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## 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 (Lp299v). 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.*





# 2011 in brief

## IMPORTANT EVENTS DURING 2011

- Breakthrough for Probi in the US through agreement with Pharmavite, which secures the distribution of Probi's dietary supplements in drugstore chains and supermarkets.
- Probi signed a co-development agreement with a leading global food company that focuses on the joint clinical development of Probi-Defendum, Probi's product platform for immune health.
- ProbiMage and ProbiFrisk became market leaders in the Swedish market for probiotic dietary supplements.
- ProbiMage and ProbiFrisk were launched in Norway and Finland.
- Probi signed a distribution agreement for dietary supplements based on *Lp299v* with Ta'am Teva Altman, Israel.
- Skandia Liv increased its holding in Probi to 9.6% of the capital and thus became Probi's second-largest owner.
- Probi repurchased own shares totalling MSEK 11.8 and at year-end 2011, the company owned 250,000 treasury shares, corresponding to 2.7% of the total number of shares.

## EVENTS AFTER THE BALANCE-SHEET DATE

- The Board of Directors proposed a total dividend of MSEK 6.8 (9.2), corresponding to SEK 0.75 per share (preceding year: SEK 0.5 plus an extra dividend of SEK 0.5).
- Probi's Management Group was strengthened by the appointment of Gun-Britt Fransson as Vice President Research and Development. Gun-Britt Fransson has held senior positions in R&D at Procordia and Orkla, and most recently served as CEO of Alligator Bioscience AB.

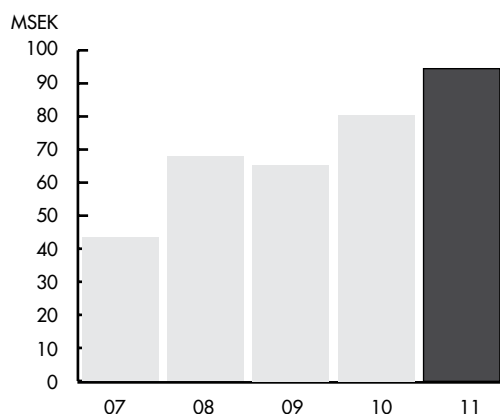
## NEW EMPLOYEES IN 2011

- Marit Emilsson, Medical Laboratory Scientist
- Thomas Jönsson, Supply Chain Manager
- Linda Neckmar, Director Marketing & Sales Consumer Healthcare

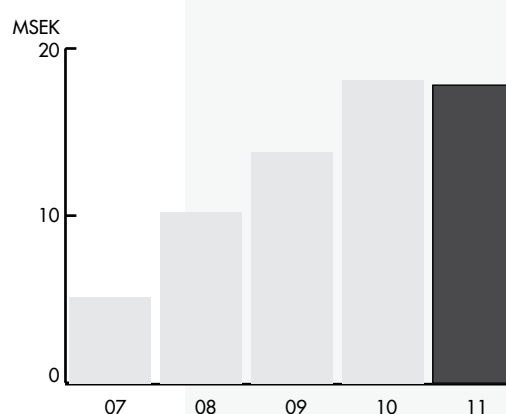
# Financial information 2011

- Net sales amounted to MSEK 94.4 (80.4), up 17%. Excluding remuneration of MSEK 10.0, which Probi received when the Danone agreement became effective in 2010, net sales rose MSEK 24.0 or 34%.
- Operating income before depreciation, amortisation and impairment (EBITDA) amounted to MSEK 26.7 (27.1). Excluding remuneration of MSEK 10.0, which Probi received when the Danone agreement became effective in 2010, EBITDA rose MSEK 9.6 or 56%.
- Cash flow amounted to a negative MSEK 13.6 (pos: 18.1). Remuneration of MSEK 10.0, which Probi received when the Danone agreement became effective, is included in the comparative figures for 2010. In 2011, Probi also repurchased own shares totalling MSEK 11.8 and paid a dividend of MSEK 9.2.
- Profit after tax per share amounted to SEK 1.54 (1.46).

## NET SALES



## OPERATING INCOME



# Probi – Science for a good life

## 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 well-documented, positive health benefits for leading food and dietary supplement companies.

## PROBI'S OFFERING

Probi operates in the global health-products market. The company offers high-grade 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, Friscus and Good-Belly, or tablets and capsules under such proprietary brands as Bion Transit and Nature Made. Probi also offers these types of products in the Nordic market under the proprietary brands of ProbiMage and ProbiFrisk.

## PROBIOTICS MARKET

In 2011, the global market for probiotic-based functional food products amounted to approximately USD 25.4 billion in consumer prices, with an annual growth of 9-11%. The global market for probiotic dietary supplements generated approximately USD 2.4 billion in consumer prices, and is expected to grow 8-10% on an annual basis.

The **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.

The **CONSUMER HEALTHCARE** business area (formerly Dietary Supplements) develops, markets and sells Probi probiotics under Probi's proprietary or partner brands in partnership with pharmaceutical companies and other companies specialised in probiotics and health and wellness products. Probi has chosen a new name for this business area to better reflect the company's products and how they are perceived by consumers. The regulatory status of the products is either food or consumer healthcare products depending on the geographic market, and they are generally perceived by the purchaser to be consumer healthcare products.

## PRODUCT PLATFORMS

### - PROBIDIGESTIS AND PROBIDEFENDUM

Based on Probi's well-documented and patented probiotic strains, the company has registered product and ingredient brands and developed product platforms to clearly differentiate the products and make it easier for consumers to choose a product.

The brands provide a clear indication of the expected effect, and improve the positioning of the products. The platforms create a flexible model and offer a range of collaboration opportunities for Probi, independent of partner, market and business model.

- ProbiDigestis: Clinical documentation for colon irritable/IBS (Irritable Bowel syndrome) based on *Lactobacillus plantarum 299v*.
- ProbiDefendum: Clinical documentation for the prevention and relief of colds and similar infections based on a combination of the bacterial strains *Lactobacillus plantarum Heal9* and *Lactobacillus paracasei 8700:2*.

# Interview with Michael Oredsson, Probi's CEO

## WHAT DO YOU THINK OF WHEN YOU HEAR THE WORD PROBI?

I think about three things. Probiotics, first of all, because we specialise in probiotics and really know our market. Secondly, Probi's long scientific tradition, which sets Probi apart in our industry. And thirdly, Probi's success over the past few years, which has created job satisfaction and commitment.

## HOW WOULD YOU SUMMARISE 2011?

The agreements with Danone and Institut Rosell in 2010 laid the foundation for growth in 2011 and coming years. First and foremost, the agreement with Rosell increased opportunities for us to market our dietary supplements for gastrointestinal health directly to consumers or through our own distributors. The best example of this model to date is the highly successful launch of ProbiMage and ProbiFrisk in partnership with Bringwell in Sweden. The agreement with Pharmavite in the US was the most significant new agreement in Consumer Healthcare during 2011. This marks a breakthrough for Probi in the US, where we are now – for the very first time – delivering a product to large drugstore chains and supermarkets.

In autumn 2011, Danone commenced its first international venture with ProViva when the product was re-launched in the Finnish market. We also planned two strategically significant clinical studies, in gastrointestinal health and immune health, during the year. The results of these will provide a basis for our health claim applications to the European Food Safety Authority (EFSA) in 2012. The immune health study is being conducted in partnership with a large international food company. The protocol of the gastrointestinal health study was developed with support from Danone.

## HOW WOULD YOU DESCRIBE THE FINANCIAL TREND FOR PROBI IN 2011?

2011 was our best year to date, with 34% overall growth. Consumer Healthcare, in particular, grew sharply and nearly doubled its sales. Functional Food also grew, but more modestly – approximately 10% if we exclude a milestone payment received by Probi when the Danone agreement became effective. This excellent growth is combined with stable profitability and a net margin of 21%. The growth must be set against our annual growth target of 25% and profit margin target of 25%. Although we exceeded the first target and our profitability is favourable, we have not fully achieved our profit target yet.

## CAN YOU DESCRIBE PROBI'S OVERALL BUSINESS STRATEGY?

The basic strategy is based on the complementary business models in our two business areas. The Functional Food operations are based on royalty revenue and we do not make any marketing investments. This provides highprofitability, healthy cash flow and enables us to invest and build a position in Consumer Healthcare. We make selective marketing investments behind our brands in this area, for example in partnership with Bringwell in Sweden. These business areas are now the same size and our goal is to achieve good growth in both during the coming years. There is considerable potential in Functional Food due to the international launches of ProViva that we expect from Danone. To summarise, the strategy is based on continued high growth and securing sufficient resources for further expansion.

## WHAT DIFFERENTIATES PROBI FROM OTHER MARKET PLAYERS?

I would say our science focus. Our products are among the very best in the market. They are the result of more than two decades of research. They set us apart and give us market protection. Building a position with clinically well-documented products takes a long time.

## WHICH PRODUCTS WERE PARTICULARLY SUCCESSFUL IN 2011?

Our heroes in 2011 were ProbiMage and ProbiFrisk in the Swedish pharmacy and healthfood market. Our partnership with Bringwell around these products developed very well. This is a Nordic partnership and in 2011, the products were also launched in Finland and Norway.

## HOW DID R&D DEVELOP IN 2011?

The work focused on planning and preparing our two major studies on gastrointestinal and immune health, which commenced at the end of 2011 and early 2012, respectively. The clinical study of gastrointestinal health was planned together with Danone's R&D and regulatory experts. In the immune health area, the planning and implementation of the study is taking place in partnership with a large international food company. This company is also paying for most of the study.



#### CAN YOU DESCRIBE THE MARKET TREND FOR PROBIOTICS DURING THE YEAR?

The market continues to grow by approximately 10% per year on a global basis. The increase applies to both probiotic dietary supplements and functional food. This has been the general pattern for several years and the forecast is that growth will continue at the same pace.

#### HAS THE GLOBAL FINANCIAL TURBULENCE IMPACTED PROBI?

We have not felt any appreciable impact to date. This pattern is in line with previous economic downturns, where the impact on probiotics and other health products has been relatively marginal. However, one noticeable factor in earlier economic declines is that new agreements are more difficult to secure.

#### WHAT RISKS DO YOU SEE FOR PROBI?

EFSA has not yet made any positive recommendations for probiotic health claims in the EU. This is a risk but also an opportunity for Probi. EFSA places extremely high demands on clinical documentation. Few companies will be able to achieve approval for probiotics, but with our strong background in clinical research, there is no doubt that Probi will be one of the candidates. An obvious risk – which I consider to be low – is falling demand for probiotics. Another risk is that the results of our research do not meet expectations. Another area is our patents. The patent for our key bacterial strain in gastrointestinal health, *Lp299v*, expires in 2012, but our protection will continue through our know-how, an internationally registered brand and other types of patents protecting *Lp299v*. This remaining intellectual property has enabled us to enter into new, long-term agreements for *Lp299v* with companies such as Danone and Institut Rosell.

#### WHAT WILL PROBI FOCUS ON IN 2012?

Our two major studies in gastrointestinal and immune health and our subsequent EFSA applications will be a key focus. Continued growth is another issue that engages the entire organisation. We will increase the pace of signing new, international distribution and licensing agreements, since they provide the platform for our growth. This will increase our presence, primarily in Consumer Healthcare, in more markets. We will also strengthen our organisation through recruitments, particularly in marketing and sales.

#### WHAT ARE YOUR EXPECTATIONS FOR PROBI'S FUTURE DEVELOPMENT?

That we will continue to grow and, importantly, that we will start to expand beyond our domestic market. Approximately 70% of our sales are currently in Sweden. That is proof of our international potential. Probi is a unique life science company with high growth and profitability. We have proprietary products that are competitive in an international market. A large part of the global market is yet to be explored by Probi.

Michael Oredsson, CEO

# Partnership is the key to Probi's success

It took a few days before Bengt Jeppsson realised that he may have removed too much of his own intestine. As a surgical professor, he should have known better, but the probiotics project – where he was the the “guinea pig” – was so exciting that he got carried away. The story of how surgeons and nurses allowed biopsies<sup>1</sup> of themselves to be taken is just one example of how Probi's journey has involved many drastic decisions.

It all began when Surgery Professor, Stig Bengmark, observed the high frequency of infection among patients who had undergone large liver or pancreas operations. The most common postoperative treatment was to give patients large doses of antibiotics to prevent infection. Stig Bengmark's idea was to strengthen the intestinal mucosa with a new and improved nutrient solution, thus preventing harmful intestinal bacteria from leaking into the rest of the body. The products available at the time were perceived as artificial and contained too little fibre. This idea marked the start of a partnership with some of the other key people behind Probi. This, in turn, led to a completely new type of nutrient solution with a probiotic bacterial strain that had been used to ferment<sup>2</sup> an oat-based drink. Oats contain beta-glucans and certain lipids, which could have been the properties that strengthened the intestinal wall, but the team gradually became more and more convinced that the key to strengthening the mucosa lay in this newly discovered bacterial strain.

“We never intended to produce a food product; we wanted to create a nutrient solution for seriously ill patients. The tube would go directly to the intestine during the operation. This was in the early 1980s when the idea of using good bacteria was very new,” says Stig Bengmark.



## BACTERIA – FROM SUPPORTING ROLE TO LEADING PLAYER

The difficulty lay in finding a nutrient solution that was similar to real food, that contained a high degree of roughage and had the right consistency to pass through a thin tube. Stig Bengmark contacted food technologist Kåre Larsson, who was a prominent surface and lipid chemist with an interest in grains – particularly oats. Oats were already recognised as a suitable base for nutrient solutions. The idea of using bacteria came from a method of fermenting an oat-based soup to make the mixture thinner.



Kåre Larsson thus brought together Stig Bengmark and Professor Nils Molin, who worked with all forms of industrial fermentation processes – from sourdough to the biological breakdown of wastewater from the wood products industry.

“This project contained interesting microbiological, food technological and medical features. We were lucky because resources and expertise were available close by and everyone involved was enthusiastic,” says Kåre Larsson.

Parallel with these trials with oats, an extensive study was carried out to isolate the lactobacilli that were best suited to industrial pro-





Clas Lönner

esses, and that could also adhere to, and survive in, the intestinal mucosa after they were eaten. This also raised the question of what they could achieve – whether they had any beneficial health effects. This was the reason why Bengt Jeppsson and a number of other hospital employees swallowed the preparations containing various probiotic candidates. In the weeks that followed, biopsies were taken from various locations in their intestines to see whether any probiotic candidates had established themselves in their intestinal microflora. The trials identified two strains of the *Lactobacillus plantarum* species with beneficial properties and after further trials, an oat-based soup fermented with the *Lactobacillus plantarum* 299v bacterium was produced – which is the active bacterium today in Probi's products for gastrointestinal health. The leading scientists in this project with the fermented probiotic drink were Professor Nils Molin, Göran Molin, Siv Ahrné and Clas Lönner. They remain partners to Probi today.

### EFFECTS ON ILL PATIENTS

Tests on both patients and healthy individuals demonstrated that the oat-based bacteria had obvious beneficial effects on intestinal health and general well-being.

"But the real breakthrough, in my opinion, was when we saw how seriously ill patients responded to the oat-based bacteria and how both their intestinal health and general well-being improved immediately. We could see the results of our combined expertise, and how it actually led to an entirely new method for treating patients," says Bengt Jeppsson.

### FOOD OR DRUG?

The greatest issue was whether the oat-based was a drug or something else. Probi was founded in 1991, but with no definitive decision regarding the company's commercial focus. And salaries for the founders were out of the question at this stage.

"We finally realised that it would take 10-20 years and require enormous financial resources to develop a drug. So we started contacting food companies instead, to see whether they were interested in our oat-based drink. It wasn't until we contacted Skånemejerier that everything fell into place," says Kaj Vareman, Probi's first CEO.

Skånemejerier's development department was positive and in 1992, a joint project was initiated to investigate the market potential. However, the first meeting with Skånemejerier's marketing department almost ended in disaster.

"We took our probiotic oat-based drink with us and poured it into a glass. While we were presenting the concept, the drink settled and the oats sank to the bottom. Skånemejerier's marketing director tried the drink and immediately declared it undrinkable," says Kaj Vareman.

### LUCK, PASSION AND HARD WORK

But the most successful companies are also lucky. Skånemejerier's development director had heard the marketing director say how his mother-in-law had stomach problems. When the drink was tested on his mother-in-law, her symptoms improved and the marketing director became interested again.

"In addition to our research successes, we've also been lucky. Luck with networks, luck with available researchers, luck with Skånemejerier and luck with personal chemistry," says Stig Bengmark.

But a company cannot survive on luck alone. There are two more factors behind Probi's success. The passion and conviction behind all of Probi's research is still visible when the founders meet 20 years later.



Siv Ahrné





Kaj Vareman

This group of people has benefitted from its shared expertise and an enormously successful method.

“Our collaboration between many fields of expertise such as microbiologists, surgeons, marketing specialists and food technologists has been totally unique. Researchers were given enormous independence and that, I believe, is one of the keys to Probi’s success. Close and stimulating collaboration with Skånemejerier also played a large role in the commercial development of the products,” says Clas Lönner, receiving acknowledgement from the others.

“We enjoyed working with each other from the start and were able to apply a long-term perspective, without needing to worry about interim reports and steering committees. The company was driven by a spirit of optimism and enterprise, and that spread job satisfaction and expectations,” says Göran Molin.

There have been some clashes between Probi’s research and commercial divisions along the way concerning the future direction of the company and its research, but everyone who is involved today agrees that the “functional food” partnership with Skånemejerier in the form of the ProViva fruit drink was the way forward.



Kåre Larsson

“This company has produced some excellent research. We’ve made some wise and well-informed decisions along the way but also dared to take risks and test entirely new methods. I still remember how angry I was when I saw the mock-up for our first advertising campaign. But because we worked so well together, I was able to influence the design from a researcher’s perspective,” says Siv Ahrné.

### STILL MAJOR POTENTIAL

ProViva was launched in February 1994 as the “first new food in 50 years.” The media response was enormous and the new drink, whose name and properties were developed jointly by Skånemejerier and Probi, received a great deal of attention.

“Our dream was that ProViva would be the new Coca Cola and – obviously – we’re not there yet. But there are still many markets in Europe and the rest of the world where ProViva could be very successful,” says Göran Molin.



Göran Molin

ProViva still accounts for a large proportion of Probi’s sales and has been the engine room of the company’s development. But discovering the properties of *Lactobacillus plantarum* 299v and how it can adhere to the intestinal wall was the factor that lay the foundation for the company.

“Probi has made a tremendous journey, from a brilliant first idea to a listed company with commercially successful products. Everyone involved has always believed in the idea and I think that is probably the most significant factor of them all,” says Kaj Vareman.

#### 1) Biopsy:

A biopsy is a medical procedure in which living tissue is removed from a part of the body and examined under a microscope, for example, when certain illnesses are suspected. An intestinal biopsy is carried out if the examining physician suspects a tumour.

#### 2) Fermentation:

A process where lactic-acid bacteria break down carbohydrates, often carbohydrates that the body cannot break down on its own. This makes it more difficult for harmful bacteria to become established and multiply.

#### Lactic-acid fermented food:

Lactic-acid fermentation is a traditional method of preserving food using lactic acid bacteria, sometimes combined with yeast fungi. Fermentation can produce a range of beneficial effects such as longevity, consistency and flavour, as well as nutritional value and nutrient availability. The live bacteria in the product can also have other health benefits. Examples of fermented food are yoghurt, kefir, cheese, isterband (a type of smoked sausage), salami, sauerkraut, olives, capers and sourdough bread.

# How Probi is controlled

Probi has a clear and explicit strategy for reaching its financial objectives within three to five years. To achieve these objectives, Probi has worked intensively during recent years to develop the company's business model for creating growth in combination with calculated risk.

## 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 well-documented, positive health benefits for leading food and dietary supplement companies.

## FINANCIAL OBJECTIVES

Probi's overall objectives are to generate a return for its owners, and to generate funds for developing the business operations. The management leads and controls the company based on the guidelines adopted by the Board, and three financial objectives, which were established in 2010 for the coming three to five years:

- At least 25% average annual organic growth
- A net margin exceeding 25%
- Positive cash flow, excluding financing activities, amounting to at least 50% of operating income

## STRATEGY

To focus 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 Sweden and the potential for international growth is great. Examples of markets where Probi still has major opportunities are China, South Korea, Brazil, Mexico, Germany and Italy.
- **New product platforms:** Most of Probi's present products are in the gastrointestinal and immune health areas. The research strategy is to develop additional clinical platforms and produce products in new indication areas.
- **New product format:** The development strategy in this area focuses on developing new product solutions based on Probi's existing clinical platforms, ProbiDigestis and ProbiDefendum. One example could be target-group-adapted combination products with probiotics plus vitamins or minerals.

## GOAL ATTAINMENT 2011

Objective	Goal attainment	Comments
At least 25% average growth	Organic growth in 2011 was 34% (17).	Growth in 2011 was 17%, including remuneration of MSEK 10.0, which was received by Probi when the Danone agreement became effective.
A net margin <sup>1</sup> exceeding 25%	The net margin in 2011 was 21% (23).	The net margin in 2011 was 24%, excluding disposal of capitalised development expenses amounting to MSEK 2.7.
Positive cash flow excluding financing activities amounting to not less than 50% of operating income	Cash flow excluding financing activities in 2011 was MSEK 7.5 (22.7), corresponding to 42% of operating income (126).	Remuneration of MSEK 10.0, which was received by Probi when the Danone agreement became effective, is included in the comparative figure for 2010.

1) Profit before tax as a percentage of net sales



Novabazid  
Novabazid  
Novabazid

samarin  
samarin  
samarin

Trevis  
Trevis  
Trevis

PROBI  
PROBI  
PROBI

Spirulina

Moxalole  
Moxalole  
Moxalole

## 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 large sales volumes. Revenue is mainly derived from royalties on partner-generated sales. This model carries a very low risk, but Probi receives a limited portion of the revenue and the value chain. Over the years, however, Probi has often received higher royalty compensation than the general market for this type of business model.

The licensee usually owns the product brand, while Probi guarantees the product through its ingredient brand. The agreement with Danone, for example, is based on this business model.

## PRODUCT MODEL

This model is applied in the Consumer Healthcare business area. Revenue is derived 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. One example of this is Probi's agreement with Pharmavite, where the product is sold under Pharmavite's Nature Made brand with Probi's ProbiDigestis ingredient brand on the packaging.

## 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 of this model include sales of ProbiFrisk and ProbiMage in the Nordic market. 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

BUSINESS MODEL	REVENUE	RISK	REVENUE LEVEL	CUSTOMERS/PARTNERS	MARKET	PRODUCTS
LICENSING MODEL	Royalties based on partner-generated sales	Low	Low	Danone Skånemejerier	Nordic region	ProViva Probiotic juice (Friscus)
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 The US	Dietary supplements based on ProbiDigestis and ProbiDefendum under each distributor's brand
CONSUMER MODEL	Sales of goods in consumer packaging	Medium	High	Bringwell	Nordic region	ProbiMage ProbiFrisk



# The share

## LISTING

Probi has been listed on the NASDAQ OMX Nordic Exchange Stockholm since 2004 and trades under the symbol PROB. Probi belongs to 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 2011, 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 2011 was 4,463, compared with 4,201 at 31 December 2010. Of the total number of shares, institutional ownership accounts for about 68.2% (68.1), private owners 31.8% (31.9) and foreign owners for about 18.2% (19.2). The largest proportion of shares held by foreign owners is in Europe, corresponding to 16.2% (14.2) of the total number of shares. Probi's two principal owners, Consepio and Skandia Liv, control 22.0% of the capital and 22.6% of the votes.

## REPURCHASE OF OWN SHARES

During the first to third quarters of 2011, Probi repurchased own shares in accordance with the mandate from the Annual General Meetings in 2010 and 2011. A total of 250,000 shares, valued at MSEK 11.8, were acquired in 2011. At 31 December 2011, Probi held 250,000 treasury shares, corresponding to 2.7% of the total number of shares, with a quotient value of SEK 5.

## NEW INSTITUTIONAL OWNER 2011

Skandia Liv increased its holding in Probi during 2011, and is now the company's second-largest owner. At year-end, Skandia Liv's

holding was 9.6% of the capital and 9.8% of the votes. In September 2011, Skånemejerier divested its entire holding in Probi, corresponding to 10.3% of the capital.

## SHARE PERFORMANCE

In 2011, Probi's share rose 8% and was listed at a closing price of SEK 52.50 (48.70) at year-end. The OMX General Index Stockholm PI declined 16.7% during the year. The highest and lowest prices in 2011 were SEK 55.00 (66.00) and SEK 40.00 (45.00), respectively. On 31 December 2011, Probi's total market value was MSEK 492 (456). During 2011, 5,244,257 (3,782,008) Probi shares were traded on Nasdaq OMX Nordic, corresponding to 58% (40) of the total number of shares outstanding. The average turnover of shares per trading day was 20,728 (14,949). The turnover rate, or liquidity, was 54% (40). Over the past five years, the average price increase of the Probi share has been 17% per year.

## DIVIDEND POLICY

The Board of Directors and the CEO propose that the 2012 Annual General Meeting approve that the company pays a dividend of SEK 0.75 per share, compared with SEK 0.50 plus an extra dividend of SEK 0.50 in 2010. This entails a total dividend of MSEK 6.8 (9.2), and that the remaining retained earnings of MSEK 38.6 are carried forward. The dividend proposed by the Board of Directors comprises 48% of profit after tax for 2011.

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	1,00	0	115 000
Bonus issue 34:1	1998		3 910 000	4 025 000	1,00	3 910 000	4 025 000
Targeted issue <sup>2)</sup>	1998		1 006 250	5 031 250	1,00	1 006 250	5 031 250
Bonus issue 50:10	1998		7 546 875	12 578 125	1,00	7 546 875	12 578 125
Targeted issue <sup>3)</sup>	1998	12	1 721 875	14 300 000	1,00	1 721 875	14 300 000
Bonus issue 13:10	1998		18 590 000	32 890 000	1,00	18 590 000	32 890 000
Rights issue	2000	10	8 222 500	41 112 500	1,00	8 222 500	41 112 500
Reverse split 5:1	2004		-	8 222 500	5,00	-	41 112 500
New issue	2004		1 142 800	9 365 300	5,00	5 714 000	46 826 500

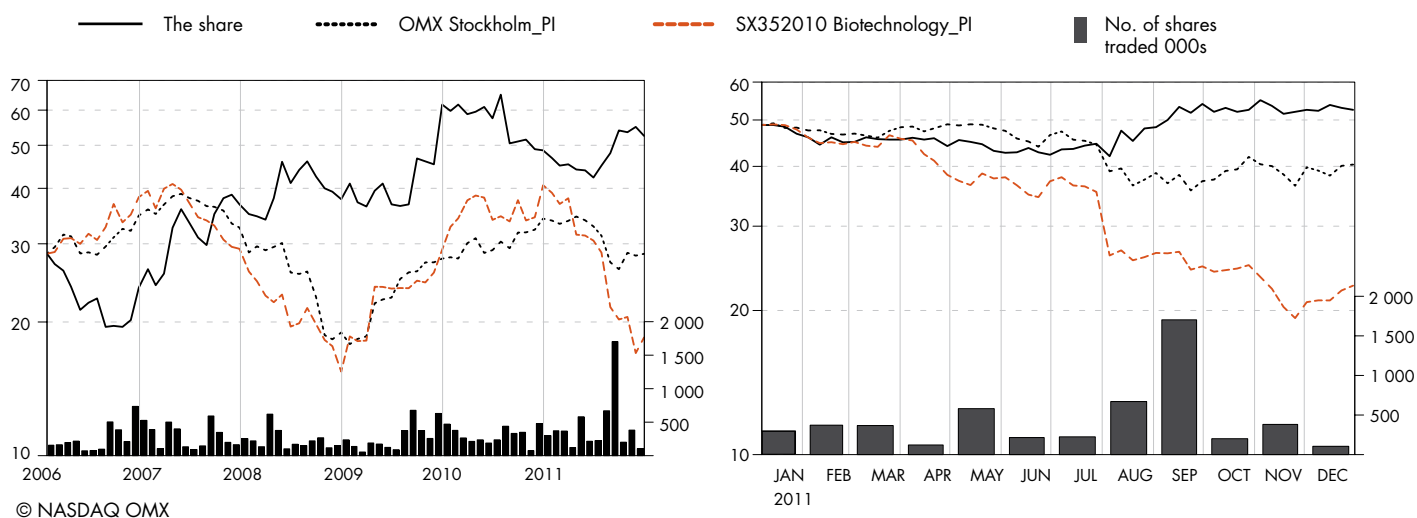
1) Issue targeted to founders and senior executives

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



## SHAREHOLDERS

Owner	No. of shares	Proportion of share capital, %	Proportion of votes, %
Consepio	1 161 201	12,4%	12,7%
Livsförsäkrings AB Skandia	895 077	9,6%	9,8%
Nordea Life & Pensions	457 512	4,9%	5,0%
Tangling Asset Management AB	421 418	4,5%	4,6%
Göran Molin and companies	367 362	3,9%	4,1%
Bengt Jeppsson	300 000	3,2%	3,3%
Lärerstadens Brandförsikring GE	296 000	3,2%	3,3%
SHB Fourth Swedish National Pension Fund	276 300	3,0%	3,0%
Probi AB	250 000	2,7%	-
Handelsbanken funds	194 279	2,1%	2,1%
Other	4 746 151	50,5%	52,1%
<b>Total</b>	<b>9 365 300</b>	<b>100,0%</b>	<b>100,0%</b>

## HOLDING PER SHAREHOLDER

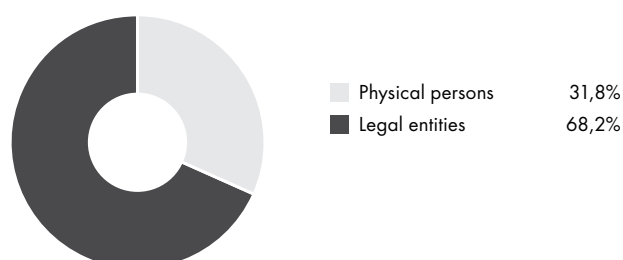
Share distribution	No. of shareholders	No. of shares	Proportion of shares, %
1-500	3 393	577 360	6,2%
501-1 000	555	444 072	4,7%
1 001-5 000	410	927 150	9,9%
5 001-10 000	46	343 846	3,7%
10 001-15 000	10	123 923	1,3%
15 001-20 000	8	145 052	1,5%
20 001-	41	6 803 897	72,7%
<b>Total</b>	<b>4 463</b>	<b>9 365 300</b>	<b>100,0%</b>

## PER-SHARE DATA

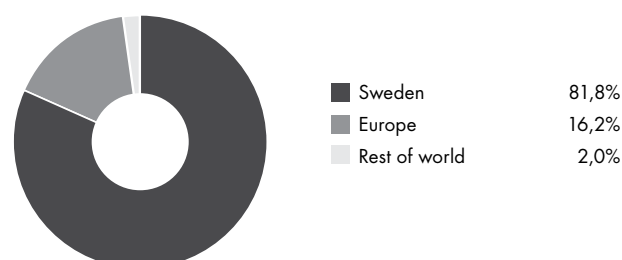
	2011	2010	2009	2008	2007
No. of shares on 31 Dec., 000s	9 365	9 365	9 365	9 365	9 365
Earnings per share, SEK	1,54	1,46	1,15	0,85	2,62 <sup>1)</sup>
Shareholders' equity per share, SEK	12,74	13,13	12,17	11,03	10,17
Cash flow per share, SEK	-1,49	1,93	1,11	1,49	1,39
Closing share price on 31 Dec. (last price paid, SEK)	52,5	48,70	61,75	37,80	36,80
Price/equity ratio per share, multiple	4,1	3,71	5,07	3,43	3,62
P/E ratio, multiple	34,09	33,36	53,70	44,47	14,05
Dividend, SEK/share	0,75 <sup>2)</sup>	1,00	0,50	-	-
Market value on 31 Dec., SEK 000s	491 678	456 090	578 307	354 008	344 643

1) Earnings per share in 2007 include tax income of SEK 1.93 per share related to capitalisation of deferred tax asset.  
2) The Board's proposal to the Annual General Meeting on 26 April 2012.

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



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



# Risks

Systematic and successful risk management is a prerequisite for all business operations in terms of opportunities for reaching set goals. This involves identifying risks and uncertainties and preventing or minimising the negative effects they may entail. The costs associated with risk management must also be considered.

Probi's operations are exposed to various types of risk. The company works continuously to identify and assess these risks. These efforts have resulted in a Risk Management Policy that is revised at least once annually by the company's Board of Directors. 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 partners	Probi has agreements with a number of partners in various countries, which market Probi's products and technology or plan to do so. If one or more of these partnerships were terminated or not lead to launches, 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. 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). The EFSA has thus far adopted a very restrictive position in regard to the approval of health claims. This applies to all types of food-grade health products. Up until 2011, no applications for probiotics had been approved, which has entailed a great deal of uncertainty for Probi and other leading players in the global market.</p> <p>Probi's continued expansion presumes product launches in a greater number of geographic markets, also outside of Europe. Regulatory processes in various markets can entail risks for delayed launches and subsequent costs for Probi.</p>

RISK	EXPOSURE
Patents and intellectual property rights	<p>Probi's continued development is largely dependent on continued successful research and the ability to protect future revenue streams with extensive patent protection. Thus, it is vital that granted patents can be maintained and that newly developed products and applications can be patented or protected in some other way.</p> <p>Probi works continuously to strengthen the intellectual property and commercial protection of its products. In addition to new patents for existing and new products, this also includes:</p> <ul style="list-style-type: none"> <li>• the development of know-how in relation to technology and products.</li> <li>• regulatory protection in the form of government approvals of health claims and sales of products.</li> <li>• legal protection for Probi's brands and targeted campaigns to raise awareness of the brands.</li> <li>• long-term commercial agreements with Probi's key customers.</li> </ul>
Product supply	<p>A significant portion of Probi's future growth is based on the delivery of ready-made products in the form of powder, capsules and tablets. Probi is thus dependent on a relatively limited number of suppliers complying with agreed requirements such as quality, volumes and delivery dates.</p>
Product liability	<p>Probi can 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 contains 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.</p>
Strategic research partnerships	<p>Probi's research is based, to some degree, on partnerships with external Swedish and international researchers. However, there is no guarantee that these partnerships will lead to new launchable products, or that Probi is entitled to exclusive use of the findings.</p>
Key individuals and employees	<p>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 new employees with the skills that are in demand.</p>
Future capital requirements	<p>Probi's strategy entails that the company will continue to invest significant resources in research and development. These initiatives are currently covered by commercial revenue and Probi has a strong 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.</p>
Financial risks	<p>Probi's business entails various types of financial risks. These risks and how they are managed is described in Note 3 Financial risk factors.</p>

# From niche product to mass consumption

Probiotics are not a new phenomenon; they have been part of the human diet for thousands of years. Many probiotic bacteria belong to the *Lactobacillus* or *Bifidobacterium* families and occur naturally in such foods as gherkins, olives, sauerkraut, salami and dairy products such as yoghurt and kefir.

The search for alternative solutions to medical problems has spurred interest in probiotics. It is recognised that certain food can promote good health and probiotics balance the intestinal flora, which promotes digestive health and boosts the immune system.

## STRONG POSITION FOR DAIRY PRODUCTS AND FRUIT JUICE DRINKS

From largely a niche product, probiotics have recently become established as one of the strongest growth areas in the global health market.

Probiotic products for improved health are available as both functional food and dietary supplements in a range of forms and products. A large number of dairy products have always contained probiotics. The major challenge for the industry has been to find methods that enable probiotic bacteria to survive in all types of food. Probi's contribution to this development has primarily been fruit juice drinks and juices, such as ProViva. A major benefit with probiotic food that is not dairy-based is that people who are lactose-intolerant can consume sufficient amounts containing probiotics.

Dairy products, fruit juice drinks and juices are deemed to have the greatest potential for continued development in the field.

## CONTINUED STRONG GROWTH

The market for probiotic products is relatively heterogeneous. Levels of consumption and maturity vary greatly between markets. The total consumption of probiotic food and dietary supplements per capita is highest in Japan, due to a long tradition and an effective regulatory framework for health products. In 2010, Japan's annual per capita consumption was estimated at USD 40, followed closely by Spain, South Korea and Italy. In 2010, Italy was the largest single market

for probiotic dietary supplements with a consumption of USD 8 per capita, followed closely by Japan, Belgium, Taiwan and the US. The North American market is still considered relatively undeveloped.

In 2011, the global market for probiotic-based functional food amounted to more than USD 25 billion in the consumer sector with annual growth of 9-11%. Single product categories such as yoghurt (excluding drinking yoghurt) are expected to grow approximately 15-20%.

The global market for probiotic dietary supplements generated approximately USD 2.4 billion in the consumer sector and is expected to grow 8-10% on an annual basis.

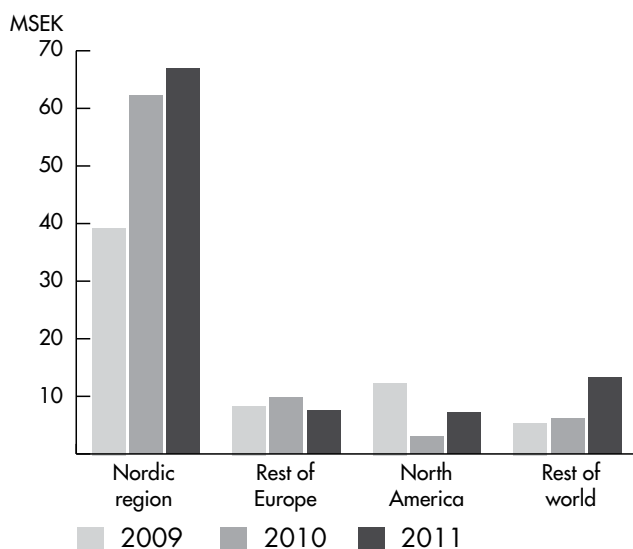
For ingredient suppliers, the demand for probiotics is great. In the coming five-year period, the market is expected to grow more than 35%. The market is primarily driven by Asia today, but consumption in the US is expected to exceed demand by more than 60% during the same period.

## GLOBAL POSITIONING

From a positioning perspective, producers usually market and sell probiotics as generally health-enhancing products. However, there are major international differences. The single largest areas are gastrointestinal health and immune effects. In Japan, probiotics are consumed for health and beauty. Some probiotics are marketed for the skeleton in Spain, whereas the focus in Brazil lies on gastrointestinal health and on the memory in other markets.

Studies show that future product launches will primarily focus on positioning probiotics in the gastrointestinal health niche. This applies predominantly for dairy products and fruit juice drinks.

## PROBI'S REVENUE/MARKET 2009-2011



FAO/WHO defines probiotics as "live microorganisms, which when administered in adequate amounts confer a health benefit on the host."

Did you know that...

- Italy has the highest per-capita consumption of probiotic dietary supplements?
- Future studies show that the greatest growth is expected in probiotic fruit juice drinks and juices?
- There are references to probiotic milk in the Bible (The First Book of Moses 18:8)?
- The Russian scientist and Nobel Laureate Elie Metchnikoff (1845-1916) is considered the father/inventor of modern probiotics?
- The human gastrointestinal tract is home to around 100,000 billion probiotic bacteria?
- The most common, traditionally fermented food in Europe today is olives?

Source: Euromonitor

PETER ÖSTLING



**Analyst Life Sciences, Redeye**

### HOW WOULD YOU DESCRIBE THE PROBIOTICS MARKET?

Globally, the statistics for probiotics are not as reliable as for other product segments in the pharmaceutical industry. There are major international differences in the consumption of both functional food and dietary supplements. Functional food is leading in countries with a tradition of fermented milk products, such as the Nordic countries and Japan, while the consumption of vitamins, minerals and other dietary supplements is more widespread in the US and other parts of the world. Generally speaking, dietary supplements show the highest growth rate, primarily in indication-specific products with clinical documentation in the premium segment. My prediction is that the market will grow 10-15%.

### WHO ARE THE MAJOR PLAYERS?

Traditionally, functional food has been dominated by such dairy giants as Danone, Yakult and Valio. But over time, we will see other food companies with a probiotics offering. The market is more fragmented in regard to dietary supplements, but I would not be surprised if pharmaceutical companies supplemented their offering with probiotics from well-known brands and established channels. I think there is less competition there and it could become profitable for many players, but once again – primarily in the premium segment.

### WHAT ARE THE TRENDS?

Taking care of yourself and eating right is a global trend. This applies for both food and health and wellness products. Companies with clinical documentation for specific indications will have a commercial advantage, since this is an added value that they can charge for.

### WHAT IS THE MARKET OUTLOOK?

Uncertainty surrounding the EFSA has locked the market. The EFSA is relatively new and when its mandate has been clarified, everyone will know what applies. I think some players are waiting until the regulatory framework is clear. The market and the number of products will also grow independently of the EFSA. But one thing is clear, probiotics are here to stay and the market will continue to grow.

# Business Area: Functional Food

Functional Food is one of Probi's two business areas and in 2011, net sales amounted to MSEK 49.4, corresponding to 52% of Probi's total net sales. This business area develops probiotic food with beneficial health effects. This is conducted in collaboration with leading food companies with the objective of commercialising and marketing the products.

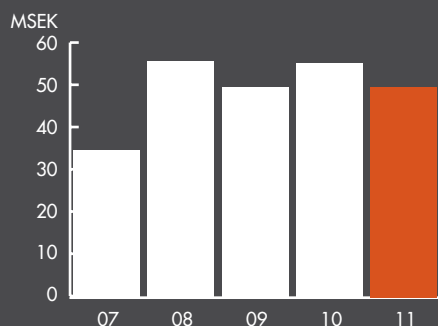
## EXAMPLES OF CUSTOMERS:

- Danone (ProViva AB), Sweden and Finland
- Skånemejerier, Sweden
- NextFoods, US

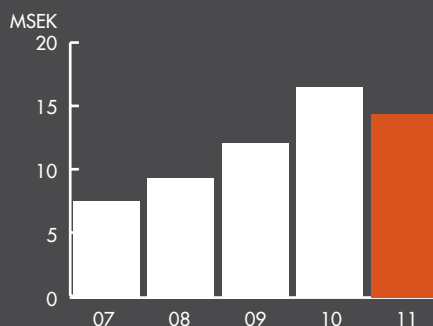
## IMPORTANT EVENTS:

- Continued strong growth for ProViva
- Research agreement with leading global food company
- NextFoods offers a broader product range

NET SALES



OPERATING INCOME



DISTRIBUTION OF REVENUE  
BETWEEN BUSINESS AREAS



Functional Food 52%  
Consumer Healthcare 48%



## HIGHLIGHTS 2011

It was first and foremost ProViva's strong sales that dominated during the year. Since Danone became a majority partner in ProViva AB last year, the company has demonstrated that ProViva holds a key position in the company's product range. Volumes increased 8% during the year, entailing an average consumption of more than 3 litres per person in Sweden. This is particularly noteworthy, since the trend for supermarket sales as a whole was very weak in 2011. Danone developed ProViva's branding platform, produced a new media strategy and made a major investment in penetrating new local markets. The focus lay on increasing sales in the Stockholm region and implementing a re-launch in Finland.

In 2011, Probi also signed an agreement with a leading global food company concerning the clinical development of ProbiDefendum. The idea is to strengthen clinical documentation in preparation for an EFSA application. A joint clinical study was initiated in Europe during the first quarter of 2012. The agreement guarantees Probi's partner exclusive global rights in a limited number of product areas for immune health, where Probi does not currently have any products.

Since 2008, Probi has had an agreement with NextFoods, which sells a ProViva-like range in the US market under the GoodBelly brand. The GoodBelly range contains Probi's *Lp299v* bacterial strain and is primarily distributed in food chains with a health profile such as Whole Foods. NextFoods has continuously developed its product range of probiotic fruit juice drinks. The range now includes proprietary products as "shots" with a higher concentration of bacteria, products for children and a special low-calorie juice.

## SALES

In 2011, net sales in Functional Food amounted to MSEK 49.4 (55.0). Excluding remuneration of MSEK 10.0 that Probi received from Skånemejerier in 2010 when the Danone agreement became effective, net sales rose MSEK 4.4 or 10%. The trend for ProViva's development was positive during the year, and Probi's royalty revenue rose 5% to MSEK 44.3 (42.1). However, the largest portion of the increase in Functional Food during the year is attributable to NextFoods making a royalty payment of MSEK 2.9 to retain the licensing rights for *Lp299v* in the North American market. Sales developed positively for NextFoods, although at a slower pace than what was expected at the launch in 2008. In 2011, Next Foods' revenue rose 15% in local currency. Probi's royalty revenue from Skånemejerier for the probiotic fruit juice Friscus remained at the same level as in 2010.

## OPERATIONS AND ORGANISATION

Functional Food is one of Probi's two business areas.

In Functional Food, Probi works with the licensing model. This entails that Probi licenses its product platforms to various partners. These product platforms include Probi's unique bacterial strains, technologies and applications for various types of food products.

Probi currently has partnerships with such leading food companies as French Danone through ProViva AB in Sweden and Finland, Skånemejerier in Sweden and NextFoods in the US. Since 2011, Probi has also had a co-development agreement with another leading global food company that has exclusive negotiation rights in

some categories for new food products based on ProbiDefendum. These new product categories do not compete with Probi's current offering.

**MARKETS AND COMPETITORS**

In the Swedish market, which remains Probi's key market for Functional Food, there are several major probiotics players that also conduct their own research and production. Danish Danisco and Chr. Hansen are ingredient suppliers and, in the same manner as Probi, they manufacture and license the probiotics to larger food companies. The Swedish probiotics market still has major potential by international comparison. The probiotic food category is growing due to increasing customer demand for flavourful products with positive health benefits. Some of the large European markets for probiotic food include Spain, France and Germany.

From a global perspective, Japan and South Korea are large, mature markets. These countries have a tradition of eating fermented products, around which successful companies such as Yakult have developed and built their products. The North American market for probiotic food is relatively new and immature but interest has been growing since Danone launched Activia a few years ago. The global market for probiotic food is expected to continue growing.

**PRODUCTS**

Probiotics hold a strong position in the dairy products segment. With the introduction of ProViva and later Friscus, Probi demonstrated that probiotics are also well-suited to fruit juice drinks and juices. New products types are continuously being developed in response to new customer needs and requests, adapted to various geographic markets. Probi's robust bacterial strains are a prerequisite for the development of creative product and applications.

**EXAMPLES OF FOOD PRODUCTS BASED ON PROBI'S BACTERIA**

BRAND	PARTNER/DISTRIBUTOR	MARKETS
ProViva	Danone	Nordic region
GoodBelly	NextFoods	North America
Friscus	Skånemejerier	Sweden

JOHAN WAHLQVIST



**Director Marketing and Sales Functional Food**

**HOW WOULD YOU DESCRIBE 2011?**

2011 was a fantastic year. Probi made great progress and delivered strong results. Our research and science is attracting considerable international interest, which also guarantees continued favourable conditions.

**WHAT ARE THE MOST SIGNIFICANT RISKS AND OPPORTUNITIES FOR FUNCTIONAL FOOD?**

There are several companies with a probiotic offering that do not have our scientific eminence. An EFSA approval would clearly differentiate Probi's offering and create a platform for further development. But regardless of the EFSA, we see underlying market growth and a major interest in our bacterial strains.

**WHAT IS YOUR FOCUS FOR 2012?**

We will continue our collaboration with existing partners, primarily Danone, with the aim of increasing sales and penetrating new markets. New products and applications are an important part of this strategy. We recently initiated a partnership with another global food company and in 2012, we will continue our efforts to recruit new partners in the Functional Food business area.



# The first year with Danone

“Nearly one million Swedes drink ProViva almost daily”



**Four quick questions to Peter Odemark, General Manager of Danone Scandinavia and ProViva AB**

#### DANONE ACQUIRED 51% OF PROVIVA IN 2010 – WHAT HAS HAPPENED SINCE THEN?

We have worked to develop the commercial operations, to understand the ProViva brand, raise awareness of ProViva’s beneficial health effects and increase sales. We have updated the product range and launched new products, such as a completely new recipe for orange juice with pulp. We have also re-launched ProViva in Finland.

We have also produced a new organisation for our Swedish operations. Primarily to integrate our operations with Danone internationally, and to strengthen our organisation for product development and increased sales.

#### HOW DID SALES PROGRESS IN 2011?

Sales were favourable – our sales volume in Sweden rose 8% in 2011. It is amazing, really, that a food product that has been available since 1994 continues to show such good results. Nearly one million Swedes drink ProViva almost daily.

Some of this success is attributable to ProViva’s range strategy, where we continuously renew ourselves and offer new products and flavours.

#### HOW DOES YOUR PARTNERSHIP WITH PROBI WORK?

Probi is a strategic partner in product development. We collaborate on the development of new concepts and products for ProViva in the future.

#### WHAT IS THE OUTLOOK FOR THE PROBIOTICS MARKET AND THE FUTURE?

We anticipate continued and major global growth for probiotics. Danone intends to invest a great deal of money in research over the next few years. We also participate in partnerships and networks that aim to strengthen and develop probiotics, in collaboration with Probi and other recognised industry players. We expect continued growth in 2012.

#### DANONE IN BRIEF

Danone was founded in 1919 by Isaac Carasso, who produced yoghurt in Barcelona. Since then, Danone has grown into one of the world’s most successful dairy companies, with a mission to promote health through food to as many people as possible. Danone’s brands include such dairy products as Activia, Actimel and Danino. Dairy products account for 57% of the company’s total revenue. Danone also produces and sells bottled water, baby food and medical nutrition products under well-known brands including Evian, Volvic and ProViva.

Danone has been active in Scandinavia since 1993 and has a head office in Stockholm. The company’s employees total 185, of whom 160 work in the production facility in Tomelilla. Since October 2010, Danone has owned 51% of ProViva AB, while Skånemejerier owns the remaining 49%.

# Business area: Consumer Healthcare

Consumer Healthcare, formerly Dietary Supplements, has shown strong growth during recent years. In 2011, net sales rose 77% to MSEK 45.0 (25.4), corresponding to 48% of Probi's total net sales. This business area develops, markets and sells Probi probiotics in the form of capsules and tablets in collaboration with pharmaceutical companies or other companies specialised in probiotics and health and wellness products.

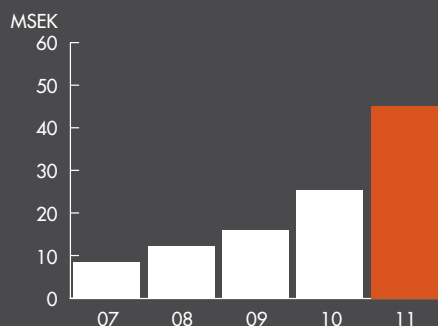
## EXAMPLES OF CUSTOMERS:

- Pharmavite, US
- Institut Rosell, France/Canada
- Bringwell, Nordic region
- Camox Pharmaceuticals, South Africa
- Proton System, Serbia
- Sanum Polska, Poland
- Metagenics, US
- Health World, Australia
- Ta'am Teva Altman, Israel
- Jarrow Formulas, US

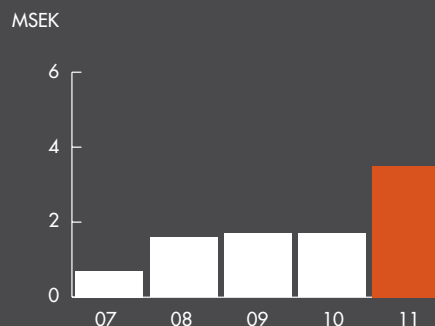
## IMPORTANT EVENTS:

- Breakthrough in the US through agreement with Pharmavite
- ProbiMage and ProbiFrisk launched in Finland
- ProbiMage and ProbiFrisk launched in Boots in Norway
- Norsk Medisinaldepot decided to launch ProbiMage and ProbiFrisk in 2012
- Distribution agreement with Ta'am Teva Altman, Israel for dietary supplements based on *Lp299v*

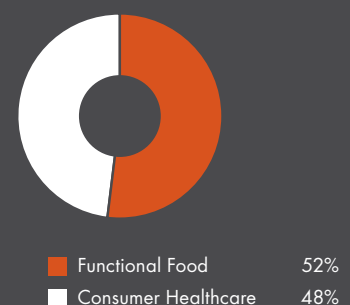
NET SALES



OPERATING INCOME



REVENUE DISTRIBUTION  
BETWEEN BUSINESS AREAS



## HIGHLIGHTS 2011

In 2011, the agreement with Pharmavite in the US was a breakthrough for Probi. The partnership entails that ProbiDigestis will receive exposure as an ingredient brand with one of the best-known brands in the US market, Nature Made. Probi's products will be sold by the largest drugstore and supermarket chains. The agreement applies exclusively for the VMS product category (vitamins, minerals and dietary supplements). The partnership may also lead to new channels and markets since Pharmavite is an international organisation and distributor.

The Nordic markets continue to perform favourably. In 2011, Bringwell launched ProbiMage and ProbiFrisk in Finland and Norway. The Norwegian launch took place in autumn 2011 when Boots, the largest pharmacy chain in Europe with 150 outlets in Norway, began selling the products. In November, Norsk Medisinaldepot (NMD) also decided to include ProbiMage and ProbiFrisk in its product range. With the chains Vitusapotek and Ditt Apotek, NMD is one of the leading suppliers of pharmaceuticals and health-related products in Norway. The launch is planned for the first quarter of 2012. ProbiFrisk and ProbiMage will thus be distributed by more than half of Norway's pharmacies.

## SALES

In 2011, net sales in Consumer Healthcare amounted to MSEK 45.0 (25.4). This increase of MSEK 19.6 corresponds to growth of 77%. The launch of Probi's own brands, ProbiMage and ProbiFrisk, in the Nordic markets in partnership with Bringwell was the main driving force behind this growth. In 2011, Probi's revenue from this partnership amounted to MSEK 20.9 (7.8). Volumes for several of Probi's partners in such countries as Poland, Australia and South Africa also developed favourably in 2011.

## OPERATIONS AND ORGANISATION

Consumer Healthcare is one of Probi's two business areas.

Probi applies two business models in Consumer Healthcare – the Product Model and the Consumer Model. The Product Model entails that Probi sells ready-made products in bulk or consumer packaging to a partner or distributor. This party markets the range under its own product brand, and Probi's ingredient brand is printed on the packaging. The Consumer Model entails direct sales to the trade channel in partnership with leading marketing specialists or distributors in selected markets. Probi contributes to marketing investments in some cases with this model, and Probi's brand is marked clearly on packaging and in all communication.

Probi has agreements in more than 40 markets and predicts major international interest for probiotic premium products. Probi's partners include such pharmaceutical companies as German Merck, Indian Ranbaxy, Swiss Ferring and leading wellness companies such as Pharmavite. A key part of Probi's strategy is to identify strong partners with well-known brands in emerging markets in Europe, North America and Asia.

The company also works actively to broaden its offering in existing markets through additional channels. In the US, Probi has an agreement with Pharmavite for distribution to supermarkets, pharmacies and drugstores, with Jarrow Formulas for distribution to health food stores, and with Metagenics for sales to physicians, naturopaths and others.

## MARKETS AND COMPETITORS

Sweden remains the largest market for Probi, and accounts for more than half of this business area's sales. Nordic penetration will increase due to the launches in Finland and Norway. After the domestic market, the company's next largest markets are Australia and France. The new agreement with Pharmavite is expected to boost sales in the North American market.

In Europe, the highest per-capita consumption of probiotic dietary supplements is in Italy. Probiotics are also a high-cost product that commands twice the price per dose in Italy as in Sweden. There are also major differences in the prescription of these products, which is critical for the choice of partner and distribution channel in each country. In Italy, probiotics are often recommended by physicians. At present, Probi's probiotics are predominantly sold through the pharmacy channel in the European market while other channels, such as health food stores, account for a smaller portion.

The competitive situation is highly fragmented. Some of Probi's competitors include international pharmaceutical companies with probiotic products in their portfolios, such as Sanofi-Aventis, Merck KGaA and Novartis. Local competitors include BioGaia in Sweden, Ferrrosan and Baltex, as well as producers such as Danisco and Chr. Hansen in the Nordic region.

## PRODUCTS

The strength of Probi's offering lies in its clinical documentation. Probi's *Lp299v* is one of the few bacterial strains in the world with solid clinical documentation for its beneficial effects on IBS (Irritable Bowel Syndrome). Probi's probiotics are mainly sold as capsules, chewable tablets or dose sachets.

## EXAMPLES OF CONSUMER HEALTHCARE PRODUCTS BASED ON PROBI'S BACTERIA

BRAND	PARTNER/ DISTRIBUTOR	MARKETS
Nature Made	Pharmavite	US (supermarkets, pharmacies, drugstores)
ProbiFrisk <sup>1</sup> ProbiMage <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	Sanum Polska	Poland
IBS Support Probex	Health World	Australia, New Zealand
Protransitus	Laboratorios Salvat <sup>2</sup>	Spain
Flobion	Proton Systems	Serbia, the Balkans
IBS299v	Bioslime	China
Darolac	Aristo Pharmaceuticals <sup>2</sup>	India

1) Brands owned by Probi

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

LINDA NECKMAR



### Director Marketing and Sales Consumer Healthcare

#### HOW WOULD YOU DESCRIBE 2011?

Probi's entire investment in developing the Consumer Healthcare business area has been very positive and we have seen fast results in sales. There is also great potential in the agreement with Pharmavite in the US, for example, and other ongoing initiatives in Asia.

#### WHAT ARE THE MOST SIGNIFICANT RISKS AND OPPORTUNITIES IN YOUR BUSINESS AREA?

There is still much to be done. A high percentage of our current sales are in Sweden, where our offering and concept are strong. Now we want to continue broadening our international expansion. We hope that our health claims will be approved in the EU, as this would give us an even stronger foothold in the European market.

#### WHAT IS YOUR FOCUS FOR 2012?

Based on our Nordic success with proprietary brands, we see growing international interest in our Consumer Model. Our ambition is to launch this type of business solution in additional European markets over the coming year, and secure more agreements in the US. We also hope to sign agreements in Asia and launch our products in some markets in this emerging region. In addition, we will continue driving projects and development in the Nordic region. Interest remains great and we expanded our product range with various concepts such as family packs during the year.

# The changing probiotics market

“Probi and Camox share the same philosophy of offering clinically documented products”



## Four quick questions to Suhail Gani, CEO of Camox Pharmaceuticals

### CAMOX SIGNED AN AGREEMENT WITH PROBI IN 2010 – WHAT HAS HAPPENED SINCE THEN?

We have been partners since spring 2010, when we signed an agreement to launch Probi’s immune health products in South Africa. The partnership felt positive after just a few months, so we expanded our product portfolio with Probi’s gastrointestinal health product based on *Lp299v*. Probi’s products match our philosophy for marketing high-quality and innovative products with strong clinical documentation.

Scientifically documented products are important for us. We work almost exclusively with professional target groups such as physicians and pharmacists, who place high demands on health claims.

### HOW DID SALES PROGRESS IN 2011?

Our business model concentrates on raising knowledge and awareness of our products among physicians and pharmacists for the first three years. Paediatricians prescribe our immune products more often than any other similar products in South Africa. This demonstrates the credibility and sustainability of our business model. We expect sales to increase dramatically when we begin focusing directly on consumers over the next few years.

### HOW DOES YOUR PARTNERSHIP WITH PROBI WORK?

The partnership works admirably. We had been looking for a probiotics partner for a while. We chose Probi because the company’s strong clinical documentation set it apart. We share the same philosophy of

offering clinically documented products. The partnership has also developed excellently and we are currently discussing opportunities for conducting clinical studies of Probi’s probiotics in South Africa.

### WHAT IS THE OUTLOOK FOR THE PROBIOTICS MARKET AND THE FUTURE IN SOUTH AFRICA?

We see continued and major interest, due to a strong tradition of probiotic dietary supplements in South Africa. The market is characterised by intense competition and an incredibly wide offering of generic probiotics products. Our mission is to educate both professional target groups and consumers in the differences between various probiotics. We are also lobbying to change the regulatory landscape. At present, no clinical studies are required for making health claims regarding probiotics. We want to change that. Our position is that health claims should only be approved for clinically tested probiotics. An ethical and moral perspective should underlie health benefits. We expect that consumer interest will continue to grow and generate more sales in the coming years.

#### CAMOX PHARMACEUTICALS IN BRIEF

Camox Pharmaceuticals is one of the fastest growing pharmaceutical companies in South Africa. The sales team at Camox Pharmaceuticals focuses on general practitioners, pharmacies, clinics and hospitals. The company belongs to the Amalgamated Healthcare Group, a major supplier of pharmaceutical products and services in South Africa. The Group delivers to more than 5,500 prescribing physicians, 1,500 pharmacies, over 100 hospitals and 1,000 clinics throughout the country, while also reaching consumers through its network of 60 pharmacies.

# Research and Development

## PROBI'S RESEARCH

Probi's base is research. The company's success builds on 25 years of research into probiotics. Probi's earlier, pioneering work in the late 1980s focused on identifying bacterial strains with combined robustness and efficiency. This laid the foundation for Probi's commercial platform, which has since been supplemented by more than 40 clinical studies.

Probi primarily conducts research into gastrointestinal health and the immune system. The clinical research comprises both new indications for existing bacterial strains and advanced research into existing bacterial strains and products. Probi also conducts basic research into the screening of new bacterial strains in partnership with such players as Lund University.

## PROBI'S DEVELOPMENT

When Probi has identified a bacterial strain, or combination of strains, and documented it clinically for a new indication – either completely or partially – efforts to develop the product format commence and could take the form of tablets, capsules or a drink.

These efforts may also lead to the development of a new product format based on Probi's existing clinical platforms, ProbiDigestis and ProbiDefendum. This process often takes place in close collaboration with Probi's customers, and can range from the production of new packaging systems to various products in combination with vitamins or minerals.

## RESEARCH STRATEGY

Probi focuses on research into probiotics. The research strategy is based on the company having a research portfolio with both long and short-term projects and a mixed level of risk. The time to market for short-term projects may be one to three years, while long-term projects can take up to six years. In contrast with pharmaceutical companies, probiotic companies do not have the same safety issues. Probi works with bacterial species that are well-known from a safety perspective and thus do not require such extensive safety studies.

## CLINICAL STUDIES

### IBS study (Irritable Bowel Syndrome)

A major clinical study of gastrointestinal health with 200 patients commenced in autumn 2011 according to plan. The study was planned in close collaboration with the food company Danone. The study complements previous clinical documentation and the prime objective is to satisfy criteria communicated by the EFSA (European Food Safety Authority) for achieving a health claim approval in the EU. The study is CRO-led (Contract Research Organization), which ensures quality at every level – from SOP (Standard Operating Procedures) to GCP (Good Clinical Practices). The outcome of the study is expected by mid-2012.

### Clinical study of immune health

In 2012, Probi will also conduct a clinical study for its product platform for immune health to satisfy the EFSA's criteria for approved health claims. The study, conducted in partnership with a global food company, will commence in early 2012 and involve 350 patients. The study will focus on reducing the symptoms of upper respiratory tract infections. The study is CRO-led and expected to be complete by mid-2012.

### Clinical study into the metabolic syndrome

The clinical study of the metabolic syndrome that was conducted in 2011 is now complete. The results did not meet expectations for the main population. However, interesting and significant findings were noted in a number of subpopulations. The study will be evaluated in detail to determine whether there are grounds for further research. However, Probi will not pursue any major clinical study in this area during 2012.

### Other clinical studies

Probi also participates in other clinical studies, such as a study of gluten intolerance comprising approximately 100 patients in Sweden. The study was initiated by Skåne University Hospital as part of a large diabetes study of children in Sweden, Finland, Germany and the US.



## EFSA

EFSA (the European Food Safety Authority) was founded in 2002 and is responsible for assessing applications from companies that want to make health claims for various food ingredients or food based on clinical studies and other scientific evidence. The EFSA's recommendations in relation to these applications then form the basis for decisions made by the European Commission.

When Probi has completed its major clinical studies of gastrointestinal health and the immune system in 2012, applications will be submitted to the EFSA in accordance with Article 13.5 of the Regulation on Nutrition and Health Claims on Foods. Probi already has good documentation for its products in gastrointestinal health and the immune system, but has now supplemented these in order to satisfy the EFSA's newly specified requirements. These entail that companies that want to submit health claims for approval must be able to demonstrate the beneficial effects of probiotics on bodily functions according to approved and validated methods.

Applications under Article 13.5 are based on recently produced documentation and may contain confidential information. An approved health claim based on an application with confidential information under Article 13.5 applies exclusively for the party behind the application for a five-year period.

## PATENTS

Probi has strong patent protection, comprising patents for both single probiotic strains and for various application areas in food and dietary supplements. This means that Probi can license the use of these strains to other companies.

Probi's current patent portfolio comprises 18 patent families (203 cases) and 128 patents, of which 51 are patents that protect the use of single probiotic strains.

**PROBI'S PRODUCT PLATFORM PROBIDIGESTIS IS BASED ON LACTOBACILLUS PLANTARUM 299V**

**LACTOBACILLUS PLANTARUM 299V**

*Lactobacillus plantarum 299v* (*Lp299v*<sup>TM</sup>) is Probi's most documented bacterial strain and was discovered in 1986 in Lund. More than 40 human studies have been conducted with a focus on gastrointestinal health and it is well-documented that *Lp299v* reduces abdominal bloating. *Lp299v* can ferment various plant materials, such as oats, fruit and berries, and is available in Sweden and Finland in ProViva products and dietary supplements produced by Probi (ProbiMage).

**PROBI'S PRODUCT PLATFORM PROBIDEFENDUM IS BASED ON A COMBINATION OF LACTOBACILLUS PARACASEI 8700:2 AND LACTOBACILLUS PLANTARUM HEAL 9**

**LACTOBACILLUS PARACASEI 8700:2**

Probi's bacterial strain *Lactobacillus paracasei 8700:2* grows well in dairy-based products such as cheese and yoghurt and can establish itself in the human intestine. Intake of *L. paracasei 8700:2* in combination with another bacterial strain (*Lactobacillus plantarum Heal 9*) has reduced cold symptoms in two major human studies. This bacterial combination is included in special fruit juices made by Skånemejerier (Friscus) and in dietary supplements produced by Probi (ProbiFrisk).

**LACTOBACILLUS PLANTARUM HEAL9**

Probi's bacterial strain, *Heal9*, in combination with another bacterial strain (*Lactobacillus paracasei 8700:2*) has reduced cold symptoms in two major human studies. *Heal9* can ferment various plant materials such as oats, fruit and berries. This bacterial combination is included in special fruit juices made by Skånemejerier (Friscus) and in dietary supplements produced by Probi (ProbiFrisk).



NIKLAS LARSSON



### Research Manager

#### HOW WOULD YOU DESCRIBE 2011?

The largest clinical trial completed in 2011 was the metabolic syndrome study and most of our work in 2011 focused on preparing the two major clinical studies of gastrointestinal and immune health that Probi will conduct in connection with our application to the EFSA for health claim approvals in the EU.

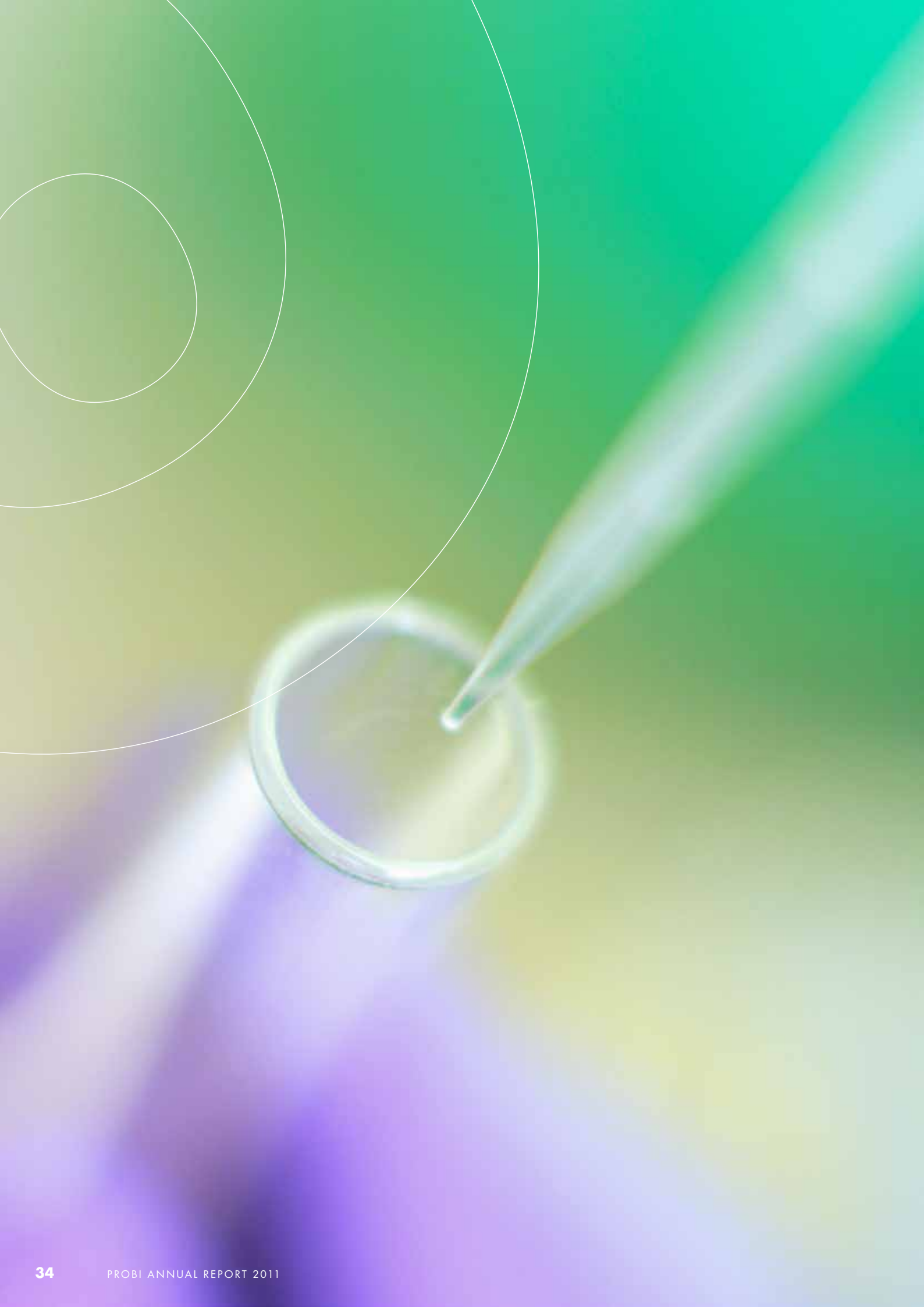
#### WHAT ARE YOU MOST/LEAST SATISFIED WITH IN THE RESEARCH AREA?

Probi's clinical study of *Lp299v* in India, which was completed last year, is one of our greatest successes. The study comprised more than 200 human subjects diagnosed with Irritable Bowel Syndrome (IBS). The findings showed a significant improvement of several important IBS symptoms and strengthen our scientific evidence that *Lp299v* is an effective strain of probiotic bacteria for patients suffering from digestive problems.

I am least satisfied with the results of our metabolic syndrome study, which was conducted in 2011. The results did not meet expectations for the main population, which may be due to the product, a fermented berry product, being difficult to standardise. However, some interesting results were achieved in certain sub-groups, which we intend to analyse further.

#### WHAT WILL THE FOCUS BE FOR R&D IN 2012?

A large part of our work will be the two major European studies of gastrointestinal and immune health. Another key issue for 2012 will be the expansion of our academic partnership network, primarily with universities in Europe – with a focus on collaboration in basic research.



# Quality and the environment

Working to promote better health is a great responsibility. Probi takes this responsibility seriously and works to integrate quality and environmental practices into all of the processes that Probi can control. In 2011, the company's quality and environmental practices were integrated and led by Probi's Quality Manager.

## PROBI ENVIRONMENTALLY CERTIFIED

Due to Probi's focus on health and well-being, working for a better environment, sustainable development and integrating these efforts into the daily operations is a natural progression. Environmental adaptation is conducted gradually, and the combination of both large and small everyday changes will lead to positive environmental results over time.

In 2010, Probi introduced an environmental management system based on the ISO 14001 standard. In 2012, this system will be upgraded with the objective of achieving ISO 14001 certification.

This means that the environmental targets set in 2010 will be revised and new targets will be defined for 2012. Probi's environmental practices to date have mainly focused on direct environmental impacts, but in connection with certification of the environmental management system, indirect environmental impacts will also be addressed. These include such aspects as supplier agreements and other key functions in the value chain.

## OVERALL ENVIRONMENTAL TARGETS 2010-2012

- Reduce climate-impacting emissions from business travel
- Reduce the amount of waste
- Reduce energy consumption

## PROBI'S QUALITY PRACTICES

Probi represents quality. In laboratory operations, the company conducts continuous quality practices and employees undergo regular training in new methods and technology.

The laboratory operations received ISO/IEC 17025 accreditation in 1998 (General requirements for the competence of testing and calibration laboratories). This means that several procedures and improvement systems were developed to comply with these objectives in a quality manual, and are revised on an annual basis. SWEDAC is the regulatory authority for accreditation according to this ISO standard.

# Employees

Ever since Probi was founded 20 years ago, the organisation has been characterised by small-scale entrepreneurship. The research legacy has also left its mark on the company and although marketing and sales have now been strengthened, R&D is still the largest department. Probi currently has about 20 employees in Lund.

## FUTURE RECRUITMENT NEEDS

Probi's strategy is to grow by establishing new markets and broadening the product offering. This places increased demands on the organisation which, over time, will require new recruitments to strengthen the company's various functions.

## COMPETENCE DEVELOPMENT

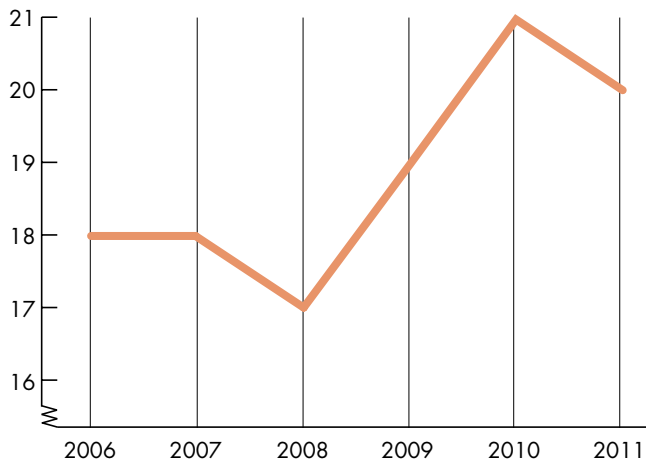
Probi has been participating in a competence development led by Adeptus for several years. A large number of companies offer their time and expertise to the project, and employees can take part as either adepts or mentors. Adepts are matched with a selected mentor, who has long professional experience and a similar educational background. In recent years, Probi has contributed four adepts and one mentor. When the programme ends after about one and a half years, the adept and mentor usually continue sharing experiences.

## PROBI'S PERSONNEL POLICY

Probi endeavours to provide a dynamic environment for its employees, where the individual can assume a large amount of responsibility and is offered substantial development opportunities. The company's operations and personnel policy are based on the following values:

- Knowledge and expertise  
With their knowledge and expertise, Probi employees engage customers, partners and consumers.
- Dedication  
Working with health products at Probi 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.

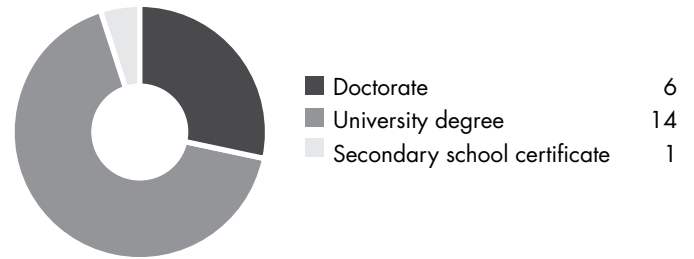
### AVERAGE NUMBER OF EMPLOYEES



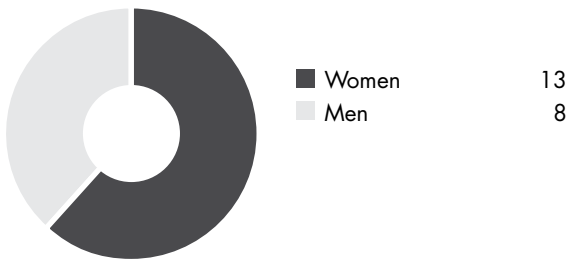
### ABSENCE DUE TO ILLNESS

Total absence	1,0%
Of which more than 60 days of total sick leave	0,0%

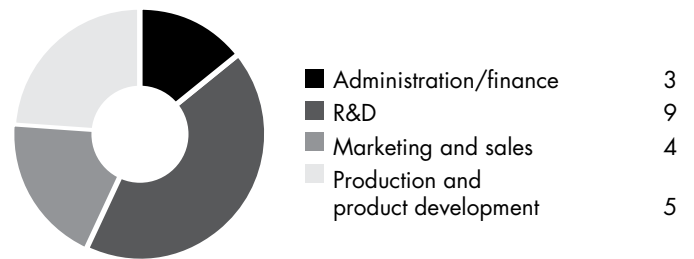
### HIGHEST LEVEL OF EDUCATION



### GENDER DISTRIBUTION



### EMPLOYEES DISTRIBUTED BY FUNCTION



# Employee profiles

MARIT EMILSSON



## Medical Laboratory Scientist

### WHAT DOES YOUR JOB ENTAIL?

I am a Medical Laboratory Scientist at Probi's accredited clinical laboratory. I perform quality checks and identity tests on our products. To achieve a high-quality product, our bacterial strains must deliver the quality we promise, and I am part of this process.

### WHAT IS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?

I am a Medical Laboratory Scientist, with a degree from Malmö University. I've also worked with the analysis and diagnosis of patient specimens in medical centres.

### WHY DID YOU CHOOSE PROBI?

I liked the idea of working with probiotics. I also wanted to work at a small company with a friendly atmosphere.

### WHAT DO YOU ENJOY MOST ABOUT WORKING AT PROBI?

Probi is a development company where I can contribute to the creation of good products. The working environment is excellent and I have friendly colleagues.

THOMAS JÖNSSON



## Supply Chain Manager

### WHAT DOES YOUR JOB ENTAIL?

I work as a Supply Chain Manager. I am responsible for all of the goods that come in and out, from supplier to customer. I'm also responsible for distribution and "sourcing", which includes evaluating tenders and awarding contracts to partners and suppliers for various products and services.

### WHAT IS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?

After secondary school, I worked for 25 years with various medical technology companies, including Gambro, Jostra and most recently at Biora, which is owned by Swiss Straumann.

### WHY DID YOU CHOOSE PROBI?

I was offered an opportunity to help develop an entirely new role and function as Supply Chain Manager at Probi.

### WHAT WAS YOUR BEST WORK EXPERIENCE IN 2011?

The introduction of a new business system was incredibly exciting. The deployment was successful, and I got to know the company and my colleagues throughout the process.

### WHAT DO YOU ENJOY MOST ABOUT WORKING AT PROBI?

It's easier to get to know everybody in a small organisation. The atmosphere is great and we all stand up for each other and the company.

# Five-year summary



## GROUP

TSEK	2011	2010	2009	2008	2007
<b>Income statement in summary</b>					
Total operating revenue	95 009	81 127	66 230	69 362	44 656
Total operating expenses	-77 212	-63 030	-52 421	-59 123	-39 474
Operating income	17 797	18 097	13 809	10 239	5 182
Income after financial items	19 505	18 709	14 662	12 426	6 427
<b>Income for the year</b>	<b>14 193</b>	<b>13 661</b>	<b>10 751</b>	<b>7 995</b>	<b>24 528</b>
Shareholders' equity	116 149	122 985	114 007	103 256	95 261
Cash and cash equivalents	76 202	89 762	71 707	61 342	47 420

Key ratios	Definition	2011	2010	2009	2008	2007
Equity/assets ratio, %	1	89,7	91,0	94,0	92,6	91,9
Debt/equity ratio, %	2	0,0	0,0	0,0	0,0	0,0
Return on capital employed, %	3	16,7	16,0	14,3	12,5	7,6
Return on equity, %	4	16,3	15,8	13,5	12,5	7,7
Acid-test ratio, %	5	778	865	1 152	870	645
Share of research costs in operating revenue, %		18	19	22	25	31
Average number of employees		20	21	19	17	18

1 Shareholders' equity as a percentage of the balance-sheet total.

2 Interest-bearing liabilities as a percentage of shareholders' equity.

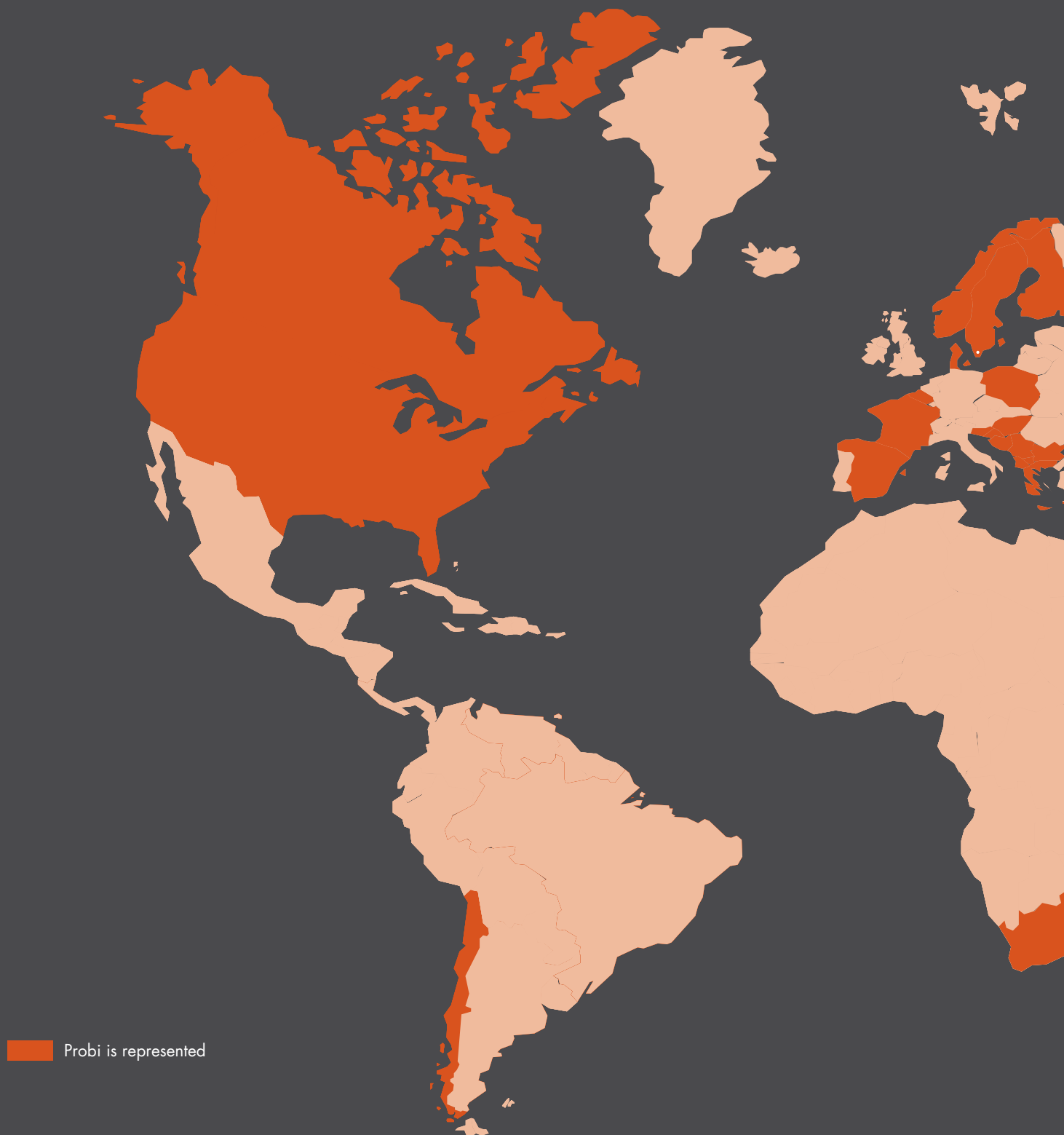
3 Operating income plus financial income as a percentage of the average balance-sheet total less non interest-bearing liabilities and provisions.

4 Profit before tax as a percentage of the average shareholders' equity.

5 Total current assets, excluding inventories, as a percentage of current liabilities.

# Probi around the world

Probi's products are sold, or are about to be launched, in more than 40 countries. We are always looking for new opportunities all over the world and continue to develop our international reach.







**PROBI AB (PUBL) ANNUAL REPORT  
AND CONSOLIDATED FINANCIAL  
STATEMENTS FOR 2011**



# Directors' report

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 2011. Address: Ideon Gamma 1, SE-223 70 Lund, Sweden.

Probi's shares are listed on the 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 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 include leading companies in the Functional Food and Consumer Healthcare business areas.

## SIGNIFICANT EVENTS

In 2011, a breakthrough was achieved in the US through an agreement with Pharmavite, which is the second largest player in the US market for dietary supplements. Probi's capsule for gastrointestinal health based on Probi's *Lp299v* probiotic strain will be launched in early 2012 under the Nature Made brand, the largest dietary supplement brand in the US.

In 2011, Probi signed a development agreement with a leading global food company. The partnership focuses on the joint clinical development of ProbiDefendum, Probi's immune health platform technology. Initially, during the first quarter of 2012, a major clinical study began in the immune health area. Most of the study's financing derives from Probi's business partner, who is guaranteed global exclusivity in negotiating commercial agreements in immune health for the product areas in which Probi is currently unrepresented.

In late 2011, Probi also launched a new clinical study in gastrointestinal health encompassing slightly more than 200 individuals. This study and the one described above on immune health supplement previously prepared clinical documentation and primarily aim to adhere to the criteria communicated by the EFSA (European Food Safety Authority) to secure approval for health claims in the EU. The studies will be included in documentation for separate applications to the EFSA in 2012 under article 13.5.

The launch of ProbiMage and ProbiFrisk under the Probi brand through a partnership with Bringwell in the Nordic market continued to trend well in 2011. The range cemented its position as the leader in the Swedish market. The products were launched in Finland in the first half of the year and, in September 2011, ProbiMage and ProbiFrisk were launched in Boots pharmacies in Norway. In late 2011, the Norwegian pharmaceutical wholesaler, Norsk Medisinaldepot, decided to include the products in its range and the launch is scheduled for the first quarter of 2012.

During the year, Skandia Liv increased its holding in Probi. By year-end, Skandia Liv was Probi's second largest owner with a holding of 9.6% of the capital and 9.8% of the votes. In September 2011, the Swedish dairy company Skånemejerier divested its entire holding, corresponding to 10.3% of the capital.

Probi repurchased MSEK 11.8 in own shares in 2011 and owned 250,000 treasury shares by year-end, corresponding to 2.7% of the total number of shares. These shares are not entitled to a dividend or voting rights. The aim of Probi's acquisition of own shares was to contribute to increased shareholder value and to provide the Board with greater scope in its work with the company's capital structure.

## NET SALES AND RESULTS

During the year, Probi's net sales totalled MSEK 94.4 (80.4). The overall increase was MSEK 14.0, or 17%. Consumer Healthcare rose MSEK 19.6, or 77%, while Functional Food declined MSEK 5.6. The remuneration that Probi received in conjunction with the Danone agreement coming into effect was recognised under Functional Food in 2010. Excluding this remuneration, net sales in Functional Food rose MSEK 4.4, or 10%.

Most of the MSEK 4.4 increase in Functional Food was attributable to NextFoods making a royalty payment of MSEK 2.9 in March to retain the license rights for *Lp299v* in the North American market. The sales trend for ProViva was also positive in Sweden during the year and Probi's royalty revenue rose 5% to MSEK 44.3 (42.1), compared with 2010.

Consumer Healthcare's growth was largely driven by the positive sales trend for ProbiMage and ProbiFrisk. Overall revenue from the Bringwell partnership in the Nordic market amounted to MSEK 20.9 (7.8) during the year. Following a break-even result in the preceding year, the range, which was launched in spring 2010, made a positive contribution to Probi's earnings in 2011. Volumes to most of Probi's other business partners in countries including Poland, Australia and South Africa experienced a positive trend.

Operating expenses amounted to MSEK 77.2 (63.0). The increase of MSEK 14.2 was primarily attributable to product cost and media expenses for ProbiMage and ProbiFrisk. In 2011, Probi also experienced costs in conjunction with preparations ahead of a potential launch of dietary supplements in additional European markets outside the Nordic region.

Operating income for 2011 was MSEK 17.8 (18.1). Excluding the payment of MSEK 10 received by Probi in 2010 in conjunction with the Danone agreement coming into effect, the income improvement was 120%, or MSEK 9.7. The discarding of capitalised development expenditure of MSEK 2.7 (3.0) was charged to income for 2011.

Income for the year was MSEK 14.2 (13.7), corresponding to earnings per share of SEK 1.54 (1.46) before and after full dilution.

## CASH FLOW AND FINANCIAL POSITION

Cash flow for the year was a negative MSEK 13.6 (18.1) and cash and cash equivalents totalled MSEK 76.2 (89.8) at year-end.

Cash flow from operating activities during the year was MSEK 14.9 (28.7). The comparative figure for 2010 includes the MSEK 10.0 that Probi received from Skånemejerier in conjunction with the Danone agreement coming into effect. The decline in cash flow from operating activities was also due to an MSEK 12.0 increase in operating receivables compared with year-end 2010, which was the result of a number of deliveries being made late in the fourth quarter.

The tax expense for the year was MSEK 5.3 (5.0). MSEK 4.7 (5.0) of the tax expense for the year did not have any effect on liquidity since a portion of taxable income in 2011 was offset against remaining loss carryforwards early in the year. At year-end, Probi had not recognised any deferred tax claims.

During the year, investments in intangible fixed assets amounted to MSEK 6.7 (4.1), of which MSEK 1.9 (1.5) pertains to patents and MSEK 4.8 (2.6) to capitalised development expenditure. Capitalised development expenditure for the year includes MSEK 0.8, which was part of the amount discarded in the fourth quarter. Investments in tangible fixed assets totalled MSEK 0.9 (2.0).

Probi invests in prioritised research and development projects to ensure long-term growth. R&D expenses as a proportion of overall expenses, excluding raw materials and depreciation, were 33% (35). Including capitalised development expenditure for the year, this figure increases to 39% (38).

From the first to the third quarter of 2011, Probi repurchased own shares in accordance with the authorisation from the Annual General Meetings in 2010 and 2011. A total of 250,000 shares were acquired in 2011 for MSEK 11.8. 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.

In 2011, Probi also paid a dividend of MSEK 9.2 (4.7) to shareholders, pursuant to a resolution by the Annual General Meeting in April 2011.

There were no unrecognised obligations to former Board members or senior executives. In 2011, the company was not involved in any legal processes.

## SEGMENT INFORMATION

### General information

Probi's operations are organised into two business segments, with separate managers: Functional Food and Consumer Healthcare, formerly designated Dietary Supplements. Probi decided to rename the business area since the new name more aptly describes the company's products and how they are perceived by consumers. The regulatory status of the products is either food or consumer pharmaceuticals depending on the geographic market, and the products are generally perceived by buyers as consumer pharmaceuticals.

The Functional Food segment develops foods that generate positive health benefits. This development is conducted in partnership with leading food companies in the aim of commercialising and marketing products with a high volume potential.

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

No business transactions are conducted between the two segments.

### Functional Food

Net sales in Functional Food amounted to MSEK 49.4 (55.0). Excluding a payment of MSEK 10.0 received by Probi in conjunction with the Danone agreement coming into effect, net sales rose MSEK 4.4, or 10%. Royalty revenue from ProViva rose 5% compared with 2010, to MSEK 44.3 (42.1). During the fourth quarter of 2011, Danone re-launched ProViva in Finland. In accordance with its agreement, NextFoods in the US made a royalty payment of MSEK 2.9 in the first quarter of 2011 to retain licence rights in the North American market. NextFoods' sales experienced a positive trend, albeit at a slower pace than expected from the launch in 2008, and their revenues in local currency rose 15% in 2011 compared with the preceding year.

In 2011, Probi signed a development agreement with a leading global food company. The partnership focuses on the joint clinical development of Probi's immune health platform technology, ProbiDefendum. Probi's business partner has been guaranteed global exclusivity in negotiating commercial agreements in immune health and the aim is for the partnership to lead to the launch of food based on ProbiDefendum.

### Consumer Healthcare

Net sales in Consumer Healthcare rose MSEK 19.6, or 77%, to MSEK 45.0 (25.4). Slightly more than half of this growth derived from the launch of ProbiMage and ProbiFrisk in the Nordic market in partnership with Bringwell.

Consumer Healthcare growth is attributable to Probi's focus in recent years on reaching agreements directly with partners and distributors in the aim of increasing revenue and profitability. During the year, additional opportunities, which are described below, arose within the framework of this focus.

In August 2011, an agreement of major significance for Probi was signed, which encompasses the most important sales channels in the growing US market for probiotic dietary supplements. Probi's new business partner, Pharmavite, is the second largest company in the US market for vitamins, minerals and dietary supplements (VMS). Probi's *Lp299v* capsule will be launched under the Nature Made brand and the ingredients brand ProbiDigestis will be featured on the package. Nature Made is the leading VMS brand in the US market. Probi's gastrointestinal health product will be available for sale through all channels in which Nature Made is currently sold, which includes grocery stores, pharmacies, drugstores and what are known as club stores. The launch will begin in early 2012 and the first deliveries of the finished product were made in late 2011.

In the Swedish market for probiotic dietary supplements, ProbiMage and ProbiFrisk have cemented their market-leading position. Total revenues from the partnership with Bringwell amounted to MSEK 20.9 (7.8). In September 2011, ProbiMage and ProbiFrisk were launched at Boots pharmacies in Norway. Boots is Europe's largest pharmacy chain with 150 pharmacies in Norway. In November, Norwegian wholesaler Norsk Medisinaldepot (NMD) also decided to include ProbiMage and ProbiFrisk in its range with a launch planned for the first quarter of 2012. NMD is one of Norway's leading suppliers of pharmaceuticals and health-related products, and its wholly owned chain Vitusapotek encompasses 180 pharmacies. Since the first half of 2011, the range has also been available in Finland, where it is sold in selected pharmacies and specialised health food stores.

In 2011, following the successful launch in the Nordic partnership with Bringwell, Probi continued to work with the objective of implementing a similar business model in a few additional European markets outside the Nordic region. During the year, extensive preparations, including market research, were conducted and final negotiations are now under way with a few selected companies in the relevant markets.

In 2011, Probi was also able to identify new and improved business solutions for its gastrointestinal health supplement in key markets in Latin America. This was possible because the soon two-year agreement concerning new markets in Latin America between Probi's partners Institut Rosell and Merck was concluded in August. Merck has decided not to focus on any new markets in Latin America since the company had made changes to its range strategy. Merck will retain the rights to Probi's gastrointestinal product in France, Belgium and Chile, where Merck has already launched the product under the Bion Transit brand. Probi can now search for new business solutions based on product sales in Latin America. This type of solution has the potential to contribute more to growth and profitability than the concluded license agreement.

### RESEARCH AND DEVELOPMENT

In 2011, Probi primarily focused on preparing and designing clinical trials according to the criteria communicated by the EFSA regarding requirements for the approval of specific health claims in the EU. As

planned, a major gastrointestinal health study including slightly more than 200 research subjects was initiated in the third quarter with the aim of being concluded around year-end. However, a slight delay led to the recruitment of research subjects being disrupted in December and the study was resumed with continued recruitment in January 2012. As previously reported, a major immune health study has been prepared and is scheduled to begin in the first quarter of 2012. This is being conducted within the framework of the development agreement that Probi signed during the fourth quarter with a leading global food company. The results from the two studies will be included in separate 13.5 applications to the EFSA concerning specific health claims for Probi's products in the gastrointestinal and immune areas.

On 5 December 2011, the Standing Committee on the Food Chain and Animal Health, which comprises representatives from all EU countries, voted to approve one of the first 13.1 lists of permitted health claims. The list includes 222 health claims that primarily concern vitamins and minerals. As expected, the list does not include approved health claims for probiotics. The list will now be subject to a three-month review period in the European Parliament, and if the proposed list is not vetoed, the reviewed health claims will be adopted by the European Commission. The list will subsequently be published in the European Union's official paper and take effect 20 days after publication. For products sold within the EU, the industries concerned then have six months to remove health claims that are not included in the list (or approved under article 13.5, for example). In practice, this process is expected to be completed during the fourth quarter of 2012.

In the second half of 2012, Probi aims to submit applications on health claims for its gastrointestinal and immune products in the EU under article 13.5 to secure approved health claims for Probi's products as soon as possible.

For some time, Probi has conducted application development efforts with the aim of micro-encapsulating bacteria to protect them against moisture and antimicrobial components. One subproject in this effort did not achieve sufficiently favourable results to lead to commercial initiatives. Accordingly, Probi discarded MSEK 2.7 in capitalised development expenditure in the fourth quarter of 2011.

In collaboration with an international partner who is the world leader in encapsulation, Probi has tested a number of different technologies to protect the bacteria against moisture and antimicrobial components. Work with experts, particularly in lipids, has also been conducted to study how various formulations affect the bacteria. Probi now has a technology and formula that work well with its bacteria. However, the protection turned out to be insufficient and moisture seeps through the encapsulation at water activity that exceeds 0.3.

Probi's work on encapsulation continues under another international partnership in which new and more unconventional encapsulation methods will be evaluated.

## EMPLOYEES

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

During the year, Probi recruited a Director of Marketing & Sales Consumer Healthcare and a Supply Chain Manager to its organisation.

## EVENTS AFTER THE BALANCE-SHEET DATE

On 29 February 2012, Probi announced that the company's management team was strengthened by the appointment of Gun-Britt Fransson as Vice President Research and Development. Gun-Britt Fransson previously held such positions as President of Alligator Bioscience AB and senior R&D positions at Procordia and Orkla.

## RISKS AND UNCERTAINTIES

Probi's business is exposed to various types of risks. The company pursues continuous efforts to identify and evaluate these risks. The work results in a Risk Management Policy that is revised at least once a year by the company's Board. This policy provides Probi with a clear impression of what the risks are and how these can be managed to minimise the negative impact on the operation and the company's advancement.

### 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. Over time, this could entail 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 EFSA (European Food Safety Authority). The EFSA has thus far adopted a very restrictive position in regard to the approval of health claims. This applies to all types of food-grade health products. As of the end of 2011, no applications for probiotics had been approved, which has entailed 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 may entail risks for deferred launches and entail costs for Probi.

### Patents and intellectual property rights

Probi's 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 approvals 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.

### Supply of goods

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 partnerships

Probi's research is based, to some extent, on partnerships with external Swedish and international researchers. However, there is no guarantee that these partnerships will lead to new launch-ready products, or that Probi is entitled to exclusive use of the 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 investments 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 entails various types of financial risks. These risks and how they are managed is 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 2012.

### ENVIRONMENT AND QUALITY

In 2010, Probi implemented an environmental management system based on ISO 14001. In 2012, the environmental management system will be updated and the objective is to implement a certification of the system according to ISO 14001. In conjunction with this, the environmental objectives that were established in 2010 will be revised and new goals will be established in 2012. To date, Probi's environmental work has primarily focused on direct environmental consequences. In conjunction with the certification of the environmental management system, indirect environmental consequences will also be highlighted. This effort will include supplier agreements and other key elements of the value chain. Probi's operation is not obligated to secure permits 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.

In 2011, the quality and environmental programme at the company were integrated and headed by Probi's Quality Manager.

### 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 (TSEK):

Profit brought forward	31 223
Profit for the year	14 193
<b>Total</b>	<b>45 416</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
to be carried forward	38 580
<b>Total</b>	<b>45 416</b>

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

The Group's accumulated loss totalled TSEK 2,256 according to the consolidated balance sheet and other contributions received amount to TSEK 71,587.

The Board of Directors anticipates a continued positive trend in 2012. 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 Group 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 2011 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 2011, Probi had 4,463 (4,201) shareholders according to Euroclear Sweden AB. On that date, Probi had one owner with a shareholding representing at least one-tenth of the votes for all shares in the company: Consepio, which held 12.7% of 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.

## 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 28 April 2011. The Nomination Committee and Board of Directors were chosen at the Annual General Meeting, which also resolved on guidelines for the remuneration of senior executives, which is described in the following. In the period prior to the 2012 Annual General Meeting, on one or more occasions, the Board of Directors was also authorised to:

- make decisions regarding an acquisition of own shares. This authorisation includes acquisitions on NASDAQ OMX Stockholm of own shares in an amount that at no time exceeds 10% of all outstanding shares. According to the authorisation, any acquisition will take place at a price within the registered price interval on NASDAQ OMX Stockholm at the time of acquisition, meaning the spread between the highest and lowest selling price. In 2011, Probi acquired 250,000 own shares for MSEK 11.8 in accordance with the authorisation by the Annual General Meetings in 2010 and 2011. At year-end, Probi held 250,000 treasury shares, corresponding to 2.7% of the total number of shares, with a quotient value of SEK 5 per share.
- make decisions regarding a transfer of treasury shares. This authorisation includes a transfer of not more than the number of outstanding shares held by the company at the time of transfer. According to the authorisation, any transfer will take place at a price within the registered price interval on NASDAQ OMX Stockholm on each

occasion, meaning the spread between the highest and lowest selling price. At 31 December 2011, this authorisation had not been exercised.

- make decisions regarding a new rights issue of up to a total of 936,530 shares. This authorisation includes the right to disregard shareholders' right of precedence as well as provisions under chapter 13, section 5, paragraph 1, page 6 of the Companies Act (payment in kind, payment by offset or other terms and conditions). The issue price for the new shares shall be determined on the basis of the prevailing market price at the time of issue. If the authorisation is exercised in its entirety, this will entail approximately 9% dilution of the capital and the number of votes. At 31 December 2011, this authorisation had not been exercised.

## REMUNERATION TO SENIOR EXECUTIVES

The 2011 Annual General Meeting resolved on guidelines for remuneration to senior executives as follows: Probi shall offer total remuneration that is in line with market terms, enabling senior executives to be recruited and retained. Remuneration to executive management shall comprise a fixed salary, variable salary, pension and other remuneration. Combined, these comprise components of the employee's total remuneration. The fixed salary is to take into account the employee's areas of responsibility and experience. The variable salary is to depend on the employee's fulfilment of quantitative and qualitative goals and is not to exceed 50% of the fixed annual salary. Other remuneration and benefits are to be in line with market terms and contribute to facilitating the senior executive's ability to complete his/her work tasks. Executive management's employment agreements include notification stipulations. Under these agreements, termination initiated by the employee entails a notice period of three to six months, and a period of six to 12 months when initiated by the company. The same 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 2012 Annual General Meeting, the Board proposes that the Meeting resolve that these guidelines remain the same.

The 2011 AGM also resolved on a share-price related incentive programme for executive management, which is based on the company's share-price trend between 2011 and 2014. Under the proposal, the CEO and other senior executives will participate in the incentive program in 2011 and 2012, provided that the profitability and sales targets established at the beginning of each year are met. The result 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 programme in 2014 and 2015 is maximised at an annual amount corresponding to 1.44 monthly salaries for the CEO and other senior executives participating in the incentive programme. The share-price related incentive programme must fall within the framework of the variable salary described above.

## NOMINATION COMMITTEE

The Nomination Committee is elected at the Annual General Meeting and its principle 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 28 April 2011, the Annual General Meeting resolved that the Nomination Committee should consist of three owner representatives. Ragnhild Wiborg (Consepio) (convenor) and Anders Olsson (Skånemejerier) were re-elected to the Nomination Committee. Bengt Jeppsson (Professor at

the Department of Surgery at Lund University) was elected a new member of the Nomination Committee. 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 as stipulated in 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 shall consist of not fewer than three and not more than seven members, with not more than three deputies, and be elected at the Annual General Meeting. The company's Articles of Association have no specific stipulations concerning the appointment and dismissal of Board Members and on amendments to the Articles of Association. The Annual General Meeting on 28 April 2011 elected a Board consisting of five members with no deputies as follows: (Figures in parentheses pertain to attendance at Board meetings in 2011)

Per Lundin, Chairman (re-elected)	(12 of 12)
Mats Lidgard (re-elected)	(11 of 12)
Jan Nilsson (re-elected)	(11 of 12)
Benedicte Fossum (new)	(8 of 8)
Eva Redhe Ridderstad (new)	(8 of 8)

At the Annual General Meeting in April 2011, Hilde Furberg (3 of 4) and Bengt Nilsson (0 of 4) resigned from the Board.

All Board Members are independent in relation to the company and senior executives. A presentation of the Board Members is available on page 65 of the printed version of the Annual Report for 2011 and on the company's website [www.probi.se](http://www.probi.se).

The Annual General Meeting decides on principles and monetary limits for Board fees. For 2011, the Board's fees were fixed at SEK 900,000, of which SEK 300,000 is paid to the Chairman of the Board and SEK 150,000 is paid to each of the other Board members.

For a brief period, Board members may perform consulting services for Probi. This is pursuant to a Board decision and only if it is deemed to be the most cost-efficient and advantageous option for the company. This type of consulting fee is recognised in the Annual Report.

For information regarding Board fees, see Notes 10 and 29.

#### CHIEF EXECUTIVE OFFICER

A presentation of the CEO is available on page 66 of the printed version of the Annual Report for 2011 and on the company's website [www.probi.se](http://www.probi.se).

#### AUDITORS

The 2010 Annual General Meeting appointed the registered auditing company Deloitte AB, with Authorised Public Accountant Per-Arne Pettersson as Auditor-in-Charge, until 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 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 the company management participated in this evaluation.

The Board also prepares quarterly reports, year-end reports and annual reports.

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 2011 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. The Audit Committee held two meetings in 2011, at which four of five members participated.

#### 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 decided by the Annual General Meeting. The Remuneration Committee held two meetings in 2011, at which four of five members participated.

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 is 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 this document 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 company 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 shall be addressed annually by the Board.



# Financial statements

## STATEMENT OF COMPREHENSIVE INCOME

Currency: SEK 000s	Note	Group		Parent Company	
		2011	2010	2011	2010
<b>Operating revenue</b>					
Net sales	7	94,379	80,381	94,379	80,381
Other revenue		630	746	630	746
<b>Total operating revenue</b>	6, 29	<b>95,009</b>	<b>81,127</b>	<b>95,009</b>	<b>81,127</b>
<b>Operating expenses</b>					
Cost of goods sold		-16,833	-9,858	-16,833	-9,858
Employee benefit expenses	10	-21,174	-21,041	-21,174	-21,041
Other external costs	8, 9, 15	-30,258	-23,093	-30,258	-23,093
Depreciation and discarding of fixed assets	11, 16, 17, 19, 20	-8,947	-9,038	-8,947	-9,038
<b>Total operating expenses</b>	6, 29	<b>-77,212</b>	<b>-63,030</b>	<b>-77,212</b>	<b>-63,030</b>
<b>Operating income</b>		<b>17,797</b>	<b>18,097</b>	<b>17,797</b>	<b>18,097</b>
Financial income	12	2,138	866	2,138	866
Financial expenses	12	-430	-254	-430	-254
<b>Result from financial income and expenses</b>		<b>1,708</b>	<b>612</b>	<b>1,708</b>	<b>612</b>
<b>Income before tax</b>		<b>19,505</b>	<b>18,709</b>	<b>19,505</b>	<b>18,709</b>
Tax on income for the year	13	-5,312	-5,048	-5,312	-5,048
<b>Income for the year</b>		<b>14,193</b>	<b>13,661</b>	<b>14,193</b>	<b>13,661</b>
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the year</b>		<b>14,193</b>	<b>13,661</b>	<b>14,193</b>	<b>13,661</b>
No. of shares at the end of the reporting period		9,115,300	9,365,300		
Average no. of shares		9,210,115	9,365,300		
Earnings per share based on income for the year, SEK.		1.54	1.46		

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 outstanding 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

ASSETS (NOTE 6)			
Currency: SEK 000s	Note	2011	2010
<b>Fixed assets</b>			
Capitalised development expenses	16	5,336	3,629
Patents and licenses	17	10,316	13,047
Goodwill	18	2,762	2,762
Equipment, tools and fixtures	19, 20	3,265	3,766
Deferred tax assets	14	-	4,711
<b>Total fixed assets</b>		<b>21,679</b>	<b>27,915</b>
<b>Current assets</b>			
Inventories		4,404	2,263
Accounts receivable-trade	22	24,787	12,689
Other current receivables		850	27
Prepaid expenses and accrued income	23	1,508	2,461
Cash and cash equivalents	24	76,202	89,762
<b>Total current assets</b>		<b>107,751</b>	<b>107,202</b>
<b>Total assets</b>		<b>129,430</b>	<b>135,117</b>

EQUITY AND LIABILITIES (NOTE 6)			
Currency: SEK 000s	Note	2011	2010
<b>Equity</b>			
Share capital	25	46,827	46,827
Other contributions received		71,578	92,607
Loss brought forward		-2,256	-16,449
<b>Total equity</b>		<b>116,149</b>	<b>122,985</b>
<b>Current liabilities</b>			
Accounts payable – trade		7,795	4,659
Tax liabilities		601	-
Other current liabilities		1,189	3,353
Accrued expenses and deferred income	27	3,696	4,120
<b>Total current liabilities</b>		<b>13,281</b>	<b>12,132</b>
<b>Total equity and liabilities</b>		<b>129,430</b>	<b>135,117</b>

For pledged assets and contingent liabilities, refer to Note 28.

## PARENT COMPANY STATEMENT OF FINANCIAL POSITION

ASSETS (NOTE 6)			
Currency: SEK 000s	Note	2011	2010
<b>Fixed assets</b>			
Capitalised development expenses	16	5,336	3,629
Patents and licenses	17	10,316	13,047
Equipment, tools and fixtures	19, 20	3,265	3,766
Participations in Group companies	21	4,031	4,031
Deferred tax assets	14	-	4,711
<b>Total fixed assets</b>		<b>22,948</b>	<b>29,184</b>
<b>Current assets</b>			
Inventories		4,404	2,263
Accounts receivable-trade	22	24,787	12,689
Other current receivables		850	27
Prepaid expenses and accrued income	23	1,508	2,461
Cash and cash equivalents	24	76,202	89,762
<b>Total current assets</b>		<b>107,751</b>	<b>107,202</b>
<b>Total assets</b>		<b>130,699</b>	<b>136,386</b>
<b>EQUITY AND LIABILITIES (NOTE 6)</b>			
Currency: SEK 000s	Note	2011	2010
<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		31,223	38,591
Income for the year		14,193	13,661
<b>Total non-restricted equity</b>		<b>45,416</b>	<b>52,252</b>
<b>Total equity</b>		<b>113,383</b>	<b>120,219</b>
<b>Long-term liabilities</b>			
Liabilities to Group companies		4,035	4,035
<b>Total long-term liabilities</b>	<b>26</b>	<b>4,035</b>	<b>4,035</b>
<b>Current liabilities</b>			
Accounts payable – trade		7,795	4,659
Tax liabilities		601	-
Other current liabilities		1,189	3,353
Accrued expenses and deferred income	27	3,696	4,120
<b>Total current liabilities</b>		<b>13,281</b>	<b>12,132</b>
<b>Total equity and liabilities</b>		<b>130,699</b>	<b>136,386</b>

For pledged assets and contingent liabilities, refer to Note 28.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Currency: SEK 000s	Share capital	Other contributions received	Loss brought forward	Total equity
<b>Opening balance, 1 Jan 2010</b>	<b>46,827</b>	<b>97,290</b>	<b>-30,110</b>	<b>114,007</b>
Income for the year	-	-	13,661	13,661
Other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>13,661</b>	<b>13,661</b>
Dividend for 2009	-	-4,683	-	-4,683
<b>Transactions with shareholders</b>	<b>-</b>	<b>-4,683</b>	<b>-</b>	<b>-4,683</b>
<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>Transactions with shareholders</b>	<b>-</b>	<b>-21,029</b>	<b>-</b>	<b>-21,029</b>
<b>Closing balance, 31 Dec 2011</b>	<b>46,827</b>	<b>71,578</b>	<b>-2,256</b>	<b>116,149</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

Currency: SEK 000s	Share capital	Statutory reserve	Unrestricted equity	Total equity
<b>Opening balance, 1 Jan 2010</b>	<b>46,827</b>	<b>21,140</b>	<b>43,274</b>	<b>111,241</b>
Income for the year	-	-	13,661	13,661
Other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>13,661</b>	<b>13,661</b>
Dividend for 2009	-	-	-4,683	-4,683
<b>Transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-4,683</b>	<b>-4,683</b>
<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>Transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-21,029</b>	<b>-21,029</b>
<b>Closing balance, 31 Dec 2011</b>	<b>46,827</b>	<b>21,140</b>	<b>45,416</b>	<b>113,383</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%.

## STATEMENT OF CASH FLOWS

Currency: SEK 000s	Note	Group		Parent Company	
		2011	2010	2011	2010
<b>Operating activities</b>					
Income before tax		19,505	18,709	19,505	18,709
Depreciation/amortisation and discarding		8,947	9,038	8,947	9,038
Divestment of tangible fixed assets		-35	4	-35	4
<b>Cash flow from operating activities before changes in working capital</b>		<b>28,417</b>	<b>27,751</b>	<b>28,417</b>	<b>27,751</b>
Change in inventories		-2,141	-1,025	-2,141	-1,025
Change in operating receivables		-11,968	-2,855	-11,968	-2,855
Change in operating liabilities		548	4,837	548	4,837
<b>Cash flow from operating activities</b>		<b>14,856</b>	<b>28,708</b>	<b>14,856</b>	<b>28,708</b>
<b>Investing activities</b>					
Acquisition of intangible fixed assets		-6,713	-4,077	-6,713	-4,077
Acquisition of tangible fixed assets		-917	-2,038	-917	-2,038
Divestment of tangible fixed assets		242	145	242	145
<b>Cash flow from investing activities</b>		<b>-7,388</b>	<b>-5,970</b>	<b>-7,388</b>	<b>-5,970</b>
<b>Financing activities</b>					
Share buyback		-11,813	-	-11,813	-
Dividend to shareholders		-9,215	-4,683	-9,215	-4,683
<b>Cash flow from financing activities</b>		<b>-21,028</b>	<b>-4,683</b>	<b>-21,028</b>	<b>-4,683</b>
<b>Change in cash and cash equivalents</b>	24	<b>-13,560</b>	<b>18,055</b>	<b>-13,560</b>	<b>18,055</b>
Cash and cash equivalents at the beginning of the year		89,762	71,707	89,762	71,707
Cash and cash equivalents at year-end		76,202	89,762	76,202	89,762
<b>Interest paid and received</b>					
Interest income according to profit or loss		1,652	430	1,652	430
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.

# Notes to the consolidated financial statements

## 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 relates to living microorganisms with scientifically proven health benefits. The main fields of research are gastrointestinal health, the immune system, the metabolic syndrome, stress and performance recovery. Probi's customers include leading companies in the Functional Food and Consumer Healthcare (formerly Dietary Supplements) 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 the 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 2012" as well as the International Financial Reporting Standards (IFRS) and interpretations issued by 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 and interpretations**

A number of new or revised standards and interpretations have come into force and apply for the 2011 financial year. However, none of these have or will have any impact on the company's reporting.

### **Standards, amendments and interpretations of existing standards where the changes have not yet come into force**

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 and interpretations apply, and none, except IFRS 9 Financial Instruments, are expected to apply. Significant elements of IFRS 9 Financial Instruments, which will replace IAS 39, have been adopted, but will not come into force until 2015. Accordingly, any impact that they may have is therefore not yet fully known.

## 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 the 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 2012". The accounting policies for the Parent Company are stipulated in the section 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 for 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. Subsidiaries are excluded from the consolidated financial statements from the date on which the controlling influence ceases.

The acquisition method has been applied to the reporting of Probi's acquisitions of subsidiaries. The cost comprises the fair value of assets submitted as payment, issued equity instruments and new or assumed liabilities on the transfer date. Identified acquired assets, assumed liabilities and contingent liabilities in a business acquisition are measured initially at fair value on the acquisition date, irrespective of the scope of any possible minority interests. The surplus comprising the difference between the cost and the fair value of the Group's share of identifiable acquired assets, liabilities and contingent liabilities is recognised as goodwill. If the cost falls below the fair value of the acquired subsidiary's assets, liabilities and contingent liabilities, then the difference is recognised directly in profit or loss.

Intra-Group transactions, balance-sheet items and unrealised gains and losses on transactions between Group companies are eliminated. The accounting policies for subsidiaries have, when applicable, been changed in order to guarantee consistent application of the Group's accounting policies.

## 2.3 SEGMENT REPORTING

Operating segments are recognised in a manner that corresponds with the internal reporting, which is submitted to the highest chief operating decision-maker. The highest chief operating decision-maker is the function that is responsible for the allocation of resources and assessing the results of the 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 and, where applicable, revenue of a nonrecurring nature. Revenue is recognised excluding VAT, returns and discounts, and after the elimination of intra-Group sales.

Probi recognises revenue when the amount can be reliably measured, when it is likely that future economic benefits will accrue to the company and when special 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 sale 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 reporting of the sales value of consumer products containing Probi's products and ingredients. The accounting process is carried out at the end of each month.

*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:* In some cases, Probi is entitled to receive revenue of a nonrecurring nature in conjunction with the signing or ending of a contract (down payments). Certain contracts contain clauses in respect of minimum royalties that can give rise to nonrecurring revenue. These transactions are recognised in their entirety as revenue in conjunction with the actual event under the prerequisite that the actual agreement is not, in any way, connected with any remaining consideration, which carries 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 BORROWING COSTS

Borrowing costs directly attributable to the purchase, construction or production of a qualifying asset are capitalised as a part of the asset's cost. Other borrowing costs are expensed in the periods to which they relate.

## 2.6 INCOME TAX

Income taxes recognised comprise tax payable or recoverable in respect of the year in question, together with adjustments made in respect of current tax for previous years. 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.

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.

## 2.7 INTANGIBLE ASSETS

*Goodwill:* Goodwill comprises the amount by which the cost exceeds the fair value of the Group's participation in the acquired subsidiary's identifiable net assets at the time of the acquisition. Goodwill on acquisitions of subsidiaries is recognised as intangible assets. 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 distributed between cash-generating units in connection with the impairment testing.

*Research and development expenses:* 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.

Probi conducts research and development work in the probiotics field. 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 – a maximum of five years. Amortisation is initiated when the asset is ready for use. Capitalised assets not ready for use are tested annually for possible impairment requirements.

*Other intangible assets:* 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.
- License related to acquisitions of European rights: 12 years. These licenses are amortised on a straight-line basis from the year of acquisition until 2012, which is the year that the patent for the relevant bacterial strain expires.

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

## 2.8 TANGIBLE FIXED ASSETS

Buildings and all other tangible fixed assets, with the exception of land, are recognised at cost less depreciation. Land is recognised at cost. The 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.

## 2.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets with an undefined useful lifetime are not impaired; instead, they are tested annually with regard to any impairment requirement. Depreciated assets are evaluated with regard to a reduction in value, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is effected in the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling expenses, and its value in use. When assessing the impairment requirement, assets are grouped at the lowest level at which separate identifiable cash flows (cash-generating units) exist.

## 2.10 LEASING

Lease agreements within the Group are classified as either financial or operational leasing. Lease agreements for fixed assets for which the Group, in all material respects, carries the same risks and enjoys the same benefits as that of direct ownership, are classified as financial 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 means 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, then 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. All lease agreements, irrespective of whether they are operational or financial, are recognised in the Parent Company as rental agreements (operational leasing agreements).

## 2.11 FINANSIELLA INSTRUMENT

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

*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 funds, goods or services directly to a customer without intending to trade in the receivable. These amounts are included under Current assets, with the exception of items falling due more than 12 months after the balance-sheet date, which are classified as fixed assets.

*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.

## 2.12 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). Borrowing costs are not included. The net sales value is the estimated sales price in operating activities, less any applicable variable sales overheads.

## 2.13 ACCOUNTS 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.

## 2.14 CASH AND CASH EQUIVALENTS

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

## 2.15 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 arising in conjunction with the translation are recognised in profit or loss.

## 2.16 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 potential restructuring measures is made once a detailed, formal plan for the measures has been prepared.

## 2.17 REMUNERATION TO EMPLOYEES

### Pensions

All of the company's pension plans are defined-contribution plans. A defined-contribution plan implies that Probi pays fixed fees to a separate legal entity. Probi has no legal or informal commitments to pay further premiums if such legal entity has insufficient funds to pay all benefits to employees attributable to employees' service during current or previous periods. Probi's payments to defined-contribution plans are recognised as expenses over 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 programme whereby settlement is reached through cash payment. The results of the programme depend on a comparison between the company's share price and a general index on NASDAQ OMX Stockholm in 2013 compared with 2010. Any remuneration will be paid in 2014. The fair value of debt is re-evaluated 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.

### 2.18 ACQUISITION AND SALE OF TREASURY SHARES

When acquiring and selling own shares, the funds, including fees, are 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.

### 2.19 STATEMENT OF CASH FLOWS

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

### 2.20 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 2012". This implies that the Parent Company's financial statements apply the International Financial Reporting Standards (IFRS) as 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. No differences have been identified between the reporting of the Parent Company and the Group.

## NOTE 3 FINANCIAL RISKS

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.

The Board annually revises and adopts Probi's Financial Policy, which describes the management of financial risks.

## 3.1 MARKET RISKS

### Currency risks

Probi is active on the international market, which implies that income and expenses arise in varying currencies affected by exchange-rate fluctuations. Most of Probi's revenue comprises SEK based on agreements with Skånemejerier, ProViva AB and Bringwell. In 2011, revenue from these agreements accounted for 69% of total revenue. Revenue in foreign currencies primarily pertain to USD and EUR. In conjunction with new agreements being signed or sales based on existing agreements increasing, the proportion of foreign currencies may increase.

Probi's Financial Policy describes the manner in which the company is to manage currency risks in relation to SEK. The objective is, wherever possible, to minimise currency exposure and thus, the currency risk by matching purchases and sales in each currency. Probi can also hedge currencies. 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 coming into force when currency fluctuations exceed set limits.

A sensitivity analysis shows that the effect on the operating income in 2011 of a 5% change in USD/SEK exchange rate would have been MSEK +/- 0.4 (0.2). For changes in the EUR/SEK exchange rate, the change would have been equally as large.

### Interest risks

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

## 3.2 CREDIT RISKS

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

## 3.3 LIQUIDITY RISKS

Cash-flow forecasts are established continuously to ensure that the Group has sufficient cash funds to satisfy requirements in operating activities. Cash and cash equivalents are currently 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 is 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. To date, Probi has not utilised 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.

#### 4.1 IMPAIRMENT TESTING OF PATENTS AND LICENSES

Probi carried out impairment testing in 2011 to determine the value on 31 December 2011 of its patents and the license in relation to European rights. Probi monitors the launches and development work of its partners closely. This material forms the basis for the information that is used when the company carries out impairment testing. The executed tests indicated that no impairment requirements exist.

#### 4.2 IMPAIRMENT TESTING OF GOODWILL

Recognised Goodwill is tested every year in relation to any impairment requirements in accordance with the accounting policies described in Note 2.9. This is also done when there are indications of an impairment requirement.

The goodwill item refers to the strategic acquisition in 1998 of the outstanding shares in Probi Food AB. 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 estimated at 10% (10) for the coming five years. Growth beyond this period is estimated at 5%. Probi has carried out impairment testing to determine the value of goodwill on 31 December 2011. These tests did not indicate any impairment requirement.

#### 4.3 IMPAIRMENT TESTING OF CAPITALISED DEVELOPMENT EXPENSES

There were no indications of an impairment requirement for the projects that had been capitalised since 31 December 2011, since these projects, with reasonable certainty, can be expected to generate revenue for Probi in the near future.

In 2011, Probi discarded MSEK 2.7 (3.0) in capitalised development expenditure concerning a project aimed at microencapsulating bacteria to protect them against moisture and antimicrobial components. The discarded expenditure pertains to a sub-project within this effort that did not achieve sufficiently favourable results to lead to future commercial product solutions.

#### 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, to generate returns 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 39.9 (33.2) at year-end 2011. On that date, Probi had cash and cash equivalents of MSEK 76.2 (89.8) 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 may 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. Probi has decided to change the name of the business area since the new name better describes the company's products and how they are perceived by consumers. The products' regulatory status is either food or consumer pharmaceuticals, depending on the geographic market, and the products are generally perceived by buyers as consumer pharmaceuticals.

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

Group	2010		
	FF	CHC	Total
Total operating revenue	55,400	25,727	<b>81,127</b>
Total operating expenses	-38,957	-24,073	<b>-63,030</b>
<b>Operating income</b>	<b>16,443</b>	<b>1,654</b>	<b>18,097</b>

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

#### Statement of financial position per operating segment

Group	2011			Total
	FF	CHC	Other	
Total assets	32,096	21,132	76,202	<b>129,430</b>
Total liabilities	4,672	8,609	-	<b>13,281</b>
Equity	-	-	116,149	<b>116,149</b>
Investments	4,553	3,077	-	<b>7,630</b>
Depreciation/amortisation and discarding	-7,336	-1,611	-	<b>-8,947</b>

Group	2010			Total
	FF	CHC	Other	
Total assets	25,351	15,293	94,473	<b>135,117</b>
Total liabilities	4,972	7,160	-	<b>12,132</b>
Equity	-	-	122,985	<b>122,985</b>
Investments	4,678	1,269	168	<b>6,115</b>
Depreciation/amortisation and discarding	-8,463	-575	-	<b>-9,038</b>

### Operating revenue, assets and investments per geographic area

Group	2011				Total
	Nordic region	Rest of Europe	North America	Rest of the world	
Operating revenue	66,866	7,598	7,304	13,241	<b>95,009</b>
Assets	119,384	5,629	2,222	2,195	<b>129,430</b>
Investments	6,175	323	355	777	<b>7,630</b>

Group	2010				Total
	Nordic region	Rest of Europe	North America	Rest of the world	
Operating revenue	62,204	9,754	3,072	6,097	<b>81,127</b>
Assets	121,419	11,504	255	1,939	<b>135,117</b>
Investments	5,081	196	302	536	<b>6,115</b>

### NOTE 7 DISTRIBUTION OF NET SALES

	Group		Parent Company	
	2011	2010	2011	2010
Goods	36,399	18,479	36,399	18,479
Royalties, licenses, etc.	57,980	61,902	57,980	61,902
<b>Total</b>	<b>94,379</b>	<b>80,381</b>	<b>94,379</b>	<b>80,381</b>

### NOTE 8 AUDITORS' FEES

	Group		Parent Company	
	2011	2010	2011	2010
<b>PWC</b>				
Audit assignment	-	204	-	204
Audit-related services	-	14	-	14
Tax consultancy	-	-	-	-
Other services	-	-	-	-
<b>Deloitte</b>				
Audit assignment	341	250	341	250
Audit-related services	45	-	45	-
Tax consultancy	207	4	207	4
Other services	22	-	22	-
<b>Total</b>	<b>615</b>	<b>472</b>	<b>615</b>	<b>472</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

	Group		Parent Company	
	2011	2010	2011	2010
Expensed research and development expenses	16,929	15,236	16,929	15,236

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

	Group		Parent Company	
	2011	2010	2011	2010
Average no. of employees				
Women	12	12	12	12
Men	8	9	8	9
<b>Total</b>	<b>20</b>	<b>21</b>	<b>20</b>	<b>21</b>

	Group		Parent Company	
	2011	2010	2011	2010
Salaries and remuneration				
<b>Total</b>	<b>20</b>	<b>21</b>	<b>20</b>	<b>21</b>

#### Board of Directors

Benedicte Fossum	113	-	133	-
Per Lundin	275	200	275	200
Mats Lidgard	138	100	138	100
Jan Nilsson	138	75	138	75
Eva Redhe Ridderstad	113	-	113	-

#### Former Board Members

Annika Espander Jansson	-	75	-	75
Hilde Furberg	25	100	25	100
Hans Wigzell	-	25	-	25

CEO, Michael Oredsson	1,856	1,675	1,856	1,675
Other management (2)	2,464	2,248	2,464	2,248
Other employees	9,197	8,809	9,197	8,809
<b>Total</b>	<b>14,319</b>	<b>13,307</b>	<b>14,319</b>	<b>13,307</b>

	2011	2010	2011	2010
<b>Social security contributions, total</b>	<b>7,287</b>	<b>7,037</b>	<b>7,287</b>	<b>7,037</b>
Of which pension costs:	2,357	2,250	2,357	2,250
Board Members	-	-	-	-
CEO, Michael Oredsson	465	447	465	447
Other management (2)	607	494	607	494
Other employees	1,285	1,309	1,285	1,309

The CEO and two 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. According to a decision by the Remuneration Committee, TSEK 1,347 (1,025), including social security contributions, was reserved on 31 December 2011 for bonuses to employees. The amount will be paid in 2012 and is distributed as follows: the CEO, TSEK 323 (216); senior executives (2), TSEK 408 (202); and other employees, TSEK 616 (607).

A provision of TSEK 181 (0) was made, including social security contributions, of which TSEK 54 (0) pertains to the CEO, for the share-price related incentive programme for company management, which was resolved by the 2011 Annual General Meeting. The results of the programme depend on a comparison between the company's share price and a general index on NASDAQ OMX Stockholm in 2013 compared with 2010, whereby the company's share price must have outperformed the general index by at least 25% in 2013 compared with 2010 to entitle a bonus payment. Any bonuses will be paid in 2014. The result of the incentive programme is maximised to an annual amount corresponding to 1.44 monthly salaries for the CEO and other senior executives participating in the incentive programme.

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. There are no women serving in the company's executive management.

#### NOTE 11 DEPRECIATION/AMORTISATION AND DISCARDING OF FIXED ASSETS

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

	Group		Parent Company	
	2011	2010	2011	2010
Depreciation/ amortisation	6,265	5,758	6,265	5,758
Discarding	2,702	3,280	2,702	3,280
<b>Total</b>	<b>8,967</b>	<b>9,038</b>	<b>8,967</b>	<b>9,038</b>

#### NOTE 12 FINANCIAL INCOME AND EXPENSES

	Group		Parent Company	
	2011	2010	2011	2010
Interest income	1,653	430	1,653	430
Exchange-rate gains	485	436	485	436
Exchange-rate losses	-429	-254	-429	-254
Interest expenses	-1	-	-1	-
<b>Total</b>	<b>1,708</b>	<b>612</b>	<b>1,708</b>	<b>612</b>

#### NOTE 13 INCOME TAX

	Group		Parent Company	
	2011	2010	2011	2010
Current tax for the year	-601	-	-601	-
Deferred tax	-4,711	-5,048	-4,711	-5,048
<b>Total</b>	<b>-5,312</b>	<b>-5,048</b>	<b>-5,312</b>	<b>-5,048</b>

	2011	2010
Income before tax	19,505	18,709
Nominal tax rate 26.3%	-5,130	-4,920
Tax effect on other non-taxable or tax deductible income	-182	-128
<b>Tax cost</b>	<b>-5,312</b>	<b>-5,048</b>

#### NOTE 14 DEFERRED TAX

	Group		Parent Company	
	2011	2010	2011	2010
Opening balance	4,711	9,759	4,711	9,759
Recognised in profit or loss	-4,711	-5,048	-4,711	-5,048
<b>Closing balance</b>	<b>0</b>	<b>4,711</b>	<b>0</b>	<b>4,711</b>

#### NOTE 15 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:

	Group		Parent Company	
	2011	2010	2011	2010
Leasing costs for the year	2,914	2,784	2,914	2,784
Falls due for payment within one year	3,007	2,930	3,007	2,930
Falls due for payment after one, but within five years	5,213	11,256	5,213	11,256
Falls due for payment after more than five years	-	-	-	-

## NOTE 16 CAPITALISED DEVELOPMENT EXPENSES

	Group		Parent Company	
	2011	2010	2011	2010
Opening cost	4,027	4,697	4,027	4,697
New acquisitions	4,804	2,610	4,804	2,610
Discarding	-2,682	-3,280	-2,682	-3,280
<b>Closing accumulated cost</b>	<b>6,149</b>	<b>4,027</b>	<b>6,149</b>	<b>4,027</b>
Opening depreciation/ amortisation and discarding	-398	-54	-398	-54
Depreciation/amortisation for the year	-415	-617	-415	-617
Discarding for the year	-	273	-	273
<b>Closing accumulated depreciation/amortisation and discarding</b>	<b>-813</b>	<b>-398</b>	<b>-813</b>	<b>-398</b>
<b>Closing residual value</b>	<b>5,336</b>	<b>3,629</b>	<b>5,336</b>	<b>3,629</b>

## NOTE 17 PATENTS AND LICENSES

	Group		Parent Company	
	2011	2010	2011	2010
Patents and licenses	55,037	53,570	55,037	53,570
Opening cost	55,037	53,570	55,037	53,570
New acquisitions	1,906	1,467	1,906	1,467
<b>Closing accumulated cost</b>	<b>56,943</b>	<b>55,037</b>	<b>56,943</b>	<b>55,037</b>
Opening depreciation	-41,990	-37,451	-41,990	-37,451
Depreciation for the year	-4,637	-4,539	-4,637	-4,539
<b>Closing accumulated depreciation</b>	<b>-46,627</b>	<b>-41,990</b>	<b>-46,627</b>	<b>-41,990</b>
<b>Closing residual value</b>	<b>10,316</b>	<b>13,047</b>	<b>10,316</b>	<b>13,047</b>

Of the carrying amount on 31 December 2011, patents accounted for MSEK 6.9 and licenses for MSEK 3.4. Licenses are related to the repurchase of the European rights from Skånemejerier for MSEK 40 in 2001.

The European rights are amortised on a straight-line basis from the year of acquisition until 2012, which is the year in which the patents for the relevant bacterial strains expire.

## NOTE 18 GOODWILL

	Group	
	2011	2010
Goodwill	2,762	2,762
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 and is thus recognised under the Functional Food segment. Goodwill is tested every year in regard to any impairment requirements according to the accounting policies described in Note 2.9. 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 5%.

Probi carried out impairment tests to determine the goodwill value on 31 December 2010. These tests did not indicate that any impairment requirements exist.

No goodwill was recognised in the Parent Company.

## NOTE 19 IMPROVEMENTS TO LEASED PROPERTY

	Group		Parent Company	
	2011	2010	2011	2010
Expenditure on leased property	1,198	-	1,198	-
Opening cost	1,198	-	1,198	-
Acquisitions for the year	200	1,198	200	1,198
<b>Closing accumulated cost</b>	<b>1,398</b>	<b>1,198</b>	<b>1,398</b>	<b>1,198</b>
Opening depreciation	-6	-	-6	-
Depreciation for the year	-318	-6	-318	-6
<b>Closing accumulated depreciation</b>	<b>-324</b>	<b>-6</b>	<b>-324</b>	<b>-6</b>
<b>Closing residual value</b>	<b>1,074</b>	<b>1,192</b>	<b>1,074</b>	<b>1,192</b>

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

## NOTE 20 EQUIPMENT AND TOOLS

	Group		Parent Company	
	2011	2010	2011	2010
Equipment	6,677	6,062	6,677	6,062
Opening cost	6,677	6,062	6,677	6,062
Purchases	718	840	718	840
Sales	-285	-147	-285	-147
Discarding	-20	-78	-20	-78
<b>Closing accumulated cost</b>	<b>7,090</b>	<b>6,677</b>	<b>7,090</b>	<b>6,677</b>
Opening amortisation	-4,103	-3,310	-4,103	-3,310
Amortisation for the year	-895	-869	-895	-869
Amortisation on sold equipment	78	-	78	-
Amortisation on disposed equipment	20	76	20	76
<b>Closing accumulated amortisation</b>	<b>-4,900</b>	<b>-4,103</b>	<b>-4,900</b>	<b>-4,103</b>
<b>Closing residual value</b>	<b>2,190</b>	<b>2,574</b>	<b>2,190</b>	<b>2,574</b>

## NOTE 21 PARTICIPATIONS IN GROUP COMPANIES

Parent Company	2011	2010
Carrying amount	4,031	4,031

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

Parent Company	Share of equity	Share of votes	No. of shares	Carrying amount
Probi Food AB 556354-1951, Lund	100 %	100 %	10,000	3,931
Probi Feed AB 556540-4364, Lund	100 %	100 %	1,000	100

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

## NOTE 22 ACCOUNTS RECEIVABLE

Probi's accounts receivable primarily refer to a few major licensing partners. The company does not consider these partners to constitute a significant credit risk. No accounts receivable were impaired in 2011 or 2010.

### Maturity structure of accounts receivable

	Group		Parent Company	
	2011	2010	2011	2010
Not fallen due	15,796	9,904	15,796	9,904
Fallen due 0-45 days	8,005	2,785	8,005	2,785
Fallen due >45 days	986	-	986	-
<b>Total</b>	<b>24,787</b>	<b>12,689</b>	<b>24,787</b>	<b>12,689</b>

Most of the accounts receivable that had fallen due by year-end had been settled at the end of February 2012.

## NOTE 23 PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
	2011	2010	2011	2010
Royalty revenue	-	1,242	-	1,242
Prepaid rent	650	640	650	640
Insurance premiums	314	243	314	243
Other items	544	336	544	336
<b>Total</b>	<b>1,508</b>	<b>2,461</b>	<b>1,508</b>	<b>2,461</b>

## NOTE 24 CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents refer to cash and bank holdings.

## NOTE 25 NUMBER OF SHARES

No. of shares	Series A-shares	Series B-shares	Common share class	Total
No. on 31 Dec 2010	-	-	9,365,300	9,365,300
No. on 31 Dec 2011	-	-	9,365,300	9,365,300

The quotient value of the shares is SEK 5.

## NOTE 26 OTHER LONG-TERM LIABILITIES

	Group		Parent Company	
	2011	2010	2011	2010
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 27 ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
	2011	2010	2011	2010
Accrued holiday pay including social security contributions	930	743	930	743
Social security contributions	360	352	360	352
Accrued administration and selling expenses	286	946	286	946
Accrued variable remuneration to employees	1,528	1,025	1,528	1,025
Other accrued personnel costs	292	744	292	744
Other items	300	310	300	310
<b>Total</b>	<b>3,696</b>	<b>4,120</b>	<b>3,696</b>	<b>4,120</b>

## NOTE 28 PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Group		Parent Company	
	2011	2010	2011	2010
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 29 TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties recognised in statement of comprehensive income:

	Group		Parent Company	
	2011	2010	2011	2010
Skånemejerier, royalty revenue	786	11,035	786	11,035
Skånemejerier, sales of goods	131	818	131	818
ProViva AB, royalty revenue	30,177	42,108	30,177	42,108
<b>Total revenue</b>	<b>31,094</b>	<b>53,961</b>	<b>31,094</b>	<b>53,961</b>
Skånemejerier, royalties and product costs	-	-58	-	-58
Lavindia AB, related party: Mats Lidgard (Board member)	-53	-300	-53	-300
Atherioco AB, related party: Jan Nilsson (Board member, Chairman of Probi Scientific Advisory Board)	-60	-	-60	-
<b>Total costs</b>	<b>-113</b>	<b>-358</b>	<b>-113</b>	<b>-358</b>

Transactions with related parties recognised in the statement of financial position:

	Group		Parent Company	
	2011	2010	2011	2010
<b>Operating receivables</b>				
Skånemejerier	-	130	-	130
Proviva AB	-	4,268	-	4,268
<b>Total operating receivables</b>	<b>-</b>	<b>4,398</b>	<b>-</b>	<b>4,398</b>

On 5 September 2011, Skånemejerier divested its entire shareholding in Probi AB, corresponding to 10.3% of the capital. On the transaction date, Skånemejerier was Probi's second-largest shareholder and its ownership stake in ProViva AB has been 49% since 30 September 2010 at which date Danone acquired 51% of the company. Probi AB has a licence and delivery agreement with Skånemejerier concerning the Friscus juice and with ProViva AB regarding ProViva. Revenue from Skånemejerier and ProViva AB is based on long-term agreements and transactions are conducted on commercial terms and conditions and at market value.

Accordingly, the above transactions with Skånemejerier and ProViva AB are only recognised for the period between 1 January 2011 and 5 September 2011.

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.

For other related parties, the transactions pertain to consulting fees.

## NOTE 30 EVENTS AFTER THE BALANCE-SHEET DATE

On 29 February 2012, Probi announced that Gun-Britt Fransson had been recruited to the company's executive management as Vice President Research and Development. Gun-Britt Fransson previously worked as President for Alligator Bioscience AB and held executive positions in R&D at Procordia and Orkla.

## SIGNATURES FOR THE ANNUAL REPORT

The Annual Report and consolidated financial statements were approved by the Board on 14 March 2012. 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 26 April 2012 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, 14 March 2012

Per Lundin  
Chairman

Benedicte Fossum

Mats Lidgard

Jan Nilsson

Eva Redhe Ridderstad

Michael Oredsson  
CEO

Our auditor's report was submitted on 14 March 2012  
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

We have audited the annual accounts and consolidated accounts of PROBI AB (publ) for the financial year 2011-01-01 – 2011-12-31 except for the corporate governance report on pages 47-48. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 43-63.

## *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 and 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.

## *Auditors' 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 opinion.

## *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 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and 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 2011 and of its financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. Our opinions do not include the corporate governance report on pages 47-48. 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

statement of comprehensive income and the statement of financial position for the group.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In addition to our audit of the annual accounts and consolidated accounts, we have examined 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 2011-01-01 – 2011-12-31. We have also made 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 for the corporate governance report on pages 47-48 being prepared in accordance with the Annual Accounts Act.

## *Auditors' 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 opinion.

In addition 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 report has been prepared, and its statutory content is consistent with the other parts of the annual accounts and the consolidated accounts.

Malmö, 14 March 2012

Deloitte AB

Per-Arne Pettersson, Authorised 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 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 Björksavsprodukter i Åre 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. Former Executive Chairman and CEO of Erik Penser Fondkommission AB, founder and President of Mercurius Financial Communications AB and Investor AB.

OTHER BOARD ASSIGNMENTS: MQ AB, Pled Pharma AB, Endomines AB, Axel Christiernsson International AB, Temaplan Asset Management AB and Glaskronan 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 University.

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, ProBio ASA, Smartfish AS, Foinco AS, Altaria SMB I 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

## AUDITOR

Deloitte AB  
Per-Arne Pettersson, Authorised Public Accountant



## 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:  
2,000 SHARES

# Annual general meeting

The AGM will be held on Thursday, 26 April 2012, at 3:00 p.m.  
at the Edison Park, Emdalavägen 16, 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 Wednesday, 20 April 2012 and shall have notified the company of their intention to participate not later than Wednesday, 20 April 2012 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 Wednesday, 20 April 2012. 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 fax to: +46 (0)46 286 89 28
- 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 2012

Interim Report, Q1	26 April 2012
Annual General Meeting 2011	26 April 2012, 3:00 p.m.
Interim Report, Q2	16 August 2012
Interim Report, Q3	18 October 2012
Year-end report 2012	24 January 2013



PROBI AB  
IDEON GAMMA 1  
SE-223 70 LUND, SWEDEN

VISITING ADDRESS:  
SÖLVEGATAN 41, LUND, SWEDEN

TEL: +46 (0)46 286 89 20  
FAX: +46 (0)46 286 89 28

E-MAIL: [PROBI@PROBI.SE](mailto:PROBI@PROBI.SE)  
WEBSITE: [WWW.PROBI.SE](http://WWW.PROBI.SE)