Pharmaceuticals in South Africa.

In 2012, net sales in the Consumer Healthcare business area amounted to MSEK 49.1 (45.0), corresponding to 49% of Probi's total net sales. Pharmavite in the US, with which Probi signed agreements in 2011, accounted for most of the growth during the year. Operating loss amounted to 1.9 MSEK (profit: 3.5). Probi's growth strategy includes increased investment in Consumer Healthcare in the form of new distribution solutions and the establishment of new brands. Accordingly, additional new resources were added to the business area during the year, combined with the transfer of some existing resources. This resulted in higher personnel costs. The media investment in collaboration with Bringwell was also higher than in 2011.

## HIGHLIGHTS 2012

### Continued strong trend in Sweden

Probi Mage® and Probi Frisk®, which are sold in partnership with Bringwell, further strengthened their positions in the Swedish market for probiotic dietary supplements. The total volume of sales of Probi Mage to health-food stores and pharmacies in Sweden rose 24% compared with the preceding year. This made Probi Mage the product with the highest sales value among non-prescription gastrointestinal products in the Swedish pharmacy market in 2012. In 2012, the market share in Sweden for Probi Mage and Probi Frisk amounted to 50.4%, according to GfK Medicscope, a rise of 5.2 percentage points compared with full-year 2011.

### New international agreements

A business development agreement with US-based Viva 5 increased Probi's cultivation of the North American market. The agreement provides Viva 5 with non-exclusive rights to market Probi Digestis® and Probi Defendum® to new distributors in North America.

Probi will continue its direct cooperation with existing customers in the US, primarily Pharmavite and Metagenics, and will also conduct independent business development in certain channels. In 2012, deliveries to Pharmavite in the US were well in line with initial expectations. During the year, Pharmavite's distribution increased and now also includes the major pharmacy chains Walgreens and CVS.

In 2012, Probi signed agreements for Probi Digestis with USV in India, a market expected to offer considerable growth potential. The launch was implemented according to plan at year-end under the Vibact IBS brand and with distinct exposure of the Probi Digestis ingredient brand.

Other agreements signed during the year were with the multinational pharmaceutical company Alvogen IPCO S.Á.R.L. to launch Probi's products in the Taiwanese market and with Vifor Pharma, a company in the Galenica Group, to launch Probi's products in the Swiss pharmacy market.

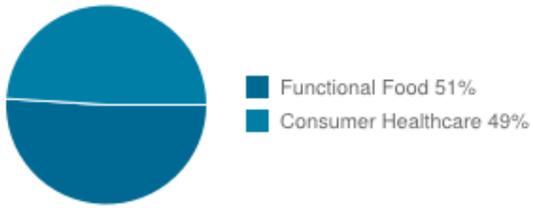
### EXAMPLES OF CONSUMER HEALTHCARE-PRODUCTS BASED ON PROBI'S BACTERIAL STRAINS

BRAND	PARTNER/DISTRIBUTOR	MARKETS
Nature Made	Pharmavite	US (supermarkets, pharmacies, drugstores)
Probi Frisk <sup>1</sup> Probi Mage <sup>1</sup>	Bringwell	Sweden, Norway, Finland
Ideal Bowel Support	Jarrow Formulas Inc. <sup>2</sup>	US (health-food stores)
Tuzen	Ferring Inc. <sup>2</sup>	Canada
Bion Transit	Merck S. A. <sup>2</sup>	Chile, Belgium, France
SanProbi IBS	Sanum Polska	Poland
IBS Support Probex	Health World	Australia, New Zealand
Protransitus	Laboratorios Salvat <sup>2</sup>	Spain
Flobion	Proton Systems	Serbia, the Balkans
Enteron	Camox Pharmaceuticals	South Africa
Vibact IBS	USV	India

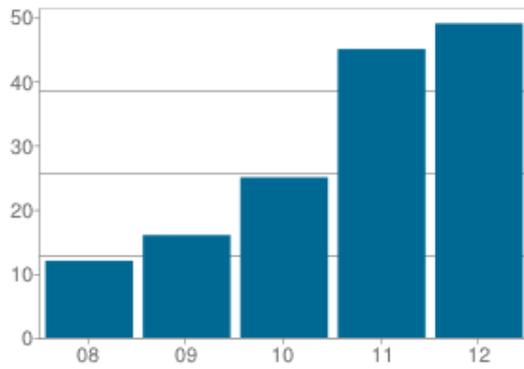
1) Brands owned by Probi

2) Covered by Probi's partnership agreement with Institut Rosell

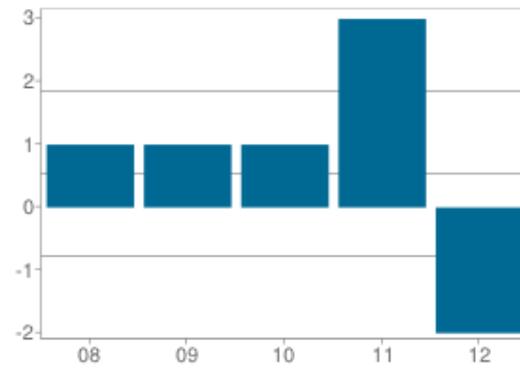
SALES PER BUSINESS AREA 2012



NET SALES (MSEK) CONSUMER HEALTHCARE



OPERATING PROFIT/LOSS (MSEK) CONSUMER HEALTHCARE



**Business area: Consumer Healthcare**

## Customer case: USV Ltd., India

*In December 2012, Vibact IBS was launched in India. It is a brand marketed by USV Ltd, a leading pharmaceutical company and a probiotic market leader with over 2,000 distributors across India. Vibact IBS is based on Probi Digestis®.*

*Vibact IBS specifically targets those patients suffering from IBS, which is growing problem in India. Symptoms related to IBS are bloating, diarrhea, flatulence and constipation.*

*In India probiotics is considered a medicine and is prescribed by a physician. The general awareness of probiotics is high and there are many different products for digestive health on the Indian market.*

*"In the long run, we can consider launching more probiotic products in India together with Probi" says Rajesh Jhingan, Vice President, USV Ltd.*



## Some quick questions to Rajesh Jhingan, Vice President, USV Ltd., India

### What challenges do you see within the market?

USV currently has a well-known brand on the market, Vibact, and we were looking for a clinically proven probiotic product that could strengthen our product portfolio. As a part of the business development activities we were actively looking for new opportunities, partners and probiotic strains for new indications.

### Why did you choose Probi?

Despite the fact that Probi LP299v® was already available in India, and we would therefore not be the only company using this specific probiotic strain, we chose Probi since they offer the best clinical documentation. The clinical documentation is a critical factor since the medical community is our primary target.

### How has it been working with Probi?

The collaboration has worked great. We share the same values and strive to quickly move forward and solve problems. All negotiations take time but since Probi was already present on the Indian market, the regulatory process has been very smooth. Probi has been professional and helped us with the launch in India and now when we have launched the product on the market the real work begins.

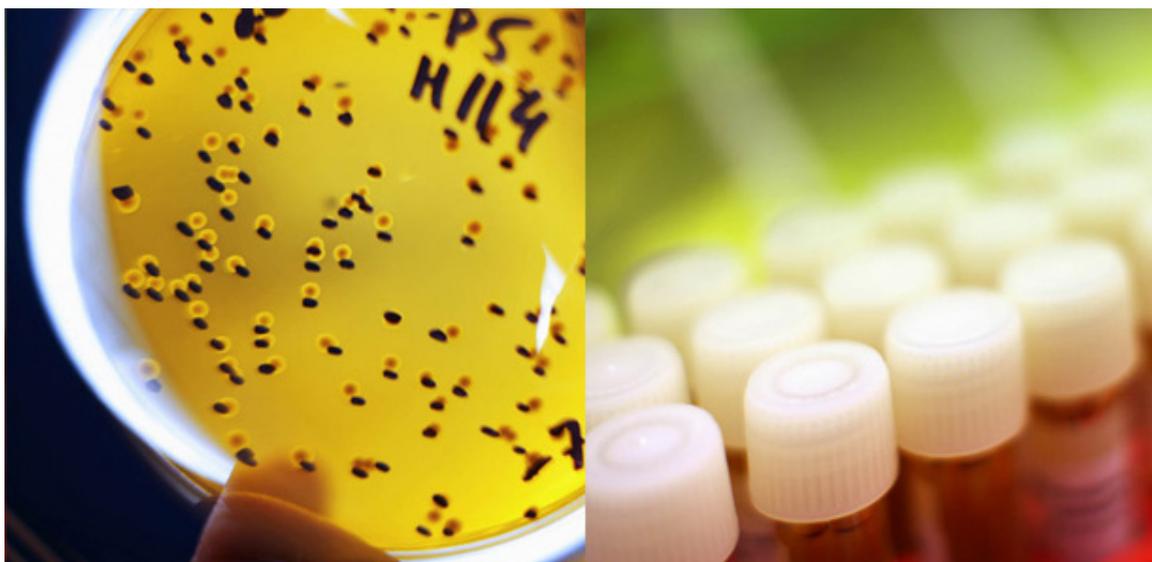
### What have the results been?

So far everything has gone according to plan, but keep in mind we launched Vibact IBS in December 2012, so it is still too early to say anything about the results. But we expect that with our national coverage and our network of distributors the awareness of probiotics will increase significantly. We are confident that we have a very strong partner in Probi and that we can eventually launch additional probiotic products together.

### FACTS ABOUT USV Ltd.

USV is a leading Indian pharmaceutical company with product presence in various markets around the world, including North America and Europe. In India USV Ltd. is the market leader within diabetes, cardiology and probiotics, but the product portfolio also contains nutritional products. Five per cent of the company sales go back into research and development. USV has a research department with over 300 researchers, including three medical doctors, 40 with doctoral degrees and 165 postgraduates. The company is based in Mumbai and has 4,200 employees.

## Research and Development



**The foundation for Probi's success is research and development. The company has studied probiotic bacterial strains and used them to develop products for 25 years. In 2012, this work focused on identifying and evaluating areas for future clinical trials and integrating the company's research and development work to achieve a stronger and more flexible organisation.**

The earlier, pioneering work in the late 1980s that formed the basis for Probi's commercial platform focused on identifying bacterial strains with combined robustness and efficacy. Today's research includes mechanisms and new indications for existing bacterial strains, as well as in-depth studies of existing products. Probi also conducts basic research into the screening of new bacterial strains in partnership with such players as Lund University.

When the characteristics of a bacterium or bacteria combination have been mapped, and fully or partially documented, the process of preparing the product matrix commences. This could be a capsule, a tablet or a drink.

In 2012, Probi's research and development functions were further integrated to achieve a stronger and more flexible organisation. In conjunction with this, Probi improved the quality of its processes and implemented a new project control system for research and development.

### AN EXPANSIVE FIELD OF RESEARCH

An important task in research and development is to monitor all research into probiotics and closely related fields that is conducted by the academic community and other players. One such area is research into microbiota, the term used to describe the community of microorganisms that populate the human body and how these impact our health. As knowledge of these impacts is mapped, conditions are created for developing more sophisticated probiotic products as well as other products that could affect our microbiota.

### RESEARCH AND DEVELOPMENT STRATEGY

The research strategy is based on Probi having a research portfolio with both long and short-term projects and a balanced level of risk. In 2012, an inventory of new product areas was implemented to identify areas where Probi's probiotics are deemed to provide health benefits and have major commercial potential. Probi used these results to produce a clinical research programme for the coming years. This will also entail broadening the documentation for existing products to also include children.

A central focus for Probi's product development is to improve existing products and prepare new product matrices. In 2012, Probi also conducted extensive formulation work, where the effects of moisture and temperature on probiotics were studied in order to develop products with greater stability and a longer shelf-life for climate zones characterised by hot and damp weather. The formulation work also included improving stability and shelf-life for probiotics, combined with other components.

## CLINICAL TRIALS

In 2012, Probi concluded two major clinical trials involving the immune system and gastrointestinal health. The purpose of these trials was to supplement earlier trials in preparation for the planned applications to the EFSA<sup>1</sup> concerning health claims in the EU. The results of these trials did not achieve the anticipated results. In the immune system trial, where the effects of probiotics on the common cold were studied, no difference was noted between the active group and the control group. The reason for this could be that the number of cold episodes in the trial was extremely low, only 19%, compared with 60 to 92% in previous trials. Nor did the 28-day-long gastrointestinal trial of individuals with IBS demonstrate any difference in the symptom profile between the active group and the control group. This was a pronounced departure from the results obtained in previous trials. To ensure that the trial complied with Probi's interpretation of the EFSA's stringent requirements, a substantial amount of data was collected on a daily basis from all of the research subjects. This departed from the procedures for data collection applied in previous trials and may have negatively impacted the outcome of the study.

Evaluation of the extremely extensive material produced by the trials has generated valuable knowledge in terms of the continued development of Probi's product platforms, Probi Digestis<sup>®</sup> and Probi Defendum<sup>®</sup>, and the design of new clinical trials.

Probi will continue its clinical research programme in immune and gastrointestinal health and the aim is to initiate further trials in 2013, which will provide a basis for future health-claim applications to the EFSA. Packaging and consumer communications for all products that contain Probi's bacterial strains, and that are currently sold in the EU, have been adapted to the new regulations that gained legal force on 14 December 2012, pending further notice.

Probi has previously conducted a large number of clinical trials based on the bacterial strains included in Probi Digestis and Probi Defendum. *Lactobacillus plantarum* 299v (DSM 9843), (Probi Digestis), the probiotic bacteria in Probi's gastrointestinal products, is one of the most well-documented bacterial strains commercially available. Three earlier trials comprising a total of more than 300 research subjects suffering from Irritable Bowel Syndrome (IBS) showed excellent results for Probi Digestis, including indications for abdominal pain, swollen stomach and bowel-movement frequency. These and other positive gastrointestinal health effects attributable to Probi Digestis have been documented in more than 20 other clinical trials.

In 2012, Probi's Indian IBS research study from 2009 was published in the World Journal of Gastroenterology. The study, which included 214 IBS patients, showed that both the intensity and frequency of the most important symptoms in Irritable Bowel Syndrome were significantly reduced following intake of *Lactobacillus plantarum* 299v (DSM 9843).

Probi has also obtained positive results from clinical trials in the immune system area. The results from two trials, involving more than 500 research subjects, showed that the combination of the two strains that are included in Probi's immune product Probi Defendum – *Lactobacillus plantarum* HEAL9 (DSM 15312) and *Lactobacillus Paracasei* 8700:2 (DSM 13434) – significantly relieved cold symptoms, shortened cold episodes and also reduced the risk of catching a cold.

## PARTNERSHIP WITH SYMRISE

At the end of 2012, Probi signed a research and development agreement with German company Symrise, which is Probi's largest owner. The aim of joint agreement is to produce innovative probiotic products with well-documented health benefits. The partnership will initially focus on oral health. Symrise has a great deal of expertise in research, development and manufacturing of food, drinks, cosmetics and pharmaceutical products and sees major potential in the health benefits of probiotics. The company is also a global leader in the oral health field.

1) European Food Safety Authority

### What are probiotics?

The word "probiotics" is derived from the Latin word pro and the Greek word bios, which together make the word probio - for life. In other words, probiotics promote life. Experts at FAO/WHO define probiotics as "live microorganisms, which when administered in adequate amounts confer a health benefit on the host."

Probiotics work in many different ways depending on the bacterial strain that is used, which means that both the underlying mechanisms and the health benefits can vary. Some examples of how probiotics work are that they compete for nutrition with the bacteria that cause disease – or "pathogenic bacteria" – thus reducing the probability that pathogenic bacteria will grow and survive. Probiotics can also compete for the available attachment sites in the intestine. Some probiotic strains also produce bacteriocins – peptides or proteins that completely eradicate or check the growth of other competing bacteria.

Probiotics can be used to improve health in a range of areas, such as reducing the symptoms of colds, relieving diarrhoea and constipation, stomach bloating, allergies and eczema. Probiotics can also reduce the side-effects of radiation and chemotherapy, and make a significant contribution to oral health and vaginal health.

## Environment and Quality



### ENVIRONMENT

Probi's business is focused on health and well-being. Integrating efforts for a better environment with sustainable development are a natural part of the daily operations.

To enable more structured, organised and proactive environmental efforts, Probi has updated its environmental management system in accordance with ISO 14001:2004. The system was certified in 2012, with SP Technical Research Institute of Sweden as the external certification body.

All Probi operations are encompassed by the environmental management system, which comprises an environmental manual, an environmental policy and a list of environmental aspects.

In 2012, the company's operations and their environmental impact were audited. This work included an analysis that mapped all activities that have or could have environmental impact. These were compiled in a list of environmental aspects. The most significant environmental aspects were identified and provide a basis for the defined environmental objectives. Procedures have also been established for measuring and monitoring trends in relation to the significant environmental aspects.

The prioritised significant environmental aspects in Probi's business are:

- Energy consumption in proprietary operations.
- Selection of suppliers of products and services.
- Selection of packaging material for products.

Probi's business is global, entailing air travel for business purposes. Probi has decided to compensate for the emissions of carbon produced by all air travel for business purposes. In 2012, Probi compensated for 216 tonnes of CO equivalents in the Trees of Hope forestry project in Malawi in partnership with PlanVivo Reseller ZeroMission.

Most of Probi's employees underwent training in eco-driving during the year. A number of training programmes and workshops that addressed environmental issues were also implemented and attended by all employees.

Probi's operations are not subject to permit obligations under the Swedish environmental code.

### QUALITY

Probi's laboratory operations have been accredited to ISO 17025 (General requirements for the competence of testing and calibration laboratories) since 1998. This means that a number of procedures and improvement systems have been developed to fulfil the objectives outlined in a quality handbook that is revised annually. SWEDAC is the supervisory authority for accreditation.

## Employees



Ever since Probi was founded in 1991, the organisation has been characterised by small-scale entrepreneurship. High-quality research and development have been Probi's signature from the start and most employees work with R&D. These people are experienced researchers with a diversity of scientific backgrounds such as microbiology, immunology, chemistry and nutrition. Probi's growth strategy includes increasing the company's markets and customer partnerships. As a result, the marketing and sales department has been strengthened in recent years by recruiting employees with extensive international experience.

### COMPETENCY DEVELOPMENT

Together with a large number of other companies, Probi has been participating in a competency development project led by Adeptus for several years. The participating companies contribute their expertise and time and employees can take part as either adepts or mentors. The adepts are matched with a selected mentor who has a similar education and background and can share the experience he or she has gained from a long professional career. The adept and mentor exchange best practices on a regular basis until the programme concludes after one and a half years.

### PROBI'S PERSONNEL POLICY

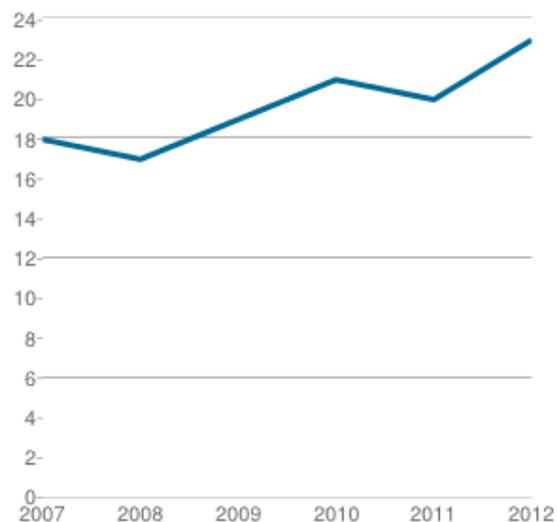
Probi endeavours to provide a dynamic environment for its employees, where individuals can assume a large degree of responsibility and are offered substantial development opportunities. Working with products – as Probi does – that improve people's health and well-being is both responsible and stimulating. Probi's business is based on four fundamental values that, in combination, provide a platform for the company and its development:

- **Knowledge and expertise**  
With their knowledge and expertise, Probi employees engage customers, partners and consumers.
- **Dedication**  
Working with research and products that impact health entails a great deal of responsibility and above-average dedication.
- **Credibility**  
Being credible at all levels is fundamental to Probi being the natural choice for customers, partners, consumers and employees.
- **Curiosity**  
Probi is always willing to try new approaches in research, product development and in the market.

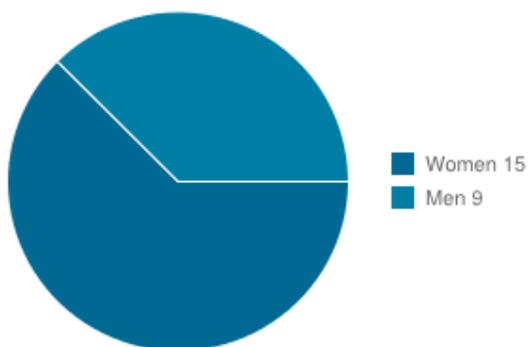
## FACTS ABOUT EMPLOYEES

At the end of 2012, Probi had 24 employees (21). The average number of employees in 2012 was 23 (20). The proportion of women at year-end was 63% (62). Of Probi's employees, 96% (95) have university or higher education. The proportion with doctorate degrees is 29% (29). In 2012, absence due to illness totalled 1.4% (1.0). No period of illness absence exceeded 60 calendar days.

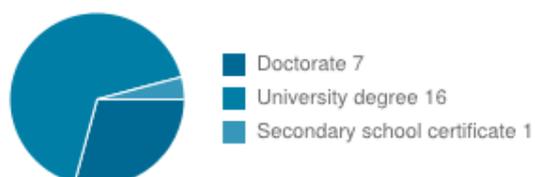
AVERAGE NUMBER OF EMPLOYEES



GENDER DISTRIBUTION



HIGHEST LEVEL OF EDUCATION



EMPLOYEES DISTRIBUTED PER FUNCTION



## Risks

The company works continuously to identify and evaluate the various types of risks to which its operations are exposed. This has resulted in a Risk Management Policy, which is revised at least once annually by the company's Board. Probi thus has a clear picture of what these risks are and how they can be managed to minimise the negative effects on the company's business and development.

RISK	EXPOSURE
Agreements with strategically selected business partners	Probi has agreements in various countries with a number of partners that market Probi's products and technology or plan to do so. If one or more of these partnerships were to be discontinued or not lead to a launch, this would have a negative impact on Probi's revenue, earnings and financial position.
Competition	The growing interest in probiotics entails that Probi faces increased international competition from ingredients companies and suppliers of probiotics. Competition will also come from other products with equivalent health benefits. Over time, this could entail a threat to Probi's market position and growth.
Regulatory risks	<p>Requirements and regulations regarding the use of health claims are constantly being made more stringent. Since 1 July 2007, nutritional and health claims have been regulated by an EU directive (1924/2006) that applies in all EU countries. This means that all applications for new health claims must be approved by the EFSA (European Food Safety Authority). To date, the EFSA has adopted a very restrictive approach to the approval of health claims. This applies to all types of food-grade health products. Up until the end of 2012, no applications for probiotics had been approved, thus entailing a great deal of uncertainty for Probi and other leading players in the global market.</p> <p>Probi's continued expansion is contingent on product launches in a greater number of geographic markets, also outside Europe. Regulatory processes in various markets could entail risks for deferred launches and entail costs for Probi.</p>
Patents and intellectual property rights	<p>Probi's continued development depends largely on continued successful research and the ability to protect future revenue streams with extensive patent protection. Accordingly, it is important that granted patents can be maintained and that newly developed products and applications can be patented or otherwise protected.</p> <p>Probi works continuously to strengthen the intellectual property rights and commercial protection of its products. In addition to new patents for existing and new products, this work encompasses the following:</p> <ul style="list-style-type: none"> <li>• Development of know-how concerning technology and products.</li> <li>• Regulatory protection in the form of government approval of health claims and the sale of products.</li> <li>• Legal protection for Probi's brands and determined efforts to raise awareness of the brands.</li> <li>• Long-term commercial agreements with Probi's key customers.</li> </ul>

<b>Product supply</b>	A significant portion of Probi's future growth is based on the delivery of finished products in the form of powder, capsules and tablets. Accordingly, Probi is dependent on a relatively limited number of suppliers living up to the agreed requirements concerning quality, volumes and delivery times.
<b>Product liability</b>	Probi may be subject to product liability claims if the company's products are alleged to have caused personal injury or property damage. Probi's insurance programme includes product liability protection. However, Probi's business may give rise to claims for damage that are not covered by the insurance. Should this occur, this will have a negative impact on Probi's earnings and financial position.
<b>Strategic research and development</b>	Probi's research and development encompasses both proprietary efforts and partnerships with external Swedish and international researchers and organisations. However, there is no guarantee that these efforts or partnerships will lead to new launch-ready products, or that Probi will obtain exclusive use of any results.
<b>Key individuals and employees</b>	Probi depends on a number of key individuals and specialists, and the skills they possess. The company's future development is strongly dependent on being able to retain employees, and recruit and introduce new employees with the skills that are in demand.
<b>Future capital requirements</b>	Probi's strategy entails that the company will continue to invest significant resources in research and development. These initiatives are currently covered by commercial revenues and Probi has a solid financial position. If opportunities for faster growth arise, through strategic acquisitions for example, Probi may need to acquire additional capital by issuing shares or borrowing.
<b>Financial risks</b>	Probi's business is exposed to various types of financial risks. These risks and how they are managed are described in <a href="#">Note 3</a> Financial risk factors.

## Five-year summary



### GROUP

TSEK	2012	2011	2010	2009	2008
<b>Income statement in summary</b>					
Total operating revenue	100,392	95,009	81,127	66,230	69,362
Total operating expenses	-83,183	-77,212	-63,030	-52,421	-59,123
Operating income	17,209	17,797	18,097	13,809	10,239
Income before tax	18,322	19,505	18,709	14,662	12,426
<b>Income for the year</b>	<b>13,505</b>	<b>14,193</b>	<b>13,661</b>	<b>10,751</b>	<b>7,995</b>

Shareholder's equity	122,816	116,149	122,985	114,007	103,256
Cash and cash equivalents	87,285	76,202	89,762	71,707	61,342

Key ratios	Definition	2012	2011	2010	2009	2008
Equity/assets ratio, %	1	89.8	89.7	91.0	94.0	92.6
Debt/equity ratio, %	2	0.0	0.0	0.0	0.0	0.0
Return on capital employed, %	3	16.1	16.7	16.0	14.3	12.5
Return on equity, %	4	15.3	16.3	15.8	13.5	12.5
Acid-test ratio, %	5	933	778	865	1,152	870
Share of research costs in operating revenue, %		18	18	19	22	25
Average number of employees		23	20	21	19	17

1. Shareholders' equity as a percentage of the balance-sheet total.
2. Interest-bearing liabilities as a percentage of shareholders' equity.
3. Operating income plus financial income as a percentage of the average balance-sheet total less non interest-bearing liabilities and provisions.
4. Profit before tax as a percentage of the average shareholders' equity.
5. Total current assets, excluding inventories, as a percentage of current liabilities.

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## Directors' report

### Probi AB (publ) Annual Report and consolidated financial statements for the 2012 financial year

The Board of Directors and CEO of Probi Aktiebolag (publ) with its registered office in Lund, Sweden, Corporate Registration Number 556417-7540, hereby present the annual accounts and consolidated financial statements for 2012. Address: Ideon Gamma 1, SE-223 70 Lund, Sweden.

Probi's shares are listed on NASDAQ OMX Stockholm.

Probi was founded in 1991 and is a leading player in the field of probiotics research and the development of effective and well-documented probiotics. The company's research relates to living microorganisms with scientifically proven health benefits. The fields of research include gastrointestinal health, the immune system, the metabolic syndrome and stress and performance recovery. Probi's customers are leading companies in the Functional Food and Consumer Healthcare business areas.

#### SIGNIFICANT EVENTS

Probi's penetration of the key North American market was further strengthened in 2012 through the business development agreement signed in the fourth quarter with US-based probiotic specialist Viva 5. The agreement gives Viva 5 non-exclusive rights to market Probi Digestis<sup>®</sup> and Probi Defendum<sup>®</sup> to new distributors in Consumer Healthcare in North America.

During the year, three additional new commercial agreements were concluded in Consumer Healthcare:

- Distribution agreement with USV (India). Probi Digestis was launched in the fourth quarter of 2012.
- Distribution and co-marketing agreement with Vifor Pharma, Switzerland. Probi Digestis and Probi Defendum will be launched during 2013.
- Distribution agreement with Alvogen, Taiwan. Probi Digestis and Probi Defendum will be launched during 2013.

Agreements in Functional Food were also signed in 2012 with H.J. Heinz of Australia for the launch of probiotic juice based on ProbiDefendum, Probi's product platform for the immune system. The launch was made in 2012.

During 2012, Probi conducted two major clinical studies into the immune system and gastrointestinal health. The main objective was to supplement earlier studies prior to the planned applications to the EFSA (European Food Safety Authority) about health claims in the EU. These studies were concluded during the year, without achieving the anticipated results. The extremely extensive material is estimated to have a future value for Probi in terms of the continued development of the product platforms Probi Digestis and Probi Defendum and has also added important know-how for the design of new studies. Probi will continue its on-going clinical research programme into the immune system and gastrointestinal health, with the aim of launching additional studies in 2013, which will form the basis for the EFSA applications about health claims. During the first six months of 2013, studies will also be initiated with the aim of broadening the documentation of existing products to also include children.

During 2012, German company Symrise acquired shares in Probi corresponding to 15.0% of the share capital, and is thus Probi's largest shareholder. In the fourth quarter, Symrise and Probi signed a research and development agreement to jointly develop innovative probiotic products with well-documented health benefits. The cooperation will initially focus on oral health. For Probi, this is a new research area that could generate additional growth potential.

Symrise is a leading global supplier of fragrances, flavours, raw materials and functional ingredients. The company has two business areas, Flavor and Nutrition, with a significant Consumer Healthcare division, and Scent and Care, and the operations focus firmly on developing innovative solutions and products with global customers in new markets. In 2011, sales totalled approximately EUR 1.6 billion. Symrise has nearly 5,500 employees.

During 2012, a brand strategy was implemented in order to enhance Probi's profile in various partnerships. In several solutions, the two brands Probi Digestis and Probi Defendum have received prominent positions on packaging, either in the form of co-branding or ingredient branding. Notable examples of this include the cooperation with Heinz and USV, as well as the upcoming launch with Vifor in Switzerland.

Probi updated its environmental management system in 2012, which is now certified according to ISO 14001:2004, with SP Technical Research Institute of Sweden as the certification body.

## NET SALES AND RESULTS

Probi's net sales during the year amounted to MSEK 99.6 (94.4). The total increase was MSEK 5.2 or 6%.

Net sales in the Functional Food business area amounted to MSEK 50.5 (49.4). Royalty revenue from ProViva amounted to MSEK 42.7 (44.3). The year-on-year trend tracked the total market for supermarket sales of juices and fruit drinks, which declined slightly during 2012. The decline was offset by higher revenue from NextFoods and Heinz.

Net sales in the Consumer Healthcare business area rose MSEK 4.1, or 9%, to MSEK 49.1 (45.0). Growth in Consumer Healthcare in 2012 was largely driven by deliveries of probiotic capsules based on Probi's *Lactobacillus plantarum* 299v (DSM 9843) bacteria to Pharmavite in the US. The agreement with Pharmavite was signed in the third quarter of 2011.

Operating expenses rose MSEK 6.0 to MSEK 83.2 (77.2). The increase was largely due to higher personnel costs resulting from the strengthening of Probi's organisation. In addition, the marketing and media campaign in partnership with Bringwell was conducted at a higher level than in the preceding year and material costs increased due to the higher sales of goods.

Operating income for 2012 was MSEK 17.2 (17.8).

Tax expenses totalled MSEK 4.8 (5.3), of which current tax accounted for MSEK 3.7 (5.3) and deferred tax on appropriations for the remaining MSEK 1.1 (-).

Income for the year was MSEK 13.5 (14.2), corresponding to earnings per share of SEK 1.48 (1.54) before and after full dilution.

## CASH FLOW AND FINANCIAL POSITION

Cash and cash equivalents at year-end amounted to MSEK 87.3 (76.2), an increase of MSEK 11.1 (decline 13.6). During 2012, Probi paid dividends of MSEK 6.8 (9.2) to shareholders in accordance with a resolution passed at the Annual General Meeting in April 2012. The comparative figure for 2011 includes MSEK 11.8 for the buyback of treasury shares.

Cash flow from operating activities during the year rose MSEK 9.3 compared with 2011 to MSEK 24.2 (14.9). The positive change in cash flow from operating activities derived largely from a MSEK 3.8 decline in working capital, compared with the full-year 2011, when tied-up capital increased MSEK 12.8 primarily due to higher accounts receivable.

During the year, investments in intangible fixed assets amounted to MSEK 5.5 (6.7), of which patents accounted for MSEK 2.4 (1.9) and capitalisation of development expenditure for MSEK 3.1 (4.8). Investments in tangible fixed assets amounted to MSEK 1.1 (0.9).

## SEGMENT INFORMATION

### General information

Probi's operations are organised into two business segments, with separate managers: Functional Food and Consumer Healthcare, formerly Dietary Supplements.

The Functional Food segment focuses on developing food that provides beneficial health effects. This development is conducted in partnership with leading food companies with the aim of commercialising and marketing products with a high volume potential.

The Consumer Healthcare segment develops, markets and sells Probi probiotics in partnership with pharmaceutical companies and other companies specialised in probiotics and health and wellness products, under Probi's proprietary brand or those of its partners.

No business transactions are conducted between the two segments.

## Functional Food

Net sales in the Functional Food business area amounted to MSEK 50.5 (49.4). Royalty revenue from ProViva amounted to MSEK 42.7 (44.3). The year-on-year trend tracks the total market for supermarket sales of juices and fruit drinks, which declined slightly during 2012.

In accordance with the agreements signed with Danone in 2010, the calculation of royalties on ProViva sales in Sweden will change as of 2013. This means that Probi's royalty revenue from ProViva in Sweden in 2013 will be approximately 8% lower, calculated on net sales for 2012. Should net sales of ProViva in Sweden in 2013 be higher than in 2012, a corresponding amount of compensation will be received.

Probi's royalty revenue in 2012 from NextFoods' continuous sales rose 19% in local currency, compared with the preceding year. Income for the first quarter also included royalties of MSEK 3.8 (2.9) from NextFoods, according to the agreement applying in 2012 for NextFoods' retention of the licensing rights for *Lactobacillus plantarum* 299v (DSM 9843) in the North American market. On 19 February 2013, Probi announced that the agreement with NextFoods had been revised and that as of 2013 the minimum royalty fee had been replaced by an exit fee that will be paid if NextFoods terminates the agreement prior to 2020.

In 2012, Probi signed an agreement with H.J. Heinz in Australia regarding the launch of the first probiotic juice in the Australian market. The product range is based on Probi Defendum, Probi's product platform for the immune system, and is marketed under the *Golden Circle Healthy Life* brand. The launch proceeded as planned and the initiative was intensified through TV advertisements during the second half of the year.

## Consumer Healthcare

Net sales in the Consumer Healthcare business area rose MSEK 4.1, or 9%, to MSEK 49.1 (45.0). Growth in Consumer Healthcare in 2012 was largely driven by deliveries of probiotic gut health capsules based on Probi's bacteria *Lactobacillus plantarum* 299v (DSM 9843) to Pharmavite in the US. The agreement with Pharmavite was signed in the third quarter of 2011. During the year, Pharmavite's distribution was expanded to also include the major health-food chains Walgreens and CVS.

At the end of 2012, Probi increased its penetration of the North American market through a business development agreement signed with the US-based probiotic specialist Viva 5. The North American market for probiotic supplements, which is valued at approximately SEK 6.3 billion, is strongly fragmented, with a large number of sales channels. In order to fully capitalise on this potential, agreements are required with a number of different distributors, each with a strong market position in their individual sales channel.

The agreement provides Viva 5 with non-exclusive rights to market Probi Digestis and Probi Defendum to new distributors in North America. Viva 5 is a full-service partner in Consumer Healthcare, with extensive experience of brand building and product development. The customer base includes major international companies, as well as smaller local distributors. Probi and Viva 5 have initiated discussions with several US distributors and expect the first launches to be implemented in 2013.

Probi will continue its direct cooperation with existing customers in the US, primarily Pharmavite and Metagenics, and will also conduct independent business development in certain channels.

In the first quarter of 2012, Probi also signed an agreement with USV pertaining to sales of Probi Digestis in India, a market deemed to have significant growth potential. USV is a leading Indian pharmaceutical company that is also active in key markets such as Europe and the US. USV is market leader in India in diabetes, cardiology and probiotics. The launch was implemented according to plan in the fourth quarter under the Vibact IBS brand and with distinct exposure of the Probi Digestis ingredients brand.

During 2013, additional launches will be made through agreements signed in 2012 with Vifor of Switzerland and Alvogen of Taiwan.

The agreement with Vifor was signed during the second quarter and applies to the launch of Probi Digestis and Probi Defendum in pharmacies and drug-stores in the Swiss market. The business model reflected in the Vifor agreement has many similarities with the successful partnership between Probi and Bringwell in the Nordic market that was initiated during spring 2010.

During the third quarter, Probi entered into a distribution agreement with Alvogen IPCO S.A.R.L. to launch Probi Digestis and Probi Defendum in Taiwan. Alvogen is a multinational pharmaceutical company with operations in more than 20 countries. Probi Digestis will be launched under the Alvogen IBS brand and Probi Defendum will be launched under the Alvogen Contracold brand. Probi's ingredients trademark will be on the packaging in both cases.

In 2012, Probi Mage® and Probi Frisk®, which are sold in collaboration with Bringwell, further strengthened their positions in the Swedish market for probiotic dietary supplements. The total volume of sales of Probi Mage to health-food stores and pharmacies in Sweden rose 24% compared with 2011. This made Probi Mage the product with the highest sales value among non-prescription gastrointestinal products in the Swedish pharmacy market in 2012.

In 2012, the total market share in Sweden for Probi's Mage and Probi Frisk rose to 50.4%, according to GfK Mediascope, a rise of 5.2 percentage points compared with full-year 2011.

The launch in South Africa, in collaboration with Camox Pharmaceuticals, with which Probi signed an agreement in 2010, has yet to generate revenue at the anticipated level. During autumn 2012, Probi developed a plan jointly with Camox to increase market penetration.

## RESEARCH AND DEVELOPMENT

During 2012, Probi focused largely on the regulatory challenges for probiotics and health claims in Europe, while developing a solid plan for future clinical studies.

As part of the effort to influence regulatory conditions for probiotics, Probi actively participated in Global Alliance for Probiotics (GAP), a non-commercial industrial organisation that focuses on finding solutions that will provide opportunities to make health claims for probiotics in the EU. Packaging and consumer communications for all products that contain Probi's bacterial strains and currently sold in the EU have been adapted to the new regulations that gained legal force on 14 December 2012.

During the fourth quarter of 2012, two major clinical studies were concluded in the areas of the immune system and gastrointestinal health without achieving the anticipated results. In the immune health study of the effects of probiotics on the common cold, no difference was noted between the active group and the control group. The reason for this could be that the number of cold episodes in the study was extremely low, only 19%, compared with 60 to 92% in previous studies. Nor did the 28-day-long gastrointestinal study of individuals with IBS demonstrate any difference in the symptom profile between the active group and the control group. This was a pronounced departure from the results obtained in previous studies. To ensure that the study complied with Probi's interpretation of the EFSA's stringent requirements, a substantial amount of data was collected daily from all of the human subjects. This departed from the procedures for data collection utilised in previous studies and may have negatively impacted the outcome of the study.

Probi will continue its on-going clinical research programme in immune and gastrointestinal health and the aim is to initiate further trials in 2013, which will form the basis for making health-claim applications to the EFSA. Furthermore, trials to broaden documentation for existing products to also include children will be initiated during 2013.

Probi has previously conducted a large number of clinical studies based on the bacterial strains included in Probi Digestis and Probi Defendum. *Lactobacillus plantarum* 299v (DSM 9843), (Probi Digestis), the probiotic bacteria in Probi's gastrointestinal health products, is one of the most well-documented bacterial strains commercially available. Three earlier studies comprising a total of more than 300 human subjects suffering from Irritable Bowel Syndrome (IBS) showed excellent results for Probi Digestis, including indications for stomach pains, bloating and bowel-movement frequency. These and other positive gastrointestinal health effects of Probi Digestis have been documented in more than 20 other clinical studies.

Probi has also obtained very positive results from clinical studies in the immune health area. Results from two studies, involving more than 500 human subjects, showed that the combination of the two strains that are included in Probi's immune product Probi Defendum – *Lactobacillus plantarum* HEAL9 (DSM 15312) and *Lactobacillus Paracasei* 8700:2 (DSM 13434) – significantly reduced cold symptoms, shortened cold episodes and reduced the risk of catching a cold.

During the year, Probi also conducted extensive formulation work, where the effects of moisture and temperature on probiotics were studied in order to develop products with better stability and longer shelf-life for climate zones characterised by hot and damp weather. The formulation work included improving stability and shelf-life for probiotics, combined with other components.

During 2012, Probi's Indian IBS study from 2009 was published in the World Journal of Gastroenterology. The study, which included 214 IBS patients, showed that both the intensity and frequency of the most important symptoms in Irritable Bowel Syndrome were reduced significantly following intake of *Lactobacillus plantarum* 299v (DSM 9843).

## EMPLOYEES

At year-end, Probi had 24 (21) employees, of whom 15 (13) were women and nine (eight) men. The average number of employees during the year was 23 (20). The company has seven (six) employees with doctorate degrees.

During the year, Probi strengthened its organisation, through the recruitment of a Vice President Research & Development and a Director Marketing & Sales Consumer Healthcare.

## EVENTS AFTER THE BALANCE-SHEET DATE

No significant events occurred after the balance-sheet date.

## RISKS AND UNCERTAINTIES

The company pursues continuous efforts to identify and evaluate the various types of risks to which its operations are exposed. This has resulted in a Risk Management Policy that is revised at least once annually by the company's Board. Probi thus has a clear picture of what these risks are and how they can be managed to minimise the negative effects on the company's business and development.

### Agreements with strategically selected business partners

Probi has agreements with a number of partners in various countries that market Probi's products and technologies, or plan to do so. If one or more of these partnerships were to be discontinued or not lead to a launch, this would have a negative impact on Probi's revenue, earnings and financial position.

### Competition

The growing interest in probiotics entails that Probi faces increased international competition from ingredients companies and suppliers of probiotic products. Competition will also come from other products with equivalent health benefits. This could ultimately impose a threat to Probi's market position and growth.

### Regulatory risks

Requirements and regulations regarding the use of health claims are constantly being made more stringent. Since 1 July 2007, nutritional and health claims have been regulated by an EU directive (1924/2006) that applies in all EU countries. This means that all applications for new health claims must be approved by the EFSA (European Food Safety Authority). The EFSA has thus far adopted a very restrictive approach to the approval of health claims. This applies to all types of food-grade health products. Up until the end of 2012, no applications for probiotics had been approved, thus entailing a great deal of uncertainty for Probi and other leading players in the global market.

Probi's continued expansion is contingent on product launches in a greater number of geographic markets, also outside Europe. Regulatory processes in various markets could entail risks for deferred launches and entail costs for Probi.

### Patents and intellectual property rights

Probi's continued development is largely dependent on continued successful research and the ability to protect future revenue streams with extensive patent protection. Accordingly, it is important that granted patents can be maintained and that newly developed products and applications can be patented or otherwise protected.

Probi pursues continuous efforts to strengthen the intellectual property rights and commercial protection of its products. In addition to new patents for existing and new products, this work encompasses the following:

- the development of know-how concerning technology and products.
- regulatory protection in the form of government approval of health claims and the sale of products.
- legal protection for Probi's brands and determined efforts to increase knowledge of the brands.
- long-term commercial agreements with Probi's key customers.

### Product supply

A significant portion of Probi's future growth is based on the delivery of finished products in the form of powder, capsules and tablets. Accordingly, Probi is dependent on a relatively limited number of suppliers living up to the agreed requirements concerning quality, volumes and delivery times.

### Product liability

Probi may be subject to product liability claims if the company's products are alleged to have caused personal injury or property damage. Probi's insurance programme includes product liability protection. However, Probi's business may give rise to claims for damage that are not covered by the insurance. Should this occur, this will have a negative impact on Probi's earnings and financial position.

### Strategic research and development

Probi's research and development encompasses both proprietary efforts and partnerships with external Swedish and international researchers and organisations. However, there is no guarantee that these efforts or partnerships will lead to new launch-ready products, or that Probi will obtain exclusive use of any results.

### Key individuals and employees

Probi is dependent on a number of key individuals and specialists, and the skills they possess. The company's future development is strongly dependent on being able to retain employees, and recruit and introduce new employees with the skills that are in demand.

### Future capital requirements

Probi's strategy entails that the company will continue to invest significant resources in research and development. These initiatives are currently covered by commercial revenues and Probi has a solid financial position. If opportunities for faster growth arise, through strategic acquisitions for example, Probi may need to acquire additional capital by issuing shares or borrowing.

### Financial risks

Probi's business is exposed to various types of financial risks. These risks and how they are managed are described in Note 3 Financial risk factors.

## FUTURE DEVELOPMENT

Probi's business model is based on conducting research and development, obtaining patents and documenting probiotic bacteria and developing ready-made probiotic consumer products. Probi's strategy is based on complementary business models for the two business areas Functional Food and Consumer Healthcare. Operations in Functional Food, which are primarily based on royalty revenues, generate favourable profitability and strong cash flow. A couple of years ago, this created the preconditions to increase the focus on developing the Consumer Healthcare business area. The company's objective is to continue creating profitable growth by expanding and advancing its sales in the global market for products in both business areas. Probi believes that both earnings and cash flow from operating activities will be positive in 2013.

## THE ENVIRONMENT AND QUALITY

To be able to work in a more structured, organised and active manner in respect of environmental efforts, Probi has updated its environmental management system in accordance with ISO 14001:2004. The system was certified in 2012, with SP Technical Research Institute of Sweden as the external certification body.

All Probi AB operations are encompassed by the environmental management system, which comprises an environmental manual, an environmental policy and a list of environmental aspects. During the year, a review was performed of the company's operations and their environmental impact. This work included an analysis of all activities that have or could have an environmental impact. It resulted in a list of environmental aspects. On this basis, the environmental aspects of great importance were identified and will provide a foundation for establishing environmental targets. Procedures have also been established for measuring and monitoring trends in respect of the significant environmental aspects.

The environmental aspects of great importance in Probi's business are:

- Energy consumption in proprietary operations.
- Selection of suppliers of products and services.
- Selection of packaging material for products.

Probi's business is global, entailing air travel for business purposes. Probi has decided to compensate for the emissions of carbon produced by all air travel for business purposes. In 2012, Probi compensated for 216 tonnes of CO equivalents in the Trees of Hope forestry project in Malawi in partnership with PlanVivo Reseller ZeroMission.

Most of Probi's employees underwent training in eco-driving during the year. In addition, a number of training programmes and workshops that addressed environmental issues were implemented and attended by all employees.

Probi's operations are not subject to permit obligations under the Swedish environmental code.

Since 1998, Probi's laboratory operations have been accredited under ISO 17025 "General requirements for the competence of testing and calibration laboratories." This means that a number of procedures and improvement systems have been developed to fulfil the objectives outlined in a quality handbook that is revised annually. SWEDAC is the supervisory authority for accreditation.

## SUBSIDIARIES

Probi AB has two wholly owned subsidiaries, Probi Food AB and Probi Feed AB. Both companies are dormant.

## PROPOSED ALLOCATION OF PROFIT IN THE PARENT COMPANY

The following profits in the Parent Company are at the disposal of the Annual General Meeting:

Profit brought forward	38,578,538
Profit for the year	9,453,962
<b>Total</b>	<b>48,032,500</b>

The Board of Directors and the CEO propose that the profits at the disposal of the AGM be distributed as follows:

that a dividend of SEK 0.75 per share be paid to shareholders	6,836,475
that the following amount be carried forward	41,196,025
<b>Total</b>	<b>48,032,500</b>

The proposed dividend has taken into consideration that the company has treasury shares that are not entitled to a dividend.

The earnings brought forward by the Group totalled TSEK 11,249 according to the consolidated balance sheet and other capital contributions received amount to TSEK 64,740.

The Board of Directors anticipates a continued positive trend in 2013. The Board's assessment is that the proposed dividend will not prevent the company from fulfilling its commitments in the short or long term, or from implementing the necessary investments.

# 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](http://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 2012 financial year.

Probi's Articles of Association and additional information about Probi's Corporate Governance are available at [www.probi.se](http://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 2012, Probi had 4,980 (4,463) 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 15.4% av the votes.

At year-end, the company's share capital amounted to SEK 46,826,500 divided among 9,365,300 shares with a nominal 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, or 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 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 26 April 2012. 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 2013 Annual General Meeting, on one or more occasions, to:

- make decisions regarding acquisition of treasury shares. This authorisation includes acquisitions on NASDAQ OMX Stockholm of treasury shares in a number that at no time exceeds 10% of all shares in the company. 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.
- make decisions regarding the transfer of treasury shares. This authorisation includes a transfer of not more than the number of treasury 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. At 31 December 2012, this authorisation had not been exercised.
- make decisions regarding the new issue of up to a total of 936,530 shares. This authorisation includes the right to disapply the shareholders' pre-emptive rights as well as the provision under Chapter 13, Section 5, Paragraph 1, item 6 of the Companies Act (payment in kind, payment offsetting debt or other terms and conditions). 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. At 31 December 2012, this authorisation had not been exercised.

## REMUNERATION OF SENIOR EXECUTIVES

The 2012 Annual General Meeting 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 2013 Annual General Meeting, 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 plan for executive management to apply during the 2011 and 2012 financial years. The plan encompasses executive management and is based on the company's share-price trend during the years 2011-2014. The CEO and other senior executives participate in the incentive plan for the years 2011 and 2012, as the profitability and sales targets that had been established at the beginning of each year were achieved. The outcome is dependent on a comparison between the company's share price and the general index of the NASDAQ OMX Stockholm in 2013 compared with 2010, and 2014 compared with 2011, whereby the share price must have exceeded the general index by at least 25% in 2013 compared with 2010, and by at least 25% in 2014 compared with 2011 for any right to remuneration to apply. Any remuneration will be paid in 2014 and 2015, respectively. The outcome of the incentive plan in 2014 and 2015 is capped at an annual amount corresponding to 1.44 monthly salaries for the CEO and other senior executives participating in the incentive plan. The share-price related incentive plan is to fall within the framework of the variable salary described above.

### Nomination Committee

The Nomination Committee is elected at the Annual General Meeting and its principal tasks are to:

- evaluate the Board's composition and duties
- prepare proposals to the Annual General Meeting for the election of Board members and Chairman of the Board and their remuneration
- prepare proposals to the Annual General Meeting, when appropriate, concerning auditors and their remuneration

On 26 April 2012, the Annual General Meeting resolved that the Nomination Committee should consist of three owner representatives. Ragnhild Wiborg (Consepio) (convenor) and Bengt Jeppsson (Professor at the Department of Surgery at Lund University) were re-elected. Erik Sjöström (Skandia Liv) was elected a new member.

Probi announced on 24 October 2012 that Heinz-Jürgen Bertram, CEO of Symrise, had replaced Ragnhild Wiborg on the Nomination Committee, pursuant to the policy procedure for changes in the ownership structure, as established at the 2012 AGM. None of the Nomination Committee's members are dependent in relation to the company or senior executives.

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 can do so in accordance with the information provided on Probi's website at [www.probi.se](http://www.probi.se).

## Board of Directors

According to Probi's Articles of Association, the Board of Directors 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 Member and concerning amendments to the Articles of Association. The Annual General Meeting on 26 April 2012 elected a Board consisting of five Members with no deputies as follows: (Figures in parentheses pertain to attendance at Board meetings in 2012)

Per Lundin, Chairman (re-elected)	(11 of 11)
Mats Lidgard (re-elected)	(6 of 11) <sup>1</sup>
Jan Nilsson (re-elected)	(9 of 11)
Benedicte Fossum (re-elected)	(10 of 11)
Eva Redhe Ridderstad (re-elected)	(11 of 11)

1) On sick leave during part of the year.

All Board Members are independent in relation to the company and senior executives. A presentation of the Board Members is available in the section Board of Directors in the Annual Report for 2012 and on the company's website [www.probi.se](http://www.probi.se).

The Annual General Meeting resolves on principles and monetary limits for Board fees. For 2012, the Board's fees were fixed at SEK 900,000, 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 permitted 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 [10](#) and [26](#).

## CEO

A presentation of the CEO is available in the section Management Group and Auditors in the Annual Report for 2012 and on the company's website [www.probi.se](http://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 include evaluating and determining strategies, business plans and budgets. The Board also prepares quarterly reports, year-end reports and annual reports.

The Board also 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 Annual General Meeting.

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 are not in

contravention with 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 not fewer than four times distributed equally during the year and hold one statutory meeting. In addition to regular items, the scheduled meetings in 2012 focused primarily on Probi's long-term development in the form of strategic and structural issues. Aside from the scheduled meetings, a number of short meetings were held by telephone. These meetings primarily addressed 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 2012, the Audit Committee held two meetings attended by four and five members, respectively, of a total of five members.

#### **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 resolved by the Annual General Meeting. The Remuneration Committee held one meeting in 2012. This meeting was attended by four of five members.

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 recognised 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:

- Sales and market developments 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

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. This 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 proposed 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 establishment of a specific internal audit function is to be addressed annually by the Board.

## Financial Reports

## Statement of comprehensive income

		Group		Parent Company	
	Note	2012	2011	2012	2011
<b>Operating revenue</b>					
Net sales	7	99,562	94,379	99,562	94,379
Other revenue		830	630	830	630
<b>Total operating revenue</b>	<b>6</b>	<b>100,392</b>	<b>95,009</b>	<b>100,392</b>	<b>95,009</b>
<b>Operating expenses</b>					
Cost of goods sold		-18,477	-16,833	-18,477	-16,833
Employee benefit expenses	10	-25,659	-21,174	-25,659	-21,174
Other external costs	8, 9, 14	-32,696	-30,258	-32,696	-30,258
Depreciation and discarding of fixed assets	11, 16, 18, 19	-6,351	-8,947	-6,351	-8,947
<b>Total operating expenses</b>	<b>6, 26</b>	<b>-83,183</b>	<b>-77,212</b>	<b>-83,183</b>	<b>-77,212</b>
<b>Operating income</b>		<b>17,209</b>	<b>17,797</b>	<b>17,209</b>	<b>17,797</b>
Financial income	12	2,000	2,138	2,000	2,138
Financial expenses	12	-887	-430	-887	-430
<b>Result from financial income and expenses</b>		<b>1,113</b>	<b>1,708</b>	<b>1,113</b>	<b>1,708</b>
Provision to tax allocation reserve		-	-	-4,570	-
Difference between book depreciation and depreciation according to plan		-	-	-623	-
<b>Income before tax</b>		<b>18,322</b>	<b>19,505</b>	<b>13,129</b>	<b>19,505</b>
Tax on income for the year	13	-4,817	-5,312	-3,675	-5,312
<b>Income for the year</b>		<b>13,505</b>	<b>14,193</b>	<b>9,454</b>	<b>14,193</b>
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the year</b>		<b>13,505</b>	<b>14,193</b>	<b>9,454</b>	<b>14,193</b>
No. of shares at the end of the reporting period (excl. treasury shares)		9,115,300	9,115,300		
Average no. of shares (Excl. treasury shares)		9,115,300	9,210,115		
Earnings per share based on income for the year, SEK.		1.48	1.54		

Income for the year and comprehensive income are attributable in their entirety to the Parent Company's shareholders. The company currently has no outstanding convertible loans or warrants, so no dilution effect can be recognised.

Probi repurchased own shares in 2011 and owned 250,000 treasury shares at year-end.

## Consolidated statement of financial position

<i>Currency: SEK 000s</i>	<i>Note</i>	<i>2012</i>	<i>2011</i>
<b>Fixed assets</b>			
Capitalised development expenses	15	7,969	5,336
Patents and licenses	16	7,888	10,316
Goodwill	17	2,762	2,762
Equipment, tools and fixtures	18, 19	3,021	3,265
<b>Total fixed assets</b>		<b>21,640</b>	<b>21,679</b>
<b>Current assets</b>			
Inventories		2,466	4,404
Accounts receivable-trade	21	23,570	24,787
Other current receivables		368	850
Prepaid expenses and accrued income	22	1,399	1,508
Cash and cash equivalents		87,285	76,202
<b>Total current assets</b>		<b>115,088</b>	<b>107,751</b>
<b>Total assets</b>		<b>136,728</b>	<b>129,430</b>
<b>Equity</b>			
Share capital		46,827	46,827
Other contributions received		64,740	71,578
Loss brought forward		11,249	-2,256
<b>Total equity</b>		<b>122,816</b>	<b>116,149</b>
<b>Non-current liabilities</b>			
Deferred tax		1,142	-
<b>Total non-current liabilities</b>		<b>1,142</b>	<b>-</b>
<b>Current liabilities</b>			
Accounts payable - trade		7,319	7,795
Tax liabilities		13	601
Other current liabilities		1,731	1,189
Accrued expenses and deferred income	24	3,707	3,696
<b>Total current liabilities</b>		<b>12,770</b>	<b>13,281</b>
<b>Total equity and liabilities</b>		<b>136,728</b>	<b>129,430</b>

For pledged assets and contingent liabilities, refer to [Note 25](#).

## Parent company statement of financial position

<b>ASSETS</b>			
<i>Currency: SEK 000s</i>	<i>Note</i>	<i>2012</i>	<i>2011</i>
<b>Fixed assets</b>			
Capitalised development expenses	15	7,969	5,336
Patents and licenses	16	7,888	10,316
Equipment, tools and fixtures	18, 19	3,021	3,265
Participations in Group companies	20	4,031	4,031
<b>Total fixed assets</b>		<b>22,909</b>	<b>22,948</b>
<b>Current assets</b>			
Inventories		2,466	4,404
Accounts receivable-trade	21	23,570	24,787
Other current receivables		368	850
Prepaid expenses and accrued income	22	1,399	1,508
Cash and cash equivalents		87,285	76,202
<b>Total current assets</b>		<b>115,088</b>	<b>107,751</b>
<b>Total assets</b>		<b>137,997</b>	<b>130,699</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Currency: SEK 000s</i>	<i>Note</i>	<i>2012</i>	<i>2011</i>
<b>Equity</b>			
<b>Restricted equity</b>			
Share capital		46,827	46,827
Statutory reserve		21,140	21,140
<b>Total restricted equity</b>		<b>67,967</b>	<b>67,967</b>
<b>Non-restricted equity</b>			
Profit brought forward		38,578	31,223
Income for the year		9,454	14,193
<b>Total non-restricted equity</b>		<b>48,032</b>	<b>45,416</b>
<b>Total equity</b>		<b>115,999</b>	<b>113,383</b>
<b>Long-term liabilities</b>			
Liabilities to Group companies		4,035	4,035
<b>Total long-term liabilities</b>	23	<b>4,035</b>	<b>4,035</b>
<b>Untaxed reserves</b>			
Tax allocation reserve		4,570	-
Accumulated excess depreciation		623	-
<b>Total untaxed reserves</b>		<b>5,193</b>	<b>-</b>
<b>Current liabilities</b>			
Accounts payable - trade		7,319	7,795
Tax liabilities		13	601
Other current liabilities		1,731	1,189
Accrued expenses and deferred income	24	3,707	3,696
<b>Total current liabilities</b>		<b>12,770</b>	<b>13,281</b>
<b>Total equity and liabilities</b>		<b>137,997</b>	<b>130,699</b>

For pledged assets and contingent liabilities, refer to [Note 25](#).

## Consolidated statement of changes in shareholders' equity

	<i>Share capital</i>	<i>Other contributions received</i>	<i>Profit / loss brought forward</i>	<i>Total equity</i>
<b>Opening balance 1 Jan 2011</b>	<b>46,827</b>	<b>92,607</b>	<b>-16,449</b>	<b>122,985</b>
Income for the year	-	-	14,193	14,193
Other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>14,193</b>	<b>14,193</b>
Dividend for 2010	-	-9,215	-	-9,215
Share buyback (incl. costs)	-	-11,814	-	-11,814
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-21,029</b>	<b>-</b>	<b>-21,029</b>
<b>Opening balance 1 Jan 2012</b>	<b>46,827</b>	<b>71,578</b>	<b>-2,256</b>	<b>116,149</b>
Income for the year	-	-	13,505	13,505
Other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>13,505</b>	<b>13,505</b>
Dividend for 2011	-	-6,837	-	-6,837
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-6,837</b>	<b>-</b>	<b>-6,837</b>
<b>Closing balance, 31 Dec 2012</b>	<b>46,827</b>	<b>64,740</b>	<b>11,249</b>	<b>122,816</b>

Income for the year and comprehensive income are attributable in their entirety to the Parent Company's shareholders.

## Parent Company's statement of changes in shareholders' equity

	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Unrestricted equity</i>	<i>Total equity</i>
<b>Opening balance, 1 Jan 2011</b>	<b>46,827</b>	<b>21,140</b>	<b>52,252</b>	<b>120,219</b>
Income for the year	-	-	14,193	14,193
Other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>14,193</b>	<b>14,193</b>
Dividend for 2010	-	-	-9,215	-9,215
Share buyback (incl. costs)	-	-	-11,814	-11,814
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-21,029</b>	<b>-21,029</b>
<b>Opening balance, 1 Jan 2012</b>	<b>46,827</b>	<b>21,140</b>	<b>45,416</b>	<b>113,383</b>
Income for the year	-	-	9,454	9,454
Other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>9,454</b>	<b>9,454</b>
Dividend for 2011	-	-	-6,837	-6,837
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-6,837</b>	<b>-6,837</b>
<b>Closing balance, 31 Dec 2012</b>	<b>46,827</b>	<b>21,140</b>	<b>48,032</b>	<b>115,999</b>

There are 9,365,300 shares with a quotient value of SEK 5, of which Probi AB holds 250,000 shares, corresponding to 2.7%.

## Statment of cash flows

Currency: SEK 000s	Note	Group		Parent Company	
		2012	2011	2012	2011
<b>Operating activities</b>					
Income before tax		18,322	19,505	18,322	19,505
Depreciation/amortisation and discarding		6,351	8,947	6,351	8,947
Divestment of tangible fixed assets		-31	-35	-31	-35
Income tax paid		-4,264	-732	-4,264	-732
<b>Cash flow from operating activities before changes in working capital</b>		<b>20,378</b>	<b>27,685</b>	<b>20,378</b>	<b>27,685</b>
Change in inventories		1,938	-2,141	1,938	-2,141
Change in operating receivables		1,808	-11,968	1,808	-11,968
Change in operating liabilities		77	1,280	77	1,280
<b>Cash flow from operating activities</b>		<b>24,201</b>	<b>14,856</b>	<b>24,201</b>	<b>14,856</b>
<b>Investing activities</b>					
Acquisition of intangible fixed assets		-5,446	-6,713	-5,446	-6,713
Acquisition of tangible fixed assets		-1,102	-917	-1,102	-917
Divestment of tangible fixed assets		267	242	267	242
<b>Cash flow from investing activities</b>		<b>-6,281</b>	<b>-7,388</b>	<b>-6,281</b>	<b>-7,388</b>
<b>Financing activities</b>					
Share buyback		-	-11,813	-	-11,813
Dividend to shareholders		-6,837	-9,215	-6,837	-9,215
<b>Cash flow from financing activities</b>		<b>-6,837</b>	<b>-21,028</b>	<b>-6,837</b>	<b>-21,028</b>
<b>Change in cash and cash equivalents</b>		<b>11,083</b>	<b>-13,560</b>	<b>11,083</b>	<b>-13,560</b>
Cash and cash equivalents at the beginning of the year		76,202	89,762	76,202	89,762
Cash and cash equivalents at year-end		87,285	76,202	87,285	76,202
		<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Interest income according to profit or loss		1,615	1,653	1,615	1,653
Interest expenses according to profit or loss		-	-1	-	-1

No prepaid or accrued interest effects had an impact on interest income and interest expenses recognised above.

## Note 1 - GENERAL INFORMATION

Probi Aktiebolag (publ) with its registered office in Lund, Sweden, was founded 1991 and is a leading player in the field of probiotics research and the development of effective and well-documented probiotics.

The company's research is conducted using living microorganisms with scientifically proven health benefits. The fields of research include gastrointestinal health, the immune system, the metabolic syndrome and stress and performance recovery. Probi's customers are leading companies in the Functional Food and Consumer Healthcare business areas.

The Group comprises the Parent Company, Probi AB, and two dormant subsidiaries, Probi Food AB and Probi Feed AB. Probi's shares are listed on NASDAQ OMX Stockholm.

## Note 2 - ACCOUNTING AND MEASUREMENT POLICIES

The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act, "RFR 1, Supplementary accounting regulations for Groups – January 2013" as well as the International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU.

The preparation of financial statements in accordance with IFRS requires the use of a number of important assessments and estimations for accounting purposes. Furthermore, management is required to make certain estimates when applying the Group's accounting policies. Areas requiring a high degree of assessment that are complex, or areas in which assumptions and estimates are of significant importance for the consolidated financial statements, are specified in Note 4.

### **New and revised standards**

A number of new or revised standards have come into force and applied for the 2012 financial year. However, none of these have or will have any impact on the company's reporting.

### **New and revised standards and interpretations that have yet to become effective**

The International Accounting Standards Board (IASB) has issued a number of new or amended standards that have not yet come into force. The IFRS Interpretations Committee has published new or amended interpretations that have not yet come into force. None of these new or amended standards are applied, and none, except IAS 1, IFRS 9 and IFRS 13, are expected to be applied.

In respect of the amendments to IAS 1 and IFRS 13, executive management is of the opinion that they only affect the presentation and the disclosures in the financial statements. Executive management is of the opinion that application of IFRS 9, which will become effective in 2015, or later, could have an impact on carrying amounts in the financial statements in respect of the Group's financial assets and liabilities. Executive management has yet to conduct a detailed analysis of the effects resulting from application.

Executive management is of the opinion that the other new and revised standards and interpretations will not have a material impact on the Group's financial statements during the period for which they are applied for the first time.

## 2.1 BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Parent Company's functional currency is the Swedish krona, which is also the reporting currency for both the Parent Company and the Group. All amounts stated have been rounded to the nearest thousand kronor, unless otherwise stated. The valuation basis is cost, unless otherwise stated.

The most important accounting policies applied during the preparation of these consolidated financial statements are stipulated below. These policies have been applied consistently for all years presented, unless otherwise indicated. The Parent Company applies the same accounting policies with the exceptions and supplements stipulated in "RFR 2, Accounting for legal entities – January 2013". The accounting policies for the Parent Company are stipulated in section 2.17 entitled "The Parent Company's accounting policies".

## 2.2 CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the financial statements of the Parent Company and all subsidiaries. All companies in which the Group holds or controls more than 50% of the votes or in which the Group has the right to formulate financial and operative strategies are consolidated as subsidiaries. Subsidiaries are included in the consolidated financial statements from the date on which the controlling influence is transferred to the Group. They are excluded from the consolidated financial statements from the date on which the controlling influence ceases.

## 2.3 SEGMENT REPORTING

Operating segments are recognised in a manner that corresponds with the internal reporting that is submitted to the highest chief operating decision-maker, in accordance with IFRS 8 Operating Segments. At Probi, this function has been identified as the Management Group.

## 2.4 REVENUE

Revenue comprises the fair value of the compensation that has been received or will be received in return for the sale of own goods or royalties received from business partners that sell goods containing Probi's products on license, interest on financial instruments and, where applicable, revenue of a nonrecurring nature.

Probi recognises revenue when the criteria have been met for each of the company's operations, as described below. The amount of revenue is deemed not to be measurable in a reliable manner until the obligations with regard to the transaction have been met, or have expired. Probi bases its assessments on historical results and takes into account, in connection herewith, the type of customer, nature of the transaction and special circumstances, on a case-by-case basis.

*Royalty revenue:* Royalty revenue is recognised as revenue on a percentage basis, based on the licensee's recognition of the sales value of consumer products containing Probi's products and ingredients. If the percentage is connected to various levels of the sales value, and thus changes when these are achieved, an estimated average percentage for the year is used each quarter, if this complies with the economic intent of the agreement. Such a check will be undertaken at the end of the year to ensure that royalty revenue actually matches royalty received from customers.

*Income from goods sold:* Income from goods sold is recognised upon delivery of the goods in accordance with the sales and delivery conditions in each individual case.

*Nonrecurring revenue:* Probi may receive a lumpsum down payment in conjunction with the signing or completion of a contract. Certain contracts contain clauses in respect of minimum royalties that can give rise to nonrecurring amounts. These transactions are recognised in their entirety as revenue in conjunction with the actual event assuming that the actual agreement is not, in any way, connected with any counterperformance that will give rise to costs for Probi, or contains revenue elements that must be amortised.

*Interest income:* Interest income is recognised as revenue over the duration of the contract, applying the effective interest method.

## 2.5 INCOME TAX

Current income tax comprises tax payable or recoverable in respect of the year in question, together with adjustments made in respect of current tax for previous years.

Deferred tax is calculated using the balance-sheet method on all temporary differences arising between the recognised and fiscal values of assets and liabilities. Deferred tax assets referring to loss carryforwards or other future fiscal deductions are recognised to the extent that it is likely that the deductions can be offset against surpluses in conjunction with future taxation.

The measurement of all tax liabilities/receivables is based on nominal amounts, and is undertaken in accordance with the tax regulations and tax rates determined or announced, and which are likely to be adopted. Tax is recognised in profit or loss, except when the tax pertains to items recognised in other comprehensive income or directly in shareholders' equity. In such cases, tax is also recognised in other comprehensive income or shareholders' equity.

## 2.6 INTANGIBLE ASSETS

*Goodwill:* Goodwill is tested annually to identify any impairment requirements and is recognised at cost less accumulated impairments. Goodwill impairments are not reversed. Profit or losses on the sale of a unit include the residual carrying amount of the goodwill referring to the divested unit. Goodwill is allocated among the smallest cash-generating units in connection with the impairment testing.

*Research and development expenditure:* Research expenses are expensed on an ongoing basis. Development expenses are recognised as assets from the date on which it is deemed that the project or activity to which they relate will lead to a technically and commercially viable product or lead in some other way to future economic value for the company.

Most of Probi's revenues are generated by licensees that use Probi's probiotics in their own products, which in turn, are further developed for launch and commercial use. In these cases, Probi assists the customer, but is not the entity that completes the development of the end-product. In certain cases, Probi has developed proprietary product solutions, but even here does not entirely control the launch.

When Probi deems that the criteria with regard to identifiability, control, future economic benefit and the ability to reliably measure the cost have been met, it capitalises these development expenses. Capitalised development expenses consist of direct costs for materials, services and personnel costs, with a supplementary charge for a reasonable share of indirect costs. Development expenses recognised as an asset are amortised over the expected useful lifetime. Amortisation is initiated when the asset is ready for use. Capitalised assets not ready for use are tested annually for possible impairment requirements.

Patents and licenses: Patent and licensing expenses are recognised at cost and are amortised on a straight-line basis over their useful lifetime.

The following periods of amortisation are applied:

- Patent: 10 years.
- Licence related to the acquisition of European rights 12 years. This licence has been amortised straight line since the year of acquisition and was amortised in full in 2012.

Annual fees and other additional fees are expensed on an ongoing basis.

## 2.7 TANGIBLE FIXED ASSETS

Tangible fixed assets are recognised at cost less depreciation. Cost includes expenses directly attributable to the acquisition of the asset. Additional charges are added to the carrying amount of the asset or are recognised as a separate asset, depending on which method is appropriate, and only when it is likely that the future economic benefits associated with the asset will accrue to the Group, and when the cost of the asset can be reliably measured. All other forms of repairs and maintenance are recognised as costs in profit or loss during the period in which they arise.

Depreciation of tangible fixed assets is performed on a straight-line basis as follows:

- Equipment, tools, fixtures and fittings 3-10 years
- Improvements to leased buildings is recognised during the remaining term of the lease under the current lease

Profit on the divestment of tangible fixed assets is recognised under Other operating income and losses under Operating expenses.

## 2.8 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets with an indeterminate useful life are not impaired; instead, they are tested annually to determine any impairment requirement. Assets to be depreciated are tested to determine any reduction in value, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the amount by which the asset's carrying amount exceeds its recoverable amount. When assessing the impairment requirement, assets are grouped at the lowest level at which separate identifiable cash flows (cash-generating units) exist.

## 2.9 LEASING

Lease agreements within the Group are classified as either financial or operational leasing.

*Operational leasing agreements:* Leasing of fixed assets for which the lessor, in all material respects, remains as the owner of the asset is classified as operational leasing. The leasing fees for operational leasing are expensed on a straight-line basis over the period of the lease.

*Financial lease agreements:* When the leasing agreement entails that the Group, in its capacity as lessee, in all material respects enjoys the economic benefits and carries the financial risks attributable to the leasing object, in the same way as direct ownership, the object is recognised as a fixed asset in the consolidated balance sheet. A corresponding obligation to pay future leasing charges is recognised as a liability.

## 2.10 FINANCIAL INSTRUMENTS

The Group's financial instruments recognised in the balance sheet include cash and cash equivalents, accounts receivable and accounts payable.

*Cash and cash equivalents:* Cash and cash equivalents include cash and bank balances. Cash and cash equivalents do not include any current investments.

*Accounts receivable:* Accounts receivable are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. These items are distinguished by the fact that they arise when the Group supplies goods or services directly to a customer without intending to trade in the receivable. Accounts receivable are recognised at nominal value less any decline in value. A provision for the depreciation of accounts receivable is made when there is objective proof that the Group will be unable to obtain the full amount due in accordance with the original terms of the receivable. The provision is recognised in profit or loss.

*Accounts payable:* Accounts payable are commitments to pay for goods or services acquired in operating activities from suppliers. Accounts payable are classified as current liabilities if they fall due within one year; otherwise they are recognised as long-term liabilities.

## 2.11 INVENTORIES

Inventories are measured, using the first-in-first-out (FIFO) principle, at the lower of the cost and the net sales value on the balance-sheet date. The cost of the finished goods comprises the cost of raw materials, direct salaries, other direct costs and attributable to indirect manufacturing costs (based on normal manufacturing capacity). The net sales value is the estimated sales price in operating activities, less any applicable variable sales overheads.

## 2.12 FOREIGN CURRENCIES

Transactions in foreign currencies are translated into the functional currency at the exchange rate applying on transaction date. Monetary assets and liabilities in foreign currencies are converted at the rate prevailing on the balance-sheet date. Exchange-rate differences of an operational character are recognised as operating revenue/expense while differences of a financial character are recognised as financial income or expense.

## 2.13 PROVISIONS

Provisions are recognised when the Group has, or may be deemed to have, a legal or informal obligation as a result of events that have occurred, and when it is likely that payments will be required in order to meet the obligation. A further requirement is that it is possible to make a reliable estimate of the amount to be paid. A provision for restructuring measures is made once a detailed, formal plan for the measures has been established.

## 2.14 REMUNERATION OF EMPLOYEES

### Pensions

Pensions are classified as defined-contribution or defined-benefit plans. Obligations resulting from the defined-contribution plans are fulfilled by paying premiums to independent authorities or companies that administrate the plans. A number of Probi employees are covered by the ITP plan via continuous payments to Alecta. In accordance with IFRS, this should be classified as a defined-benefit multi-employer plan. Since there is insufficient information to recognise these as defined-benefit plans, they are recognised as defined-contribution plans covering the period during which the employees performed the service to which the contribution relates.

### Severance payments

Severance payments are made when an employment contract is terminated by Probi prior to pensionable age or when an employee accepts voluntary redundancy in exchange for such payment. A severance payment is recognised when there is an obligation that employees be made redundant in accordance with set rules, without the option of re-employment, or when there is an obligation to provide remuneration upon termination of employment based on an offer made to encourage the individual to take voluntary redundancy.

### Bonus plans and variable remuneration

Probi recognises a liability and a cost for bonus plans when there is a legal obligation to do so according to the employment agreement and in other cases by special decision of the Remuneration Committee.

The Group offers a share-price related incentive plan whereby settlement is reached through cash payment. The results of the plan depend on a comparison between the company's share price and a general index on NASDAQ OMX Stockholm in 2013 compared with 2010 and in 2014 compared with 2011. Any remuneration will be paid in 2014 or 2015. The value of debt is remeasured at the end of each reporting period. The change in debt compared with revenue at the end of the reporting period is recognised in profit or loss.

## 2.15 ACQUISITION AND SALE OF TREASURY SHARES

When acquiring and selling own shares, the payment, including fees, is recognised in accordance with IAS 32 paragraph 33 as a decrease or increase in shareholders' equity. Repurchased shares are not recognised as an asset in the balance sheet and any gain or loss is not recognised in profit or loss.

## 2.16 STATEMENT OF CASH FLOWS

The statement of cash flows is prepared in accordance with the indirect method. Recognised cash flow only includes transactions involving disbursements or receipts. Cash and cash equivalents are defined as cash and bank balances.

## 2.17 PARENT COMPANY'S ACCOUNTING POLICIES

The Parent Company's financial statements have been prepared in accordance with the Swedish Annual Accounts Act (ÅRL) and "RFR 2, Accounting for legal entities – January 2013". This entails that the Parent Company's financial statements apply the IFRSs and IFRICs that have been adopted by the EU when this is possible within the framework of the Swedish Annual Accounts Act and with regard to the relationship between reporting and taxation. All lease agreements, irrespective of whether they are operational or financial, are recognised in the Parent Company as rental agreements (operational leasing agreements). Otherwise, no differences have been identified between the financial statements of the Parent Company and the Group.

### Amended accounting policies

The amendments in RFR 2 "Reporting for legal entities" that affect the company and that have become effective and apply for the 2012 financial year pertain to the following areas:

#### IFRS 7 financial instruments: disclosures

A requirement to specify financial fixed assets has been introduced.

#### IAS 1 Presentation of financial statements

A requirement to specify large amounts that are included in prepaid expenses and accrued income and in accrued expenses and deferred income.

The amendments in RFR 2 have been taken into account when preparing the 2012 Annual Report by means of expanded disclosures. Other changes in RFR 2 had no material impact on the Parent Company's financial statements.

### Amendments in RFR 2 that have yet to take effect

The Swedish Financial Reporting Board has issued an amendment to RFR 2 in respect of recognition of Group contributions, which will become effective in financial years beginning on 1 January 2013 or later. Executive management is of the opinion that this amendment will not have an impact on the Parent Company's financial statements.

## Note 3 - FINANCIAL RISK FACTORS

Probi's business activities are exposed to various financial risks. These can be divided into market risks (including currency risks and interest risks), credit risks and liquidity risks.

Probi's Financial Policy, which describes the management of financial risks, is revised and adopted by the Board on an annual basis.

### 3.1 MARKET RISKS

#### Currency risks

Since Probi is active on the international market, income and expenses arise in varying currencies affected by exchange-rate fluctuations. Most of Probi's revenue comprises SEK-denominated revenue based on agreements with ProViva AB, Bringwell and Skånemejerier. In 2012, revenue from these agreements accounted for slightly more than 60% of total revenue. Revenue in foreign currencies primarily involves USD and EUR. The proportion of foreign currencies could increase as a result of new agreements being signed or an increase in sales based on existing agreements.

Probi's Financial Policy describes the manner in which the company is to manage currency risks in relation to SEK. The objective, wherever possible, is to minimise currency exposure, and thus the currency risk, by matching sales and purchases in each currency. Probi can also hedge currencies through forward contracts. To date, this has not been done, since payment of the balance in foreign currencies often takes place in conjunction with the signing of a contract, or has involved receivables with a short term and limited credit risk. When delivery contracts have longer terms, Probi includes a renegotiation clause in the contract that is triggered when currency fluctuations exceed agreed levels.

A sensitivity analysis shows that the effect on operating income in 2012 of a 5% change in USD/SEK exchange rate would have been MSEK +/- 0.7 (0.4). In connection with changes in the EUR/SEK exchange rate, the corresponding change would have been MSEK +/- 0.1 (0.4).

#### Interest risks

Probi has no interest-bearing liabilities and thus no interest risks.

### 3.2 CREDIT RISKS

Credit risk is related to the counterparties' creditworthiness and requires an assessment of whether the counterparty can fulfil its obligations. The customers' financial performance is monitored on an ongoing basis. During recent years, Probi has suffered no bad debt losses.

### 3.3 LIQUIDITY RISK

Cash-flow forecasts are established regularly to ensure that the Group has sufficient cash funds to satisfy requirements in operating activities. Cash and cash equivalents are invested in interest-bearing accounts with special terms for deposits.

For surplus liquidity – meaning the portion of cash and cash equivalents that exceeds MSEK 20.0 – alternative investment types may be considered if a higher return can be expected. According to Probi's Financial Policy, investments may be made in Nordic banks or Swedish government bonds. The fixed period must be between three and 12 months and investments may only be made after approval by Probi's Chairman. At present, Probi is not utilising alternative investment forms for its surplus liquidity.

## Note 4 - IMPORTANT ESTIMATES AND ASSESSMENTS FOR ACCOUNTING PURPOSES

Estimates and assessments are measured on an ongoing basis and are based on historical experience and other factors, including expectations in relation to future events, considered reasonable under current circumstances. The estimates and assessments that could involve a risk of considerable adjustments in the carrying amounts of assets and liabilities in the coming financial years are dealt with in brief below.

### IMPAIRMENT TESTING OF CAPITALISED DEVELOPMENT EXPENSES

Probi carried out impairment tests in 2012 to determine the recoverable amount of the projects that had been capitalised at 31 December 2012. The value in use, the present value of the anticipated future cash flow from the products encompassed by the capitalised development costs did not indicate any impairment requirement because, with reasonable assurance, these costs will generate revenues for Probi in the years ahead.

## Note 5 - MANAGEMENT OF CAPITAL

The aim of Probi's management of the capital structure is to be able to fulfil the Group's short and long-term obligations and to generate a return to shareholders and benefits for other stakeholders. It is also important to maintain a capital structure that minimises the cost of the capital. If the capital structure were to need adjustment in the future, this could be achieved through external borrowing, the issuance of new shares, share buybacks or changes to the dividend that is paid to shareholders.

The managed capital, defined as the total of the Group's net liabilities (interest-bearing liabilities less interest-bearing assets and cash and cash equivalents) and shareholders' equity, amounted to MSEK 35.5 (39.9) at year-end 2012. On that date, Probi had cash and cash equivalents of MSEK 87.3 (76.2) and no interest-bearing liabilities. Accordingly, the company's financial position is strong and scheduled initiatives are currently covered by commercial revenue.

If the opportunity for faster growth were to arise, through strategic acquisitions, for example, it could be appropriate to secure additional capital through a share issue or external borrowing.

## Note 6 - SEGMENT INFORMATION

Probi's business operations are organised into two operating segments: Functional Food (FF) and Consumer Healthcare (CHC), formerly designated Dietary Supplements.

The Functional Food (FF) segment develops food that generates positive health effects. This operation is developed in partnership with leading food companies in the aim of commercialising and marketing products with high volume potential.

The Consumer Healthcare (CHC) segment develops, markets and sells Probi probiotics together with pharmaceutical companies and other companies specialised in probiotic and health and wellness products, under Probi's proprietary brands or its partners' brands.

"Other" includes assets and liabilities attributable to Group-wide activities.

There are no sales or other transactions between the two segments.

### Operating income per operating segment

Group	2012		
	FF	CHC	Total
Total operating revenue	50,573	49,819	100,392
Total operating expenses	-31,496	-51,687	-83,183
<b>Operating income</b>	<b>19,077</b>	<b>-1,868</b>	<b>17,209</b>

Group	2011		
	FF	CHC	Total
Total operating revenue	49,694	45,315	95,009
Total operating expenses	-35,376	-41,836	-77,212
<b>Operating income</b>	<b>14,318</b>	<b>3,479</b>	<b>17,797</b>

Probi has two customers who each account for more than 10% of the company's sales. The largest customer, with sales of TSEK 42,657 (44,250), is recognised in the Functional Food segment and the second largest, with sales of TSEK 20,910 (20,937), is recognised in the Consumer Healthcare segment.

### Operating revenue per geographic area

Group	2012	2011
	Nordic region	65,001
Rest of Europe	11,095	7,598
North America	12,969	7,304
Rest of the world	11,327	13,241
<b>Total</b>	<b>100,392</b>	<b>95,009</b>

## Note 7 - DISTRIBUTION OF NET SALES

	Group		Parent Company	
	2012	2011	2012	2011
Goods	41,120	36,399	41,120	36,399
Royalties, licenses, etc.	58,442	57,980	58,442	57,980
<b>Total</b>	<b>99,562</b>	<b>94,379</b>	<b>99,562</b>	<b>94,379</b>

## Note 8 - AUDITORS' FEES

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Deloitte				
Audit assignment	222	341	222	341
Audit-related services	24	45	24	45
Tax consultancy	14	207	14	207
Other services	65	22	65	22
<b>Total</b>	<b>325</b>	<b>615</b>	<b>325</b>	<b>615</b>

"Audit assignment" refers to the statutory auditing and fee for audit consultancy. "Audit-related services" refers to the review of management and financial information resulting from the legislation, Articles of Association, statutes and agreement which culminate in a report or any other document that is intended to be used as analytical material for parties other than the consultant. Everything else is classified as "Other assignments".

## Note 9 - RESEARCH AND DEVELOPMENT

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Expensed research and development expenses	18,274	16,929	18,274	16,929

## Note 10 - AVERAGE NUMBER OF EMPLOYEES, SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY CONTRIBUTIONS

<i>Average no. of employees</i>	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Women	14	12	14	12
Men	9	8	9	8
<b>Total</b>	<b>23</b>	<b>20</b>	<b>23</b>	<b>20</b>

<i>Salaries and remuneration</i>	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
<b>Board of Directors</b>				
Benedicte Fossum	150	113	150	113
Per Lundin	300	275	300	275
Mats Lidgard	150	138	150	138
Jan Nilsson	150	138	150	138
Eva Redhe Ridderstad	150	113	150	113
<b>Former Board Members</b>				
Hilde Furberg	-	25	-	25
CEO, Michael Oredsson	2,010	1,856	2,010	1,856
Other management (3 (2))	3,719	2,464	3,719	2,464
Other employees	10,875	9,197	10,875	9,197
<b>Total</b>	<b>17,504</b>	<b>14,319</b>	<b>17,504</b>	<b>14,319</b>

	2012	2011	2012	2011
<b>Social Security contributions, total</b>	<b>8,830</b>	<b>7,287</b>	<b>8,830</b>	<b>7,287</b>
Of which pension costs:	2,881	2,357	2,881	2,357
Board Members	-	-	-	-
CEO, Michael Oredsson	517	465	517	465
Other management (3 (2))	860	607	860	607
Other employees	1,504	1,285	1,504	1,285

The CEO and three senior executives are entitled to bonuses if certain goals, established annually by the Board, are met. If the goals are met in full, a bonus shall be paid of 30% of the annual salary. However, bonuses shall never be paid in an amount totalling more than 50% of the annual salary.

TSEK 586 (1,347), including social costs, was reserved on 31 December 2012 for bonuses to employees. The amount will be paid in 2013 and is distributed as follows: CEO TSEK 168 (323), senior executives(3) TSEK 192 (408) and other employees TSEK 226 (616).

The 2011 Annual General Meeting resolved to introduce a share-price related incentive programme for remuneration of senior executives. The outcome of the programme depends on a comparison between the company's share price and a general index on NASDAQ OMX Stockholm in 2013 compared with 2010 and 2014 compared with 2011, whereby the company's share price must have exceeded the general index by at least 25% in 2013 compared with 2010 and by at least 25% in 2014 compared with 2011 to entitle a bonus payment. Any remuneration will be paid 2014 and 2015 respectively. For 2012 no provision has been made (TSEK 181) for the share-price related incentive programme, since the criteria for the minimum payout not has been reached.

The notice period for the CEO is six months if given by the CEO. If notice is given by the company, the notice period is 12 months. The retirement age for the CEO is 65. The notice period for other senior executives is six months if given by Probi, and three months if given by the employee. There are no other severance pay or pension agreements within the company than those described above.

The CEO's remuneration is determined by the Board of Directors and that of other management personnel by the CEO and the Chairman of the Board. The company has no outstanding and unrecognised pension commitments, as all pensions are defined premium pensions. The company's executive management comprises of three men and one woman.

## Note 11 - DEPRECIATION/AMORTISATION AND DISCARDING OF FIXED ASSETS

Depreciation and discarding of tangible assets and amortisation and discarding of intangible fixed assets as shown below:

	<i>Group</i>		<i>Parent Company</i>	
	2012	2011	2012	2011
Depreciation/amortisation	-6,351	-6,265	-6,351	-6,265
Discarding	-	-2,682	-	-2,682
<b>Total</b>	<b>-6,351</b>	<b>-8,947</b>	<b>-6,351</b>	<b>-8,947</b>

## Note 12 - FINANCIAL INCOME AND EXPENSES

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Interest income	1,615	1,653	1,615	1,653
Exchange-rate gains	385	485	385	485
Exchange-rate losses	-887	-429	-887	-429
Interest expenses	-	-1	-	-1
<b>Total</b>	<b>1,113</b>	<b>1,708</b>	<b>1,113</b>	<b>1,708</b>

## Note 13 - INCOME TAX

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Current tax for the year	-3,606	-601	-3,606	-601
Tax attributable to previous years	-69	-	-69	-
Deferred tax	-1,142	-4,711	-	-4,711
<b>Total</b>	<b>-4,817</b>	<b>-5,312</b>	<b>-3,675</b>	<b>-5,312</b>

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Income before tax	18,322	19,505	13,129	19,505
Nominal tax rate 26.3 %	-4,818	-5,130	-3,453	-5,130
Tax effect on other non-taxable or tax deductible income	-153	-182	-153	-182
Adjustment previous years	-69	-	-69	-
Changed tax rate	223	-	-	-
<b>Total</b>	<b>-4,817</b>	<b>-5,312</b>	<b>-3,675</b>	<b>-5,312</b>

## Note 14 - OPERATIONAL LEASING AGREEMENTS

Operational leasing agreements include rental contracts for premises, office equipment and car leasing. The nominal value of future minimum leasing costs in respect of operational leasing agreements is distributed as follows:

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Leasing costs for the year	2,993	2,914	2,993	2,914
Falls due for payment within one year	3,117	3,007	3,117	3,007
Falls due for payment after one, but within five years	2,592	5,213	2,592	5,213
Falls due for payment after more than five years	-	-	-	-

## Note 15 - CAPITALISED DEVELOPMENT EXPENSES

	Group		Parent Company	
	2012	2011	2012	2011
Opening cost	6,149	4,027	6,149	4,027
New acquisitions	3,049	4,804	3,049	4,804
Discarding	-	-2,682	-	-2,682
<b>Closing accumulated cost</b>	<b>9,198</b>	<b>6,149</b>	<b>9,198</b>	<b>6,149</b>
Opening depreciation/amortisation and discarding	-813	-398	-813	-398
Depreciation/amortisation for the year	-416	-415	-416	-415
<b>Closing accumulated depreciation/amortisation and discarding</b>	<b>-1,229</b>	<b>-813</b>	<b>-1,229</b>	<b>-813</b>
<b>Closing residual value</b>	<b>7,969</b>	<b>5,336</b>	<b>7,969</b>	<b>5,336</b>

## Note 16 - PATENTS AND LICENSES

	Group		Parent Company	
	2012	2011	2012	2011
Opening cost	56,943	55,037	56,943	55,037
New acquisitions	2,397	1,906	2,397	1,906
<b>Closing accumulated cost</b>	<b>59,340</b>	<b>56,943</b>	<b>59,340</b>	<b>56,943</b>
Opening depreciation	-46,627	-41,990	-46,627	-41,990
Depreciation for the year	-4,825	-4,637	-4,825	-4,637
<b>Closing accumulated depreciation</b>	<b>-51,452</b>	<b>-46,627</b>	<b>-51,452</b>	<b>-46,627</b>
<b>Closing residual value</b>	<b>7,888</b>	<b>10,316</b>	<b>7,888</b>	<b>10,316</b>

Closing residual value 31 December 2012 relates entirely to patents. The licenses related to the European rights that were repurchased from Skånemejerier for MSEK 40 in 2001 were amortised on a straight-line basis from the year of acquisition until 2012 and are now fully depreciated.

## Note 17 - GOODWILL

	Group	
	2012	2011
Opening cost	2,762	2,762
<b>Closing residual value</b>	<b>2,762</b>	<b>2,762</b>

The goodwill item refers to the strategic acquisition of outstanding shares in Probi Food AB in 1998. Goodwill is tested every year in regard to any impairment requirements according to the accounting policies described in Note 2.8. Such tests are also carried out when there are indications of an impairment requirement.

The recoverable amount for cash-generating units has been determined by calculating the value in use. The discount rate used was 12% (12) before tax and growth has been calculated at 10% (10) for the coming five years. Beyond this period, growth is estimated at 2% (5).

Probi carried out impairment tests to determine the goodwill value on 31 December 2012. These tests did not indicate that any impairment requirements exist.

No goodwill was recognised in the Parent Company.

## Note 18 - IMPROVEMENTS TO LEASED PROPERTY

<i>Expenditure on leased property</i>	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Opening cost	1,398	1,198	1,398	1,198
Acquisition for the year	-	200	-	200
<b>Closing accumulated cost</b>	<b>1,398</b>	<b>1,398</b>	<b>1,398</b>	<b>1,398</b>
Opening depreciation	-324	-6	-324	-6
Depreciation for the year	-379	-318	-379	-318
<b>Closing accumulated depreciation</b>	<b>-703</b>	<b>-324</b>	<b>-703</b>	<b>-324</b>
<b>Closing residual value</b>	<b>695</b>	<b>1,074</b>	<b>695</b>	<b>1,074</b>

The expense is related to improvements in connection with the renovation of Probi's leased premises on Sölvegatan 41 A in Lund.

## Note 19 - EQUIPMENT AND TOOLS

<i>Equipment</i>	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Opening cost	7,090	6,677	7,090	6,677
Purchases	1,102	718	1,102	718
Sales	-127	-285	-127	-285
Discarding	-281	-20	-281	-20
<b>Closing accumulated cost</b>	<b>7,784</b>	<b>7,090</b>	<b>7,784</b>	<b>7,090</b>
Opening amortisation	-4,900	-4,103	-4,900	-4,103
Amortisation for the year	-730	-895	-730	-895
Amortisation on sold equipment	-	78	-	78
Amortisation on disposed equipment	171	20	171	20
<b>Closing accumulated amortisation</b>	<b>-5,459</b>	<b>-4,900</b>	<b>-5,459</b>	<b>-4,900</b>
<b>Closing residual value</b>	<b>2,325</b>	<b>2,190</b>	<b>2,325</b>	<b>2,190</b>

## Note 20 - PARTICIPATIONS IN GROUP COMPANIES

	<i>2012</i>	<i>2011</i>
Carrying amount	4,031	4,031

### Specification of the Parent Company's shareholding in Group companies

	<i>Share of equity</i>	<i>Share of votes</i>	<i>No. of shares</i>	<i>Carrying amount</i>	<i>Equity</i>
Probi Food AB, 556354-1951, Lund	100%	100%	10,000	3,931	3,935
Probi Feed AB, 556540-4364, Lund	100%	100%	1,000	100	100

No purchases or sales have been made between the Group's companies during the year.

## Note 21 - ACCOUNTS RECEIVABLE

Carrying amount corresponds to the fair value of accounts receivable. Probi's accounts receivable primarily refer to a few major partners. The company does not consider these partners to constitute a significant credit risk. No accounts receivable were impaired in 2012 or 2011. Most of the accounts receivable that had fallen due by year-end had been settled at the end of February 2013.

### Maturity structure of accounts receivable

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Not fallen due	16,977	15,796	16,977	15,796
Fallen due 0-45 days	6,593	8,005	6,593	8,005
Fallen due >45 days	-	986	-	986
<b>Total</b>	<b>23,570</b>	<b>24,787</b>	<b>23,570</b>	<b>24,787</b>

## Note 22 - PREPAID EXPENSES AND ACCRUED INCOME

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Prepaid rent	659	650	659	650
Insurance premiums	294	314	294	314
Other items	446	544	446	544
<b>Total</b>	<b>1,399</b>	<b>1,508</b>	<b>1,399</b>	<b>1,508</b>

## Note 23 - OTHER LONG-TERM LIABILITIES

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Liabilities to Group Companies, > five years	-	-	4,035	4,035
<b>Total</b>	<b>-</b>	<b>-</b>	<b>4,035</b>	<b>4,035</b>

## Note 24 - ACCRUED EXPENSES AND DEFERRED INCOME

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Accrued holiday pay including social security contributions	1,188	930	1,188	930
Social security contributions	428	360	428	360
Accrued administration and selling expenses	1,058	286	1,058	286
Accrued variable remuneration to employees	586	1,528	586	1,528
Other accrued personnel costs	140	292	140	292
Other items	307	300	307	300
<b>Total</b>	<b>3,707</b>	<b>3,696</b>	<b>3,707</b>	<b>3,696</b>

## Note 25 - PLEDGED ASSETS AND CONTINGENT LIABILITIES

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Chattel mortgages	800	800	800	800
<b>Total pledged assets</b>	<b>800</b>	<b>800</b>	<b>800</b>	<b>800</b>

The company has no contingent liabilities.

## Note 26 - TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties recognised in statement of comprehensive income:

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Lavindia AB, related party: Mats Lidgard (Board member)	-	-53	-	-53
Atherioco AB, related party: Jan Nilsson (Board member and Chairman of Probi Scientific Advisory Board)	-60	-60	-60	-60
<b>Total</b>	<b>-60</b>	<b>-113</b>	<b>-60</b>	<b>-113</b>

The transactions above relates to consultancy fees for Probi Scientific Advisory Board and legal issues.

In addition to the transactions recognised above, Per Lundin (Chairman) has invoiced a Board fee from his own company (Vintage Management Nordic AB) and Eva Redhe Ridderstad (Board member) has invoiced a Board fee from her own company (Redhe Financial Communications AB). The amounts are recognised in [Note 10](#) "Average number of employees, salaries, other remuneration and social security contributions".

## Note 27 - EVENTS AFTER THE BALANCE-SHEET DATE

No significant events took place after the balance-sheet date.

## SIGNATURES FOR THE ANNUAL REPORT

The Annual Report and consolidated financial statements were approved by the Board on 19 March 2013. The consolidated statement of comprehensive income and the statement of financial position, as well as the Parent Company's income statement and balance sheet will be presented to the Annual General Meeting on 24 April 2013 for adoption.

The Board of Directors and CEO affirm that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and that they provide a true and fair view of the Group's financial position and earnings. The Annual Report has been prepared in accordance with generally accepted accounting standards and provides a true and fair view of the Parent Company's financial position and earnings.

The Directors' Report for the Group and Parent Company provides a true and fair overall account of the development of the Group's and Parent Company's business, financial position and earnings and describes significant risks and uncertainties facing the Parent Company and the companies within the Group.

Lund, 19 March 2013

Per Lundin  
*Chairman*

Benedicte Fossum

Mats Lidgard

Jan Nilsson

Eva Redhe Ridderstad

Michael Oredsson  
*CEO*

Our auditor's report was submitted on 19 March 2013  
Deloitte AB

Per-Arne Pettersson  
*Authorised Public Accountant*

# AUDITOR'S REPORT

To the annual meeting of the shareholders of Probi AB (publ) Corporate identity number 556417-7540

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of Probi AB (publ) for the financial year 2012-01-01 – 2012-12-31 with the exception of [the corporate governance report](#). The annual accounts and consolidated accounts of the company are included in [the Directors' report](#) and the [Financial Statements](#).

### Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance report. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Probi AB (publ) for the financial year 2012-01-01 – 2012-12-31. We have also conducted a statutory examination of the corporate governance report.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act and that the corporate governance report has been prepared in accordance with the Annual Accounts Act.

### Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Furthermore, we have read the corporate governance report and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the corporate governance 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.

### Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

A corporate governance statement has been prepared, and its statutory content is consistent with the other parts of the annual accounts and consolidated accounts.

Malmö, March 19 2013

Deloitte AB

Per-Arne Pettersson  
Authorized Public Accountant

## BOARD OF DIRECTORS



### **Per Lundin, Born:1947**

Chairman of the Board since 2009. Board member since 2009. Senior Advisor in the food industry. Formerly among other Director of Sales Kraft Foods Nordic, vice President of ICA Meny and President of Arvid Nordquist.

**Other Board Assignments:** Kinnan AB, Gastronomi Sverige AB, M3Bygg AB and Seniorlife AB.

**Shares in the company:** 0

**Independent in relation to the company and major shareholders:** Yes



### **Eva Redhe Ridderstad, Born:1962**

**Education:** B. Sc. Economics, Stockholm School of Economics.

Board member since 2011. Senior Advisor Yggdrasil AB. Formerly held positions in Investor AB, working chairman and CEO Erik Penser Fondkommission AB and founder and President of Mercurius Financial Communications AB.

**Other Board Assignments:** FTrack AB, Spago Imaging AB, MQ AB, Pled Pharma AB, Protector Forsikring ASA, Axel Christiernsson International AB and Temaplan Asset Management AB.

**Shares in the company:** 4,000 shares

**Independent in relation to the company and major shareholders:** Yes



### **Jan Nilsson, Born:1953**

**Education:** Medical programme and Doctor of Medicine, Karolinska Institutet.

Board member since 2010. Professor of Experimental Cardiovascular Research at Lund University. Formerly held such positions as Dean of the Faculty of Medicine at Lund University 2000-2005, and Assistant Head Secretary for the Medical Research Council, 1993-1996.

**Other Board Assignments:** Malmö Högskola.

**Shares in the company:** 0

**Independent in relation to the company and major shareholders:** Yes



## **Benedicte Fossum, Born: 1962**

**Education:** Veterinarian, Norway School of Veterinary Science.

Board member since 2011. Independent consulting company. Formerly held posts including Director of Strategic Development at PHARMAQ AS and various executive positions at Alpharma AS and the Norwegian Medicines Agency.

**Other Board Assignments:** Navamedic ASA, Codfarmers ASA, Ayanda Group AS, Smartfish AS, Foinco AS, Altaria AS, and Mittas AS.

**Shares in the company:** 0

**Independent in relation to the company and major shareholders:** Yes



## **Mats Lidgard, Born:1954**

**Education:** LLB, Lund University 1980.

Board member since 2004. Senior Partner in the human venture capital company Lavindia AB. Previously active in such organisations as the Pharmacia Group, Active Biotech AB and SBL Vaccin AB as Chief Counsel and various other executive positions.

**Other Board Assignments:** Creative Peptides Sweden AB, Jatab Care AB, Scandinavian Biopharma Holding AB and Synphora AB.

**Shares in the company:** 1,000 shares

**Independent in relation to the company and major shareholders:** Yes

## MANAGEMENT GROUP AND AUDITORS



### Michael Oredsson

**Born** 1960  
CEO

**Education:** Degree in International Business Administration from Lund University.

Michael Oredsson was employed in September 2007 as CEO. He joined the company from the biotech company Biosignal, in Australia, where he was CEO from 2002 to 2007. Michael was CEO of the Norwegian biotech company Nutripharma from 1999 to 2001 and, prior to this, was responsible for building up Pharmacia's OTC product division in Australia. He has also held senior marketing positions at Nestlé and Mars Inc. in Sweden, Germany and France.

**Shares in the company:** 2,000 shares



### Niklas Brandt

**Born** 1959  
CFO

**Education:** Business Administration Degree from Lund University.

Niklas Brandt was employed in May 2008 as CFO. He joined the company from Moving AB, where he was CFO for six years. Prior to this, he held a number of senior positions in finance and administration in various companies, such as Tibnor and EF Education.

**Shares in the company:** 1,000 shares



## Niklas Bjärum

**Born** 1963

Vice President of Marketing and Sales

**education:** Degree in International Business Administration from Lund University.

Niklas Bjärum was employed in February 2001 and was given responsibility for the company's sales and marketing. After receiving his degree in 1988, he worked in a number of positions in marketing, sales and business development of both an operational and strategic nature at international food companies, such as Nestlé and Masterfoods (Mars Inc.) In 1998, he changed industries and worked at Ericsson Mobile Communications for three years, where he was responsible for business development for the European market.

**Shares in the company:** 4,000 shares



## Gun-Britt Fransson

**Born** 1953

Vice President Research and Development

**Education:** Ph. D. in Nutrition from Uppsala University.

Gun-Britt Fransson was employed in February 2012 with overall responsibility for the company's research and development activities. Gun-Britt Fransson has extensive experience from senior positions in the food, pharmaceutical and biotechnology industry and acted for more than 10 years as Director of Research at Procordia Food AB and Orkla Foods AS. Most recently, Gun-Britt comes from a position as CEO of Alligator Bioscience AB in Lund, a position she had for six years.

**Shares in the company:** 2,000 shares

## Auditor

Deloitte AB

Per-Arne Pettersson, Authorised Public Accountant

## ANNUAL GENERAL MEETING

The AGM will be held on Wednesday, 24 April 2013, at 3:00 p.m. at the Elite Hotel, Ideon Gateway, Scheelevägen 27, Lund.

### RIGHT TO PARTICIPATE

To be entitled to participate in the Annual General Meeting, shareholders must be registered in the shareholders' register maintained by Euroclear Sweden AB as of Thursday, 18 April 2013 and shall have notified the company of their intention to participate not later than Thursday, 18 April 2013 at 4:00 p.m.

Shareholders whose shares are registered with a trustee must temporarily re-register their shares in their own name with Euroclear Sweden AB in order to participate in the Meeting. Such registration must be completed not later than Thursday, 18 April 2013. This means that shareholders must notify the trustee of their intention to temporarily re-register these shares in ample time before this date.

### NOTIFICATION OF PARTICIPATION

Notification of participation in the meeting can be made:

- In writing to: Probi AB, Ideon Gamma 1, SE-223 70 Lund, Sweden
- By e-mail to: probi@probi.se
- By calling +46 (0)46 286 89 70

### The notification should include the following:

- Name
- Civic registration number or corporate registration number
- Number of shares
- Daytime telephone number
- Where applicable, the number of advisors (max. two) intending to participate in the Meeting.

If shareholders intend to be represented by proxy, a power of attorney and other authorisation documents must be included with the application. The name of the proxy must be provided.

A power of attorney form is available upon request.

## FINANCIAL CALENDAR FOR 2013

Interim Report, Q1	24 April 2013
Annual General Meeting 2012	24 April 2013, 3:00 p.m.
Interim Report, Q2	20 August 2013
Interim Report, Q3	22 October 2013
Year-end report 2013	23 January 2014





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