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ABOUT PROBI'S BRAND AND LOGOTYPE

Probi AB offers a unique promise to its customers and consumers to develop and sell probiotics with well-documented health benefits.

Probi's brands and logotypes are important and valuable assets for the company and represent the brand's quality and consistent contents, which we have developed together with our customers over many years.

Probiotics is composed of 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.



2010 IN BRIEF

IMPORTANT EVENTS DURING 2010

- Probi and Danone signed ten-year licensing agreements that secure Probi's current revenue streams for ProViva, and enable an international launch.
- Probi recognized a remuneration of MSEK 10 from Skånemejerier when the Danone agreement became effective.
- The launch of ProbiMage and ProbiFrisk created a leading position in the Swedish market for probiotic dietary supplements.
- Merck KgaA signed a new agreement with Institut Rosell for the launch of Probi's dietary supplements for gastrointestinal health in Latin America.
- A distribution agreement entitled Camox Pharmaceuticals to sell Probi's dietary supplement products for the immune system and gastrointestinal health in the South African market.
- Through a distribution agreement, the Alapis Group secured the right to sell Probi's dietary supplements for the immune system in Greece and Cyprus.
- A new long-term agreement with Institut Rosell for dietary supplements based on Probi's bacterium, *Lp299v*.
- Probi's Swedish common-cold survey was published in European Journal of Nutrition.

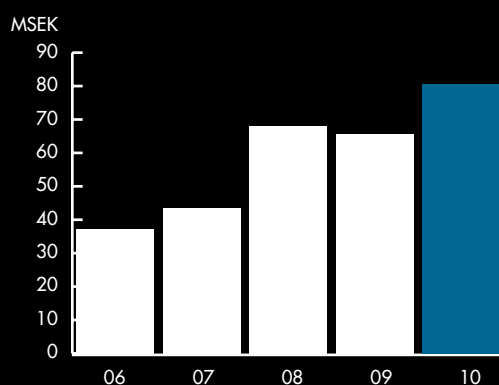
EVENTS AFTER THE BALANCE-SHEET DATE

- The Board of Directors proposes a total dividend of MSEK 9.4 (4.7), corresponding to SEK 1 (0.5) per share.
- Probi initiates a buy-back of own shares in accordance with a resolution at the 2010 Annual General Meeting.

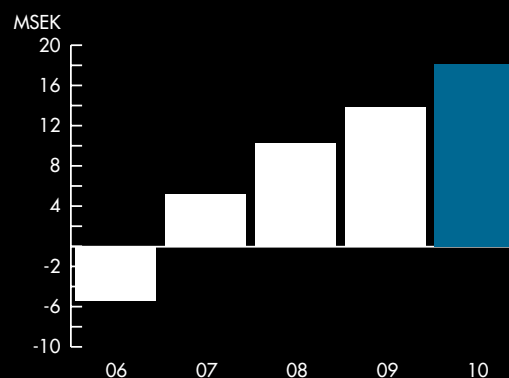
FINANCIAL INFORMATION 2010

- Net sales amounted to MSEK 80.4 (65.5)
- Operating income before depreciation, amortisation and impairment (EBITDA) increased by 43 per cent and amounted to MSEK 27.1 (18.9)
- Cash flow improved 74 per cent and amounted to MSEK 18.1 (10.4)
- Earnings per share after tax amounted to SEK 1.46 (1.15)

NET SALES



OPERATING INCOME



OUR BEST YEAR TO DATE

2010 was the best year for Probi to date. We have seen solid growth in both sales and profit. Probi has more than doubled its sales since 2006. The Danone agreements, new launches of our own products and a renewed agreement with Institut Rosell have created a platform for continued growth.

MILESTONES ALONG THE WAY

Three significant events occurred in 2010. The most decisive is undoubtedly the licensing agreements with Danone. I would like to describe this as the most important event in Probi's history to date. The agreements comprise ProViva and Probi has now secured revenue from this product in the Swedish market for the next ten years. However, the greatest potential is at the international level. Danone is now planning the first launch of these products, which have been so successful in Sweden, in new markets. Danone has stated explicitly that ProViva is a key part of both their probiotics strategy and their new international venture in juices and fruit drinks. Finland will be first in line in the Nordic region in the second half of 2011.

The second event was the launch of our own brands, ProbiMage and ProbiFrisk, in the dietary supplements business area. Together with Bringwell/Green Medicine – and in less than six months – we claimed a leading position in the Swedish probiotics market in pharmacies and health stores. As a result, we now have a new and effective business model that can be applied in other markets, with hopefully as much success as in Sweden. In 2010, sales have generated revenue of about MSEK 8 and a breakeven result. This is fantastic considering that the launch took place in a market with low growth and coincided with the deregulation of the Swedish pharmacy monopoly.

The third event is the new long-term agreement with our long-standing partner, Institut Rosell, which was signed at the end of 2010. This agreement comprises dietary supplements based on *Lp299v* and constitutes the basis for revenue that currently corresponds to about 20 per cent of Probi's total sales. The agreement will give us higher product margins and greater opportunities for making our own distribution agreements, or launching dietary supplements for gastrointestinal health under own brand in large parts of the world.

RECORD YEAR IN 2010

In a year when we have signed agreements that will determine Probi's future, it is nice to see that the financial trend has also been positive. Sales increased 23 per cent and operating income rose 31 per cent to MSEK 18.1, the best results to date in the history of the company. Dietary Supplements increased 49 per cent, which is directly attributable to the launch of ProbiMage and ProbiFrisk. Revenue from ProViva increased 11 per cent in Sweden, 16 years after the initial launch of the product.

The 2010 results show that we are a growth company. Probi's sales have more than doubled since 2006 and our international expansion is still in its infancy.

DEVELOPED BUSINESS MODEL

Probi now has three business models; the licensing model, which is mainly designed for food companies and where Probi receives royalty revenue, the distributor model where Probi sells dietary supplements as finished goods to distributors who resell under their own brand, and the consumer model where Probi, in collaboration with local partners, sells dietary supplements under the Probi brand. Our successful business is built on a combination of these models. We have licensing agreements for ProViva and Friscus with Danone and Skånemejerier, distributor sales through Camox (South Africa), HealthWorld/Metagenics (Australia/US) and Alapis (Greece) for example, and a close collaboration with Bringwell/Green Medicine in the Nordic region for dietary supplements under Probi's own brands, ProbiMage and ProbiFrisk. We are currently assessing other opportunities for collaboration with local partners in the European market outside of the Nordic region, in line with the consumer model. The launch of ProbiMage and ProbiFrisk during the year has shown that this model builds value in both brands and sales.

SCIENCE FOR A GOOD LIFE

In terms of exploiting the potential of Probi's existing products, most of the work still remains to be done. Some of this potential can be realised in a relatively short period of time. In addition, Probi is currently working on a pipeline of new products. One of these products will focus on treating the metabolic syndrome. The metabolic syndrome comprises cardiovascular diseases, type 2 diabetes and obesity and is the generic name for a variety of risk factors that increase the risk for cardiovascular disease. One of the most common risk factors in the metabolic syndrome is high blood pressure. Probi is currently conducting its first major clinical study to document the antihypertensive effects. The intention is to develop a food product that can help lower high blood pressure and also have a positive effect on other risk factors in the metabolic syndrome. Provided that the results of the surveys are positive, a new product may reach the market within a few years, and both the market potential and need are considerable in these lifestyle diseases. As with our existing products, this product originated in research and development. Research and development is the heart of Probi's business, and an area of expertise that we continuously work to strengthen and develop - Science for a good life.

BETTER AGREEMENTS AND NEW MARKETS

We work actively to ensure that the sales growth will continue. Danone plans to launch ProViva in other countries in addition to the announced re-launch in Finland in autumn 2011. In dietary supplements, I also expect that we will soon be launching other prod



under the Probi brand in the Nordic region. Since the beginning of 2011, dietary supplements with *Lp299v* are also sold in China through Biostime, a close partner to Institut Rosell. The new agreement with Rosell has enabled Probi to sell dietary supplements with *Lp299v* in China, India and South Africa through our own partners.

The US is one of our most important markets, in both food and dietary supplements, and we will make other investments in this area. Probi's products are currently marketed through three separate channels. Dietary supplements for gastrointestinal health are sold by Metagenics through "health practitioners" such as naprapaths and chiropractors and by Jarrow in health stores. GoodBelly fruit drink with *Lp299v* is sold by NextFoods in selected food stores. The largest market opportunity for dietary supplements is major pharmacy chains and large supermarkets, and a key objective for Probi is to create distribution and become a strong player in these channels.

The significance of the Swedish market continued to grow in 2010 through agreements for ProViva with Danone, a re-launch of the Bravo juice Friscus, and the launch of ProbiMage and ProbiFrisk in pharmacies and health food stores. The Swedish market is also a key test market, to see whether the launch of dietary supplements can be similarly applied in other markets. Probi's explicit goal is to base the launch of dietary supplements in Europe on the success factors of the Swedish model.

CONTINUED CHALLENGES WITH THE EFSA

The greatest challenge for the entire industry is the continued uncertainty surrounding the EFSA (European Food Safety Authority) and

health claims in Europe. The panel in the EFSA, which is responsible for assessing health claims applications, has still not submitted any positive recommendations to the European Commission in Brussels concerning probiotics. We have analysed the panel's statements and recommendations carefully during the year. The panel has made a variety of clarifications, mainly pertaining to the design and execution of clinical studies. As a result, Probi has decided to supplement its clinical data in 2011, in both gastrointestinal health and the immune defence areas, before submitting our Article 13.5 application. We are supplementing our existing trials in an effort to meet EFSA's stringent requirements with a higher degree of certainty, and give Probi the best conditions possible for success in the application process.

I am convinced that the Probi brand will continue to symbolise the best in the probiotics industry. I am delighted with Probi's excellent results in 2010, and want to thank all employees at Probi. We are driven by knowing that there is still so much to do, and that our journey has just begun. Our efforts will continue to focus on advancing Probi's position as a leader in probiotics research, and on creating a leading position in key international markets.

Michael Oredsson, CEO

HOW PROBI IS CONTROLLED

Probi has a clear strategy with the purpose of achieving the company's set objectives and, in the long-term, its vision. The business model has been adapted to the separate business areas and combines well-considered risk-taking in relation to revenue opportunities.

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

Providing probiotics with well-documented, positive health benefits for leading food and dietary supplement companies.

FINANCIAL OBJECTIVES

Probi's financial objectives apply from 2010 and for the next 3-5 years. The objectives are:

- At least 25 per cent average annual organic growth.
- A net margin exceeding 25 per cent.
- Positive Cash flow amounting to not less than 50 per cent of operating income.

STRATEGY

- Focus on probiotic-based products where Probi has world-leading, patented technology.
- Increased growth through:
 - New markets.
 - New product offerings.
 - New product formats.

GOAL ATTAINMENT 2010

Objective	Goal attainment	Comments
At least 25 per cent average organic growth.	The organic growth in 2010 was 17 per cent.	Growth in 2010 was 23 per cent, if non-recurring remuneration in 2010 and 2009 are included.
A net margin exceeding 25 per cent.	The net margin 2010 was 23 per cent.	The net margin 2010 was 17 per cent, if non-recurring remuneration and costs are excluded.
Positive cash flow amounting to not less than 50 per cent of operating income.	Cash flow of MSEK 18.1 corresponds to 100 per cent of operating income.	



BUSINESS MODEL

Probi's business model builds on revenue from licensing, sales of processed or semi-processed goods and marketing its own brands. An important part is research and development, in-house and together with partners.

Every market has unique conditions in terms of competition, population, price levels, acceptance and tradition concerning probiotics. Thus, a thorough analysis is carried out prior to every new investment. This leads to a unique market strategy for every specific market where the purpose is to optimise profitability and minimise risk.

World-class research is fundamental to Probi. Research is the foundation of the process that creates value: identifying, developing and patenting robust probiotic strains with unique and documented health benefits, and a good ability to persist in the gastrointestinal tract.

The combination of probiotics and other natural ingredients that provide unique health benefits are an important part of Probi's offering.

Probi's three separate business models are adapted to business areas, risk and opportunities:

1. Licensing model

Focused on the food market. The model is very low risk, but entails that Probi receives a limited portion of the revenue and value chain. In many cases over the years, however, Probi has received generally higher royalties than the market standard in this type of business model. Revenue streams are primarily created through royalties based on sales by distributors.

The brand for the product is owned of the partner/distributor or Probi, and the brand for the ingredients by Probi.

2. Product model

Focused on the market for dietary supplements. This model carries a low to medium-high risk and creates opportunities for higher revenue and a larger proportion of the value chain than the licensing model. Revenue streams are created through sales of ready-made products in bulk or in consumer packaging to a partner or distributor.

The brand for the product is owned of the partner/distributor, and the brand for the ingredients by Probi.

3. Consumer model

Focused on the market for dietary supplements. The model is higher risk than the other two models but creates opportunities for higher revenue and control for Probi. Revenue streams come from direct sales to pharmacies, health stores and other retail stores in collaboration with local marketers or distributors.

The brand for products is owned by Probi.

BUSINESS MODEL	REVENUE STREAM	RISK	REVENUE LEVEL	EXAMPLES OF CUSTOMERS/PARTNERS	EXAMPLES OF PRODUCTS
LICENSING MODEL	Royalties based on partners sales to retail	Low	Low	Danone Skånemejerier Institut Rosell	ProViva Friscus
PRODUCT MODEL	Sale of goods in bulk or consumer packaging	Low/Medium	Medium/High	Camox Sanum Polska Proton Systems Health World Alapis Group	Dietary Supplements for gastrointestinal health and the immune system under each distributor's brand
CONSUMER MODEL	Sale of goods in consumer packaging	Medium	High	Bringwell	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

At 31 December 2010, Probi's share capital 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 share capital was unchanged during the year. The quotient value of the share is SEK 5.

OWNERSHIP

The number of registered shareholders at 31 December 2010 was 4,201, compared with 4,463 at 31 December 2009. Of the total number of shares, institutional ownership accounts for about 68.1 per cent (65.9) of the total number of shares, private owners 31.9 per cent (34.1) and foreign owners for about 19.2 per cent (28.7). The largest proportion of shares held by foreign owners is in Europe, corresponding to 14.2 per cent (14.5) of the total number of shares. Probi's two principal owners, Consepio and Skånemejerier, control 26.2 per cent (22.3) of the votes and the capital.

SHARE PERFORMANCE

Probi's share decreased 21 per cent in 2010 and was listed at a closing price of SEK 48.70 (61.75) at year-end. The OMX General Index Stockholm PI increased 23 per cent during the year. The highest and lowest prices in 2010 were SEK 66.00 SEK (62.00) and SEK 45.00 (31.00) respectively. Probi's total market value was MSEK 456 (578) at 31 December 2010. During 2010, 3,782,008 (3,348,567) Probi shares were traded on Nasdaq OMX Nordic, corresponding to 40 (36) per cent of the total number of shares. The average turnover per trading day was 14,949 (13,341). The turnover rate or liquidity was 40 per cent (35). Over the past five years, the Probi share has had an average price increase of 15.5 per cent per year.

SHARE CAPITAL DEVELOPMENT

Event	Year	Issue price	Increase in the 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 ¹	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 ²	1998		1 006 250	5 031 250	1.00	1 006 250	5 301 250
Bonus issue 50:10	1998		7 546 875	12 578 125	1.00	7 546 875	12 578 125
Targeted issue ³	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.

DIVIDEND POLICY

The Board of Directors and the CEO propose that the 2011 Annual General Meeting approve that the company pay a dividend of SEK 1 per share (0.50), corresponding to a total dividend of MSEK 9.4, and that the remaining retained earnings of MSEK 42.9 be brought forward.

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 per cent of profit after tax.

OPTIONS PROGRAMME

Probi has no outstanding convertible loans or outstanding warrants.

INVESTOR RELATIONS

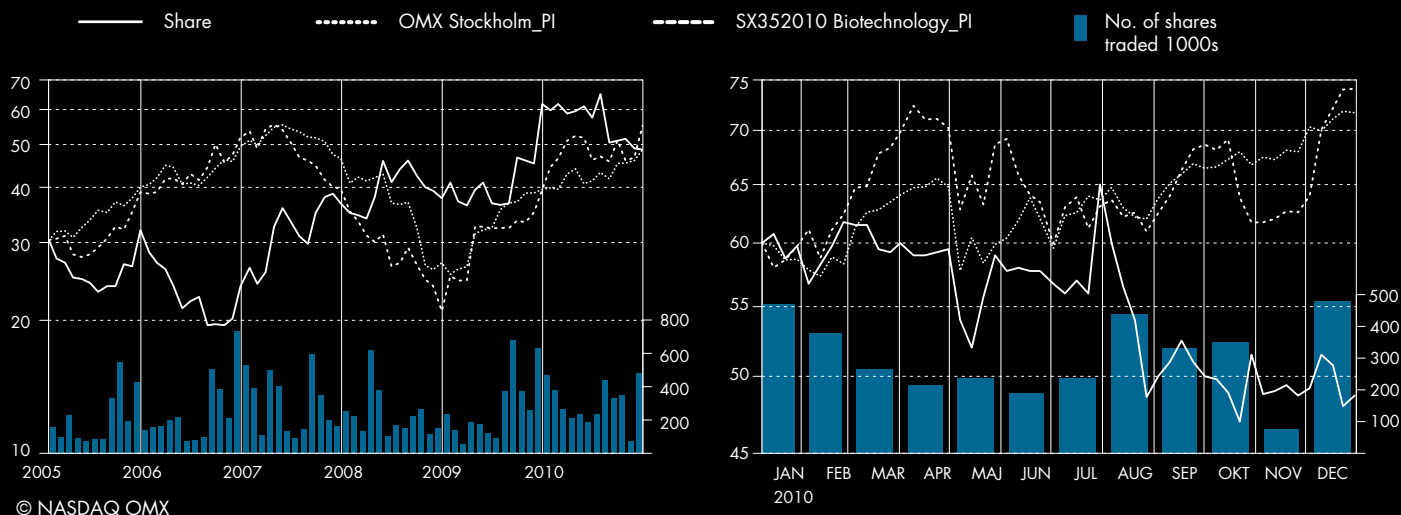
Probi's long-term and overriding goal is to create value growth for its shareholders. The company works continuously to improve the dissemination of information and to supply the capital market, shareholders, investors and other stakeholders with relevant documentation for a fair valuation of the company. The ambition is that the financial information shall be characterised by openness and relevance to increase confidence and interest for Probi's business. In January 2010, Probi's CEO Michael Oredsson received the Financial Hearing's presentation prize in Microcap. During the year, Probi has participated in Financial Hearings in Malmö and Stockholm, and at a variety of small information meetings with investors.

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PRICE TREND AND TURNOVER



© NASDAQ OMX

SHAREHOLDERS

Owner	No. of shares	Percentage of share capital and votes
Consepio	1 491 595	15.9%
Skånemejerier	966 403	10.3%
Nordea Life & Pensions	515 512	5.5%
KL Chem AB	377 832	4.0%
Göran Molin w companies	359 362	3.8%
CBJER-KBCI for H&B Capital lp	359 051	3.8%
CMU SEB	303 028	3.2%
Bengt Jeppsson	300 000	3.2%
Orkla ASA	191 837	2.0%
Sixth AP Fund	191 837	2.0%
Other	4 308 843	46.3%
Total	9 365 300	100.0%

HOLDING PER SHAREHOLDER

Share distribution	No. of shareholders	No. of shares	Proportion of shares, per cent
1-500	3 155	550 878	5.9%
501-1 000	530	420 749	4.5%
1 001-5 000	398	902 272	9.6%
5 001-10 000	59	424 654	4.5%
10 001-15 000	15	191 615	2.0%
15 001-20 000	8	142 701	1.5%
20 001-	36	6 732 431	72.0%
Total	4 201	9 365 300	100.0%

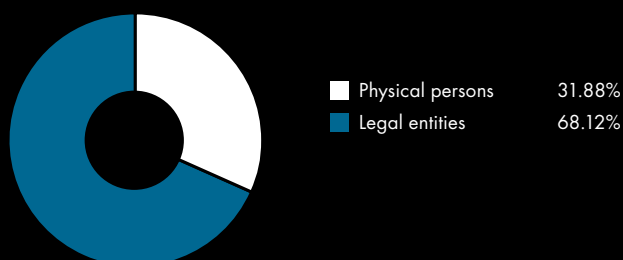
PER SHARE DATA

	2010	2009	2008	2007	2006
No. of shares on 31 Dec., 000s	9 365	9 365	9 365	9 365	9 365
Earnings per share, SEK	1.46	1.15	0.85	2.62 ¹⁾	-0.52
Shareholders' equity per share, SEK	13.13	12.17	11.03	10.17	7.55
Cash flow per share, SEK	1.93	1.11	1.49	1.39	-0.56
Closing share price on 31 Dec., SEK	48.70	61.75	37.80	36.80	23.90
Price/equity ratio, multiple	3.71	5.07	3.43	3.62	3.17
P/E ratio, multiple	33.36	53.70	44.47	14.05	neg
Dividend, SEK	1.00 ²⁾	0.50	-	-	-
Market value on 31 Dec., TSEK	456 090	578 307	354 008	344 643	223 831

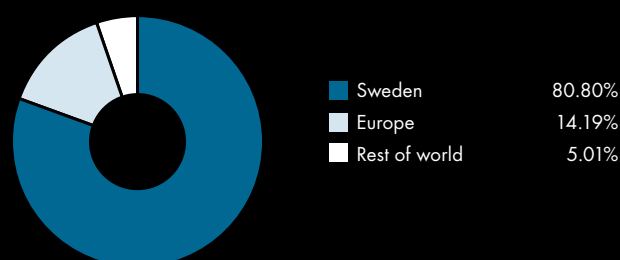
1) Earnings per share in 2007 include tax income of SEK 1.93 per share related to capitalisation of deferred tax asset.

2) The Board's proposal to the Annual General Meeting on 28 April 2011.

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



DISTRIBUTION SWEDISH - FOREIGN OWNERS (NO. OF SHARES)



CONTINUED STRONG MARKET MOMENTUM

Probiotics is one of the strongest growth areas in the global health market. Probi offers probiotics to food, self-care and pharmaceutical companies.

The global market for probiotics consists of probiotics for both humans and animals. Probi is only active in the market for humans, which is the main part of the total market. Probi has two business areas – Functional Food and Dietary Supplements.

Market growth has been strong in recent years. The latest figures from 2009 show that the global market for probiotic food is worth about USD 19 billion, with an annual growth of 5-10 per cent. The market is expected to continue growing at the same rate. The global market for probiotic dietary supplements amounted to about USD 1.8 billion, and is expected to grow by 10-15 per cent annually.

The probiotics market in dietary supplements grew 21 per cent annually in the US between 2004 and 2009, according to market research company Euromonitor. This can be compared with the general growth for dietary supplements, which was 7 per cent between 2004 and 2009 according to Euromonitor.

MARKET DRIVERS

There are a variety of market drivers, which means that the market can be expected to continue growing strongly:

- **Personal health becomes more important**
That health is one of the global mega trends is becoming increasingly clear. Our food and total nutritional intake are key factors in this trend. Preventive and individual self-care is part of modern society. Probi's research and products support each individual's opportunities to improve their own health.
- **Research into probiotics becomes increasingly widespread**
The number of published surveys on probiotics and their health benefits has increased significantly over recent years. Probi's base has always been research, and trials with the company's probiotics have been published regularly in leading scientific journals.
- **Leading physicians and scientists recommend probiotics**
Probiotics are now recommended by growing numbers of experts, in addition to food and medicines, to improve health.

Probi has also started a Scientific Advisory Board consisting of leading researchers to support Probi's research and product development in both the long and short term.

- **Consumer awareness of probiotics is growing**
According to a survey conducted by market research company Natural Marketing Institute, knowledge of probiotics has grown steadily over the years. General knowledge has increased from just nine per cent in 2002, to 49 per cent in 2009. New products, particularly products for specific problems, ages and lifestyles, are increasingly in demand by health-conscious and knowledgeable consumers.
- **Food companies see opportunities to increase their margins**
Low margins are a familiar problem for food companies. Probiotic food is a way to provide added value for consumers and increase margins. Danone's global probiotic yoghurt brands Activia and Actimel, belong to the world's largest functional food products. Probi's fruit drink ProViva, which was launched together with Skånemejerier is another very good example. Probi collaborates with well-known food companies, such as Danone, Skånemejerier and NextFoods.
- **Increased opportunities to market probiotics**
Increasingly convincing research results in probiotics also increase opportunities to market products. As the professionalism of the industry in general, and research in particular, market investments can increase. Probi has well-documented clinical studies at the same level as drug trials as one its best marketing arguments.

COMPETITORS

The global market for probiotics is relatively fragmented. The three largest players are Danish ingredients companies Chr. Hansen and Danisco, and the Canadian company Lallemand. Other players are normally small companies, which usually produce their products on a smaller scale.

Other competitors to Probi are Swedish BioGaia and Finnish Valio. Like Probi, they have a mixed business model and offer ready-made products and applications to customers.

In addition to these companies, major food companies such as Danone, Yakult and Nestlé have their own probiotics research and production of consumer products.



Senior Analyst, Healthcare at Danske Markets. Has monitored the probiotics market since 1998.

HOW WOULD YOU DESCRIBE THE PROBIOTICS MARKET?

Probiotics are here to stay. People want to eat right and stay healthy. But there are major geographical differences. The Asian and European markets are well-developed. There is still certain scepticism toward probiotics in the US, even though Activia and Actimel have introduced probiotics to a larger market.

WHAT IS YOUR OPINION OF THE GROWTH RATE?

It is worth noting that probiotics continued to grow during the financial crisis. In other words, the potential to increase sales is good. Probiotics are sold without subventions. Revenue come directly from the consumer's pocket and is thus not dependent on financial assistance from the government.

WHAT TRENDS DO YOU SEE?

New application areas such as the cardiovascular area, diabetes and gastric ulcer are generating a lot of interest. The majority of these products are in the exploratory stage. Companies conduct smaller trials and pilot studies, and products will soon appear with new indication areas such as stomach, the immune system and for children. The largest growth is in the Dietary Supplements area while Functional Food, we believe, is more saturated, even though some US markets show strong growth. In all, however, I would say that we are on the threshold of a long self-treatment trend.

WHAT THREATS AND OPPORTUNITIES DO YOU SEE?

The threats include tighter regulations and increased regulatory demands. Inertia in the regulatory framework creates frustration for many companies, while other companies see extensive documentation as an opportunity. The weight of scientific publications also increases. There is some risk for a temporary slowdown or sales stop in certain channels. But in general, the outlook for probiotics is positive in the long term.

CHALLENGES

One of the greatest challenges for all probiotic companies is the increasing regulatory demands on documentation of probiotic's health benefits.

In Europe it is primarily EFSA that is responsible for handling these issues. EFSA submits recommendations and documentation to the European Commission, which makes decisions on the health claims that will be permitted for separate food ingredients.

Another major challenge is that consumers normally have very little knowledge of probiotics. Over the next few years, a major marketing effort will be required to educate the market. This also provides a great potential since a large amount of the future growth lies in an increased understanding of probiotics' positive effects.

OPPORTUNITIES

The consumption of Probiotics is still limited in many key markets and the growth potential is thus great. The companies that combine clever marketing with high-quality research will have the best growth opportunities.

Rapid establishment in a variety of markets where probiotics are still not widespread is also a key factor. In large parts of the world, including North America and Africa, the consumption of probiotics is still low.

MOST SIGNIFICANT AGREEMENTS FOR PROBI TO DATE

At the end of July 2010, Probi and Danone announced that the companies had signed ten-year licensing agreements. "The most significant agreements in the history of the company to date," according to Probi's CEO. This is mainly attributable to the fact that a large amount of Probi's existing revenue streams have been secured for many years in the future. At the same time, there is great potential for expanding internationally and further increased revenue.

The ten-year agreements entitle Danone to use Probi's *Lp299v* bacterium and any other relevant technology in probiotic fruit drinks and fruit juices for gastrointestinal health. The agreements are global, but currently exclude for North America where Probi already has a licensing agreement with NextFoods.

Danone has also signed an agreement with Skånemejerier to acquire 51 per cent of ProViva AB, the company that markets and sells ProViva in the Nordic region. During the autumn, ProViva AB appointed a new management and Board of Directors. Probi holds an observer seat in the Board of Directors.

The agreements will continue to ensure that Probi receives very competitive royalty revenue on sales of ProViva in Sweden over the next ten years. ProViva continues to grow in the Swedish market, but the major opportunity with Danone lies in the global expansion of ProViva in line with the Swedish success model. As a first step, a re-launch is planned in Finland during the second half of 2011. Preparation for launches in new countries has also commenced.

A key factor for expansion in the EU is that the health claims for *Lp299v* and ProViva are approved by the EU Commission. Probi and Danone are now working together to achieve this approval.

Danone is one of the world's largest and leading companies in healthy food and is better prepared than any other company to repeat the Swedish success with ProViva internationally.

When the agreements became effective, Probi received a remuneration of MSEK 10 from Skånemejerier. Additional payments may be made at a later date if the health claims receive regulatory approval in Europe.



MICHAEL OREDSSON ON THE AGREEMENTS

WHY IS PROBI'S AGREEMENT WITH DANONE SO IMPORTANT?

It ensures that we now have a good agreement for ProViva in Sweden for the next ten years, and creates an opportunity for international expansion. Danone is one of the world's largest food companies and obviously the largest probiotics company.

WHY IT IS SO IMPORTANT TO HAVE AN AGREEMENT FOR PROVIVA IN SWEDEN?

Royalties from ProViva in Sweden still account for more than half of Probi's total revenue. The old agreement was only current for a few more years. The new ten-year solution with Danone thus entails huge long-term value for Probi. Probi's royalties will lie at very competitive levels for the term of the agreement.

WHAT WILL ENCOURAGE DANONE TO MAKE AN INTERNATIONAL INVESTMENT IN PROVIVA?

Approval of the health claims for Probi's *Lp299v* bacterium within the EU, through a recommendation by the EU body EFSA, will be a key factor in international investment. Probi will also receive a higher royalty rate and a non-recurring payment if the health claims for *Lp299v* are approved within the EU.

Danone will advise Probi in connection with applications for *Lp299v* health claims to the EFSA.

IS THE COLLABORATION WITH SKÅNEMEJERIER SUSPENDED NOW?

No, the collaboration with Skånemejerier has been successful and Skånemejerier will be a minority shareholder in Danone's majority-owned ProViva AB for several years. We shall also continue our entirely separate collaboration with Skånemejerier in the Nordic region, including the Bravo juice Friscus, which contains Probi's immune bacteria.



FIVE QUICK QUESTIONS TO RAMIN KHABIRPOUR, GENERAL MANAGER DAIRY CENTRAL EUROPE, DANONE

WHY ARE THESE AGREEMENTS SO IMPORTANT FOR DANONE?

Probi's *Lp299v* bacterium is one of the most well-documented bacteria in the world and ProViva is a very attractive and unique probiotic product. Through its research, Probi has shown that *Lp299v* has obvious health benefits. ProViva in Sweden is also one of the real success stories in Functional Food. We can continue to grow in Sweden, but the greatest growth potential is in new markets.

DANONE IS ONE OF THE WORLD'S LARGEST FOOD COMPANIES, AND PROBI IS VERY SMALL BY COMPARISON. HOW CAN THIS WORK?

Probi has shown what a small research-intensive company can do. We need this type of cutting-edge expertise to be able to offer consumers the best. Danone has the expertise and resources to turn ProViva into an international sales success.

YOU HAVE PREVIOUSLY PARTNERED WITH PROBI WITHOUT ANY GREAT SUCCESS. WHY WOULD IT WORK NOW?

We have decided to make ProViva part of our international strategy, and give the product a real chance in the international market. Our purchase of ProViva in the Nordic region from Skånemejerier is a demonstration of our seriousness. Danone has also decided to invest in juice and fruit drinks, so ProViva is suitable as both a part of this strategy and as a means for creating growth in probiotics where Danone is already a world leader.

WILL YOU EXPAND INTERNATIONALLY?

This is definitely our ambition and we are currently preparing for the launch of ProViva in some markets. In the EU, the possibility of receiving approval for the health claims of *Lp299v* and ProViva will play a key role. I also want to emphasise how important it will be to show that ProViva can continue growing in Sweden where we now have a new organisation with more resources in place.

WHAT COUNTRIES WILL YOU BE LOOKING AT INITIALLY?

We are looking at a variety of countries, but for competitive reasons I would rather not name the first markets as yet.



DANONE IN BRIEF

Danone was founded by Isaac Carasso in 1919, and originally produced yoghurt in a small factory in Barcelona. Since then, the company has grown into one of the world's most successful dairy companies, with a mission to bring health through food to as many people as possible. Success in this area is the prime contributor to Danone's growth. Two of Danone's most well-known brands are Activia and Actimel. Danone is mainly recognised for its dairy products but is also active in other food areas, including water and nutrition. In packaged water, the company owns the world-famous brands Evian, Aqua and Volvic. The company has 160 plants, about 80,000 employees and is represented in more than 120 countries. In 2009, Danone had sales of about EUR 15 billion. The head office is in Paris. Read more at www.danone.com

FUNCTIONAL FOOD BUSINESS AREA

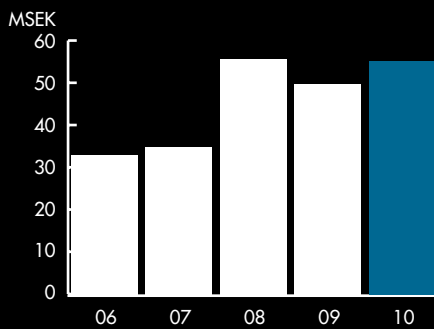
EXAMPLES OF CUSTOMERS:

- Danone
- Skånemejerier
- NextFoods

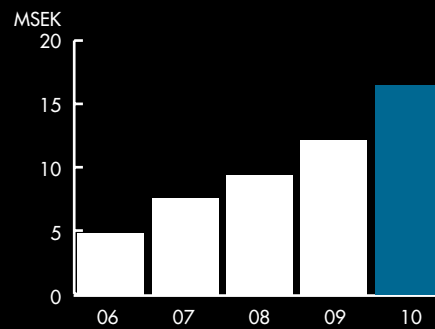
IMPORTANT EVENTS:

- 10-year licensing agreement with Danone
- Increased investment in the Bravo juice, Friscus

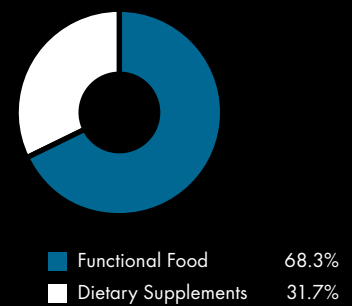
NET SALES



OPERATING INCOME



REVENUE PER BUSINESS AREA



AGREEMENTS WITH DANONE A MILESTONE FOR PROBI



Functional Food is Probi's largest business area and accounts for 68 per cent of net sales, corresponding to MSEK 55. In this business area, food is developed that provides health benefits in addition to the normal nutritional value of the products. Production takes place in collaboration with food companies in order to commercialise and market the products.

HIGHLIGHTS 2010

The decisive event for the business area during the year was the licensing agreements with the global food company Danone. The agreements, which are Probi's most important to date, secure revenue from ProViva in Sweden for the next ten years. The agreements also provide opportunities for international expansion.

In autumn 2010, Skånemejerier made a major investment in Friscus, the new Bravo juice that was launched in 2009. The product is based on Probi's successful research and clinical studies and has documented beneficial effect on the immune system. The re-launch of Friscus in autumn 2010 has entailed a clearer positioning of Friscus, including an extensive TV campaign. The packaging design has also been developed to promote the health message, differentiate the product from the rest of the Bravo range and increase visibility on the shelf.

SALES

Net sales in Functional Food amounted to MSEK 55.0 (49.5). Excluding remuneration from Skånemejerier in 2010 and Kraft in 2009, net sales in Functional Food increased by MSEK 0.9 or 2 per cent. Royalty revenue from Skånemejerier and ProViva AB increased 13 per cent during the year. In conjunction with this increase, royalty revenue from NextFoods decreased.

Probi had guaranteed royalty revenue from NextFoods in 2008 and 2009 but from 2010, the revenue are based on their sales to retail.

OPERATIONS AND ORGANISATION

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

Within Functional Food, Probi focuses on licensing both bacteria and separate product solutions for food applications together with partners. These partnerships create opportunities for new products and increased sales volumes.

In this business area, Probi works together with leading food companies such as the French company Danone, Skånemejerier in Sweden and NextFoods in the US.

The key factors for success in this business area are to continue developing the existing product range together with current customers, and to produce new products together with new customers.

In recent years, Probi has created growth with both existing and new customers. ProViva has developed positively, and a variety of new flavours have been produced. The launch of the Bravo juice, Friscus, in collaboration with Skånemejerier is unique because of its clinically documented effect on colds and its formulation, which combines probiotics and pure fruit juice without adding water. A variety of probiotic fruit drinks under the GoodBelly brand have also been produced in collaboration with NextFoods for the US market.

MARKETS AND COMPETITORS

Sweden remains Probi's dominating market in Functional Food, and the royalty revenue from ProViva constitutes the largest portion of the total revenue.

The food market for probiotics continues to show a positive trend with a growth of 5-10 per cent. The degree of maturity varies significantly between markets. In Asia, Japan and South Korea are very well-developed markets, while other countries have considerably lower consumption per capita. In North America, there was virtually no probiotic food five years ago. In recent years, Danone has created a market for probiotic yoghurt, which is expected to continue growing. In Europe, sales is at a relatively high level and continue to grow. The market's main drivers are consumers' constantly increasing demand for healthy products, and food companies' increasing range of products with good margins, which satisfies this demand. The leading companies in probiotic food are Danone, Yakult and Nestlé.

PRODUCTS

Product development is constant in the Functional Food business area, and ProViva is a prime example. The ProViva range now comprises more than ten flavours in various product formats.

Consistent development of the range is one of the key factors behind the sales success.

EXAMPLES OF CONSUMER PRODUCTS BASED ON PROBI'S BACTERIA

BRAND	PARTNER/ DISTRIBUTOR	MARKETS
Friscus	Skånemejerier	Sweden
GoodBelly	NextFoods	US Canada
ProViva	Danone	Nordic region

4 QUICK QUESTIONS TO JOHAN WAHLQVIST



Marketing and sales manager, Functional Food

HOW WOULD YOU DESCRIBE 2010?

2010 was an incredibly exciting and successful year. The agreements with Danone were the highlight, and the increased focus on Friscus was also positive.

WHAT DO YOU PREDICT FOR THIS BUSINESS AREA IN 2011?

The most important factor will be the business development together with Danone. The potential is enormous. The health trend is so strong that I see good opportunities with a variety of other partners and customers.

WHAT ARE THE GREATEST RISKS AND OPPORTUNITIES IN THIS BUSINESS AREA?

EFSA and their high standards for the approval of health claims is obviously the greatest challenge for the entire industry. No positive recommendation for probiotic products has been given so far, which creates a measure of uncertainty in the market.

WHAT IT IS BEST TO WORK IN THIS BUSINESS AREA?

In a year like 2010, when everything went Probi's way, it is difficult not to feel satisfied and glad. As our products also contribute to consumer health and wellbeing, the results are even more pleasing.

CUSTOMER CASE: FUNCTIONAL FOOD



RE-LAUNCH STRENGTHENS THE FRISCUS BRAND

In autumn 2009, Skånemejerier launched Bravo Friscus, the world's first 100-per cent juice with Probi's bacteria combination, *Lactobacillus plantarum* HEAL9 and *Lactobacillus paracasei* 8700:2, with a documented effect on colds.

After a successful but turbulent start, with questions surrounding how communication to consumers would be handled, Skånemejerier decided to re-launch the product one year after its initial market introduction.

CHALLENGE

Skånemejerier chose to carry out the launch under Sweden's strongest brand in the juice category, and the challenge lay in how to communicate that the juice contains an active bacteria culture, and the clinical effect of the culture. Current legislation prevents consumers from sharing the results of clinical studies on product packaging or any other communication.

SOLUTION

In autumn 2010, Skånemejerier chose to distinguish Bravo Friscus from Bravo's normal juice range and re-launch the probiotic juice in a new, specially designed package with

Friscus as the most prominent brand. The starting point for the re-launch campaign was the health benefits that have been proven in clinical studies. This investment was one of the largest ever made by Skånemejerier.

RESULTS

The re-launch of Friscus took place in autumn 2010, and sales effects have already been positive. Volumes have increased by more than 50 per cent. The new concept was found to have high acceptance among consumers.



"The secret lies in the uniqueness of Friscus. This is obviously a product that everybody wants to know about and it has great potential. Fully in parity with ProViva," says Bo Öhman, Brand Manager for Friscus at Probi's partner, Skånemejerier.

DIETARY SUPPLEMENTS BUSINESS AREA

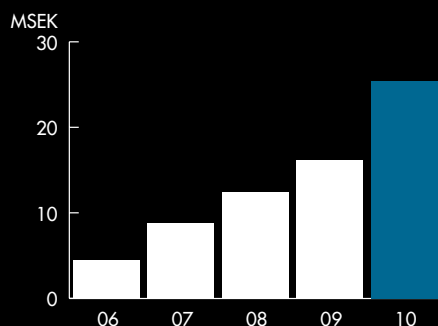
EXAMPLES OF CUSTOMERS:

- Institut Rosell, France/Canada
- Bringwell, Nordic region
- Camox Pharmaceuticals, South Africa
- Proton Systems, Serbia
- Sanum Polska, Poland
- Metagenics, US
- Health World, Australia
- Alapis Group, Greece

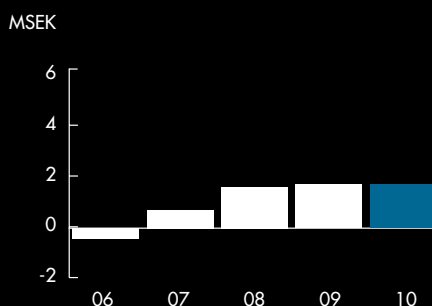
IMPORTANT EVENTS:

- Launch of our own brands ProbiMage and ProbiFrisk in Sweden
- A distribution agreement with Camox Pharmaceuticals, South Africa in relation to gastrointestinal health and the immune system
- Agreement with Merck KgaA in Latin America in relation to dietary supplements for gastrointestinal health
- A distribution agreement with Alapis, Greece in relation to dietary supplements for the immune system
- New long-term agreement with Institut Rosell

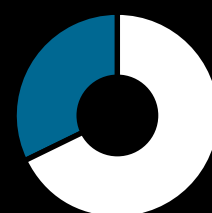
NET SALES



OPERATING INCOME



REVENUE PER BUSINESS AREA



Functional Food 68.3%
 Dietary Supplements 31.7%

FAST BREAKTHROUGH FOR OWN BRANDS



The Dietary Supplements business area accounts for 32 per cent of net sales, which corresponds to MSEK 25.4. In this business area, Probi's probiotics are marketed together with pharmaceutical companies, and companies specialised in dietary supplements. Dietary supplements with probiotics are used as a complement to a normal diet.

HIGHLIGHTS 2010

The launch in Sweden together with Bringwell/Green Medicine is the most significant event during the year for this business area. Probi's own products ProbiMage, for gastrointestinal health and ProbiFrisk, which strengthens the immune defence, was launched in spring 2010. The launch was made in pharmacies and health stores in Sweden.

Only six months after the launch, the products had taken a leading position in the Swedish probiotics market.

The outlook for sales was exceeded, and the total sales for products finished at almost MSEK 8 in 2010.

This is the first time that Probi has ever launched its own brands aimed directly at consumers. The marketing focuses on strong scientific evidence, and gives Probi a unique market position.

In 2011, ProbiMage and ProbiFrisk will be launched also in Finland and Norway. The products will be launched throughout the entire Nordic region by 2012. Due to the success of the launch in Sweden, Probi is also looking at opportunities to introduce a similar business model in other European markets outside the Nordic region.

1 December 2010, a new long-term agreement was signed with Institut Rosell for dietary supplements based on Probi's *Lp299v* bacterium. The new agreement replaces a seven-year old agreement, which constitutes the basis for about 20 per cent of Probi's total sales. The new agreement will initially apply for seven years. Probi will receive several new opportunities, especially higher product margins and greater opportunities to make their own distribution agreements or launch dietary supplements for gastrointestinal health on its own in large parts of the world. The agreement is expected to give a positive earnings impact for Probi already by the second

quarter of 2011. Two significant agreements were also signed for major markets in this area in 2010. The first in Latin America with global pharmaceutical company Merck, the second in South Africa with Camox Pharmaceuticals. The collaboration with Camox was expanded during the fourth quarter of 2010, when a new agreement was signed for the launch of two new products based on *Lp299v* during the first half of 2011.

SALES

In 2010, net sales in this business area increased by 59 per cent to MSEK 25.4 (16.2). This was mainly attributable to the launch of ProbiMage and ProbiFrisk in partnership with Bringwell/Green Medicine.

OPERATIONS AND ORGANISATION

Dietary Supplements is one of Probi's two business areas.

Within Dietary Supplements, Probi works to create growth for its stomach and immunology products together with partners that hold a strong local market position. The ambition, to an increasing degree, is to identify collaborative models in key markets that will give Probi a higher proportion of the value chain, and strengthen Probi's control of the business. Probi currently has agreements in more than 40 countries throughout North and Latin America, Europe, Australia, Asia and South Africa.

In this business area, Probi works together with several leading pharmaceutical and health companies, such as Institut Rosell, Merck, Bringwell/Green Medicine and Camox Pharmaceuticals.

The key factors for success in this business area are continued development of the existing product range in new and existing markets, and the development of new products.

In recent years, Probi has achieved success with both *Lp299v* for gastrointestinal health, and the new product for the immune system. ProbiFrisk, a product based on Probi's well-documented clinical studies on colds and the immune system, was launched in Sweden in 2010 in partnership with Bringwell/Green Medicine.

MARKETS AND COMPETITORS

Sales in the Dietary Supplements business area are distributed between a large number of markets. Sweden is the largest individual market and accounts for more than 30 per cent of the total sales in this business areas.

Outside of Sweden, Australia and France are Probi's largest individual markets for dietary supplements.

During the year, Probi signed an agreement to launch the immunology products in the South African market in collaboration with Camox Pharmaceuticals. In a relatively short period of time, this market could contribute to considerable growth for Probi.

The total market for Dietary Supplements continues to show a positive trend with a growth of 10 to 15 per cent. In much the same way as the food market, this trend is driven by growing consumer interest in improving one's own health. The market is fragmented with a large number of players and a few well-known brands.

Probi's competitors are both local and international players. Large companies in the global market for probiotic consumer products include Sanofi-Aventis, Taisho Pharmaceutical, Merck KgaA and Novartis.

EXAMPLES OF PRODUCTS BASED ON PROBI'S BACTERIA

BRAND	PARTNER/DISTRIBUTOR	MARKETS
ProbiFrisk ² ProbiMage ²	Bringwell/Green Medicine	Sweden
Ideal Bowel Support	Jarrow Formulas Inc ¹	USA
Tuzen	Ferring Inc ¹	Canada
Bion Transit	Merck S.A. ¹	Chile, Belgium, France
SanProbi	Sanum Polska	Poland
IBS Support Probex	Health World	Australia/ New Zealand
Protransitus	Laboratorios Salvat ¹	Spain
Flobion	Proton Systems	Serbia, Balkans
IBS299v	Bioslime ¹	China
Darolac	Aristo Pharmaceuticals ¹	India

1) Comprises Probi's partnership agreement with Institut Rosell
2) Brands owned by Probi

4 QUICK QUESTIONS TO NIKLAS BJÄRUM



Vice President of Marketing and Sales

HOW WOULD YOU DESCRIBE 2010?

We took a major step forward by carrying out a launch together with Bringwell. Having our own consumer brands is both stimulating and promising for the future.

WHAT DO YOU PREDICT FOR THIS BUSINESS AREA IN 2011?

Customers are obviously more hesitant after the financial crisis. However, the health trend has compensated for weak economic development. If concerns about the economy continue to wane, this will provide a further boost.

WHAT ARE THE GREATEST RISKS AND OPPORTUNITIES IN THIS BUSINESS AREA?

Opportunities lie in the fact that most remains undone. Many markets with high potential are almost undeveloped. The EFSA process still poses the greatest risk.

WHAT IS BEST ABOUT WORKING IN THIS BUSINESS AREA?

Few people have the opportunity to follow a product from the first few steps in the research stage to standing on the shelf under Probi's own brand. It was obviously a highlight when that happened in Sweden with ProbiMage and ProbiFrisk.

CUSTOMER CASE: DIETARY SUPPLEMENTS



FROM LAUNCH TO MARKET-LEADING POSITION IN SIX MONTHS

The launch of ProbiMage and ProbiFrisk exceeded forecasts by a wide margin. The start was slow, since the launch took place amid an ongoing deregulation of the pharmacy monopoly. However, sales accelerated after the summer and the new products succeeded in renewing the market, increased sales throughout the entire segment and became market-leading within just six months.

CHALLENGE

The major challenge lay in launching two probiotic dietary supplements in a market with low growth that already offered a large number of probiotics products. The launch also coincided with the deregulation of the Swedish pharmacy monopoly.

SOLUTION

An important part of the strategy was to support the product positioning with Probi's world-leading research and clinical documentation. The enthusiasm that Green Medicine, Probi's partner, brought to pharmacies and health stores was contagious, and belief in the products increased by training pharmacy employees and through powerful marketing material.

RESULTS

After just three months, ProbiMage was a major seller and also ProbiFrisk was well established. Sales have continued to lie at a high level throughout the autumn and winter.



"The success lies in active products with strong clinical documentation, combined with a heavy launch based on PR, newspaper ads and TV promotion. Customers are satisfied. Every day, we receive positive feedback from consumers who have been helped. Working with Probi is also stimulating. The company combines quality research with creative market thinking," says

Tom Johnsson, founder of Green Medicine, which in partnership with Probi is responsible for the successful launch of ProbiMage and ProbiFrisk.

RESEARCH AND DEVELOPMENT



Probi's base and origin is research. The company's success builds on 25 years of research into probiotics, and Probi's motto – Science for a good life – underpins the company's roots in research.

Probi's earlier, pioneering work in the late 1980s focused on identifying bacteria strains with combined robustness and efficiency. This laid the foundation for Probi's commercial platform which has since been supplemented by more than 50 clinical studies.

Probi conducts research and clinical studies in three areas: gastrointestinal health, the immune system and the metabolic syndrome.

In 2010, the company started a large, new clinical study on the metabolic syndrome, a generic term for a variety of health problems in the cardiovascular field, type 2 diabetes and obesity. These are

usually termed lifestyle diseases. Probi also completed a major clinical study of *Lp299v* in India with very good results in early 2010. The study comprised a total of 214 human subjects with diagnosed Irritable Bowel Syndrome (IBS), who received either capsules with *Lp299v*, or placebo capsules. The results of the study are very positive and show a significant improvement in several typical IBS symptoms in the *Lp299v* group compared with the placebo group. The results also support Probi's scientific evidence that *Lp299v* is a very effective probiotic bacterium for people who suffer from stomach problems.

In addition to research into new areas such as the metabolic syndrome, Probi also conducts in-depth research into existing bacteria and products. New regulatory requirements demand deeper research and more studies.

RESEARCH AND CLINICAL STUDIES AT PROBI

Probi has three in-house project managers who lead separate research projects and clinical studies. Probi conducts most of its research in collaboration with various partners such as universities, Contract Research Organisations (CRO) or customers.

Probi currently has the capacity to conduct two large studies per year in-house. This corresponds to approximately one full-time position per study and year, including support functions.

In partnerships with a CRO, Probi is responsible for the objectives and strategy prior to a clinical study. This means that the company sets the benchmarks for the study protocol, such as measurement parameters, dosage, human subject profile and the length of the study. The task of implementing the study and reporting the results is assigned to the CRO, as is recruiting and monitoring the human subjects and distributing the test products.

A study involving about 200 people with a treatment phase of three months takes about one year for Probi to implement. This includes preparations, approval from the ethical committee, inclusion time (the time it takes to recruit all human subjects) and then compiling the results of the study in a written report.

METABOLIC SYNDROME – THE PROMETA PROJECT

Metabolic syndrome is an umbrella term for a variety of risk factors that can cause cardiovascular disease. Risk factors include high blood pressure, high levels of triglycerides, low levels of HDL (the good cholesterol), high fasting glucose and a waist circumference exceeding 102 centimetres for men and 88 centimetres for women. A patient with more than three of these five risk factors is considered to have the metabolic syndrome. Many people today are unaware of the risk factors, and may not discover them until too late. High blood pressure over a long period of time, for example, can have serious effects on the heart and kidneys.

One of the most common symptoms of the metabolic syndrome is high blood pressure. One fourth of the adult population in Sweden suffers from high blood pressure, and one million people are medicated for an annual cost of SEK 2.5 billion. For many people, dealing with medication is difficult due to a variety of separate factors that influence their dosage and other medications.

Probi has chosen to study the antihypertensive effects of probiotics. There is a need for food products that can prevent high blood pressure or, alternatively, that help to lower high blood pressure. The advantage of food products is that they carry none of the side-effects that are associated with most medicines. A few foods in retail have antihypertensive effects, from Valio and Yakult, but these are based on milk peptides. There are no probiotic food products at present with the same remuneration.

Probi is now conducting research to produce a probiotic food product that can help to reduce blood pressure by influencing intestinal flora. The in-house pilot study carried out by the company in 2010 shows positive effects on not less than three symptoms in the metabolic syndrome: blood pressure, high triglycerides and low HDL (good) cholesterol. There is no equivalent in the pharmaceutical industry; a combination of medications is most common.

Probi has just commenced the first of two large planned studies. The coming study is double-blind and placebo-controlled. The recruitment of patients has started and the results are expected in 2011. The study is carried out in collaboration with Skåne University Hospital (SUS) in Malmö, which handles the administration and operational implementation.

Probi's objective is that the study will produce positive results, which can then underlie the development of a food product that counteracts the metabolic syndrome and, more specifically cardiovascular disease. Assuming that the ongoing study leads to the anticipated results and that the next large study confirms the positive clinical effects, a new product may arrive by 2013 at the earliest.

EFSA

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

Despite continued and general uncertainty surrounding the EFSA's requirements in regard to clinical documentation, the situation became somewhat clearer in 2010. The authority defined some of the requirements for clinical documentation in Probi's key areas: gastrointestinal health and the immune system.

Due to this information, Probi decided to postpone the submission of its applications and to conduct additional clinical studies in both the gastrointestinal and the immune areas in 2011, with the intention of satisfying the newly-defined EFSA requirements with a higher degree of certainty. Thus, Probi's applications will not be submitted until the end of 2011 or early 2012.

FROM RESEARCH TO PRODUCT

The following is a brief description of Probi's research process, from discovery to product:

1. Through a screening procedure in the discovery phase, bacteria is isolated from humans. This is an experience-based science, where the company is looking for robust bacteria with unique health properties that can be grown outside the human body, characterised and defined.
2. In the first pre-clinical studies, an opinion is formed about the bacteria's effects and the mechanisms that cause these effects.
3. Probi conducts a Safety Assessment, where the bacterial antibiotic resistance and ability to survive in blood are identified.
4. Pilot studies are conducted with humans, which entail a small study with 15 to 30 individuals. The results of these studies are rarely statistically significant, but they indicate whether the product is effective for humans. If the results are positive, product development usually begins directly after the pilot study.
5. Large clinical studies are conducted to demonstrate the positive health effects and produce statistically significant results. A bioanalyst establishes the number of human subjects required for the study through a sample-sizing procedure. An application for the study is then submitted to an ethical committee, which consists of a group of experts in clinical trials. The committee considers whether the implementation of the study is ethically acceptable and, provided that they do not object, gives a positive signal and the study can go ahead.
6. Product development is completed, provided that the study gives the expected results. Taste, format and production costs are key concepts in this process.

3 QUICK QUESTIONS TO NIKLAS LARSSON



Research manager

HOW WOULD YOU DESCRIBE 2010?

In addition to our successful pilot study of the metabolic syndrome, and the steps we took to move this project forward, I am very satisfied with the support we receive from our Scientific Advisory Board, which was established during the year. We have also adapted our research facilities to application development, which will raise the efficiency and the quality of our in-house work.

WHAT DO YOU PREDICT FOR R&D IN 2011?

I believe that the interest in probiotics will grow in pace with new research that shows the health benefits of probiotics. A joint project between the EU and the US, which aims to identify the human microflora, will probably lead to new indication opportunities if it appears that new probiotic bacteria can be grown outside the human body.

WHAT ARE THE GREATEST RISKS AND OPPORTUNITIES FOR R&D?

The EFSA is still a major concern for the industry in that the same requirements now apply for both food and pharmaceuticals. This affects development worldwide, not only in Europe.

A positive sign for our business is that a variety of new players, primarily CRO companies, with a focus on studies in functional food and dietary supplements are establishing themselves in the market. This raises the quality of studies in the industry and increases competition.

SCIENTIFIC ADVISORY BOARD



From left: Göran Molin, Jan Nilsson, Bengt Jeppsson and Åke Lernmark. Hans Wigzell was absent when the photo was taken.

In 2010, Probi established a Scientific Advisory Board. The purpose of the Board is to advise Probi's Board of Directors and management in research-related matters based on the company's existing research portfolio, and provide recommendations for future research.

The Board has a broad spectrum of expertise, with representatives from a wide range of research disciplines relevant to probiotics.

THE BOARD COMPRISES:

- Jan Nilsson, Professor in Experimental Cardiovascular Research at Lund University (Chairman)
- Hans Wigzell, Professor Emeritus in Immunology, Karolinska Institutet
- Åke Lernmark, Professor in Experimental Diabetes Research, Lund University
- Göran Molin, Professor in Applied Nutrition and Food Chemistry, Lund University
- Bengt Jeppsson, Professor in the Surgical Faculty, Lund University

RISKS

All businesses must be able to manage risks successfully in order to achieve set objectives. This means preventing or minimising the negative impacts that risks can entail, while accounting for the costs that are associated with risk management.

Probi is exposed to different types of risks through its business operations. Work is conducted continuously within the company to identify and evaluate these risks. This has resulted in a Risk Management Policy that is updated at least once a year. Probi thus has a clear picture of what the risks are and how they can be managed to minimise the negative effects on the company's business and development.



OPERATIONAL RISKS

RISK	EXPOSURE
Agreements with selected strategic partners	Probi has agreements with a number of selected partners, which are expected to contribute to increased revenue in the future. The termination of one or more of these partnerships 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 real threat to market growth.
Regulatory risks	Requirements and regulations regarding the use of health claims are constantly being made more stringent. Since 1 July 2007, nutritional and health claims have been regulated by an EU directive (1924/2006) that applies in all EU countries. This means that all applications for new health claims must be approved by the EFSA (European Food Safety Authority). The EFSA has thus far adopted a very restrictive position in regard to the approval of health claims. This applies to all types of food-grade health products. Up until 2010, 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.
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. Thus, it is vital that granted patents can be maintained and that newly developed products and applications can be patented. In addition, there is always a risk that disputes concerning patents and other intellectual property rights are initiated both by and against Probi. This type of dispute would have a negative impact on the company.
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 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 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 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. If opportunities for faster growth arise, through strategic acquisition 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.

EMPLOYEES

Probi's organisation and employees are characterised by the development that the company has undergone during recent years. Probi started as a dedicated research company and achieved its commercial breakthrough in 2008. This trend continued over the following years with the launch of Friscus, ProbiFrisk and ProbiMage, and the new agreements with Danone. Research still constitutes the foundation of the business but in recent years, Probi has increasingly shifted its resources to product and application development, and marketing and sales.

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 has significant development potential. Working with products that enable people to improve their health and well-being is both stimulating and entails responsibility. Probi's business builds on four distinct values that in combination provide a platform for the company, the business concept and development.

Knowledge and expertise

Probi engages partners, customers, consumers and employees through knowledge and expertise.

Dedication

Working with health products at Probi entails a great deal of responsibility and more-than-average dedication.

Credibility

Being credible at all levels is fundamental to Probi being the natural choice for partners, customers and consumers.

Curiosity

Probi is the result of a research discovery. Curiosity is a driving force for the company. Probi is always willing to try new approaches, in research and development as well as in the market.

FLEXIBLE AND INNOVATIVE ORGANISATION

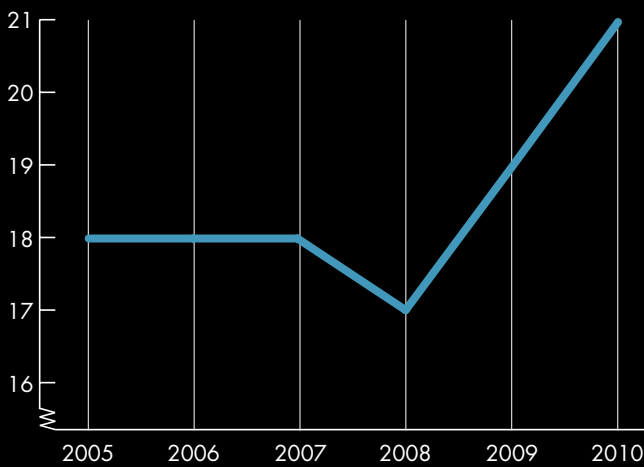
Probi's business model builds on networks and partnerships with a variety of players: customers, partners, research institutions and universities.

The network, where business partners are responsible for various components such as marketing, sales and distribution, creates opportunities for using a small, flexible and innovative organisation more effectively. The organisation is characterised by openness, efficient decision-making and an entrepreneurial spirit.

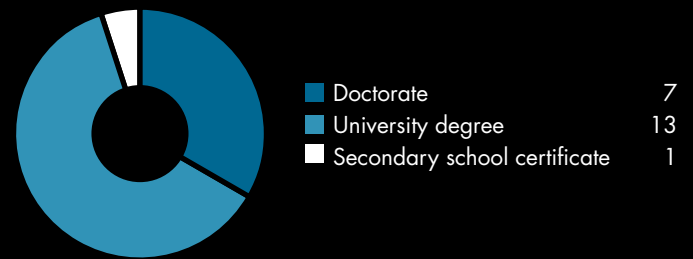
Probi has two business areas: Functional Food and Dietary Supplements. A robust research and development department supports both of these areas. The management consists of three people: the CEO, CFO and Vice President of Marketing and Sales.

Each business area has a marketing and sales manager with a separate budget. Probi's research- and development organisation is led by a research manager. Research maintains close links with the market due to a dedicated product and application development team with responsibility for developing research results into commercial products.

AVERAGE NUMBER OF EMPLOYEES



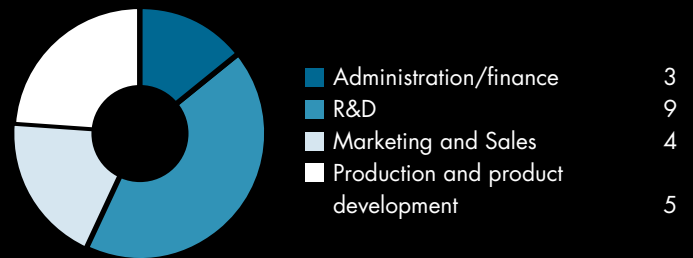
HIGHEST LEVEL OF EDUCATION



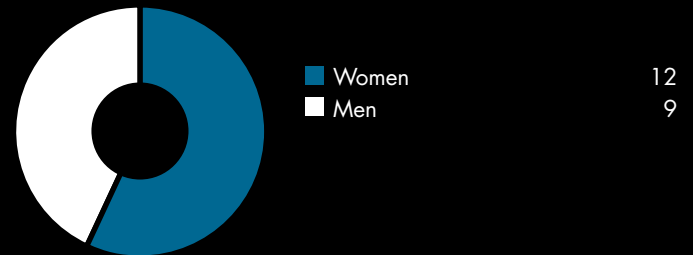
ABSCENCE DUE TO ILLNESS

Total absence	1.0%
Of which more than 60 days of total sick leave	0.0%

EMPLOYEES DISTRIBUTED BY FUNCTION



GENDER DISTRIBUTION



EMPLOYEE PROFILE:



IRINI LAZOU-AHRÉN

Irini Lazou-Ahrén holds a PhD in medical microbiology and has worked at Probi since 2007 where she is a researcher and project manager for the ProMeta project, Probi's research project related to the metabolic syndrome. Irini has primary responsibility for leading the project. This entails conducting clinical studies, including organising preparations and identifying partners. The positive results of the pilot study in 2010 have been instrumental in continuing the project. We have now commenced the first of two large clinical studies.

"The advantage of working in a small organisation is that I work close together with other people who are involved in R&D. Sharing knowledge becomes a natural process – I can contribute with my immunological knowledge while learning new things from my colleagues," says Irini Lazou-Ahrén.

PROBI AND THE ENVIRONMENT

Probi's mission is to provide consumers the world over with the opportunity to improve their health through clinically tested, effective probiotics. This focus on people's health and well-being makes it second nature for us to work actively for a better environment and sustainable development and to integrate this work into our daily business. Environmental adaptation is gradual, and both the large and small daily changes add up to results in long-term environmental work.

ENVIRONMENTAL STUDY 2009

During 2009, Probi conducted an environmental study with the help of an external party. The objective of the study was to identify, quantify and evaluate the company's direct and indirect environmental impact. The environmental study showed that the environmental impact from Probi's business is limited. The company has no large-scale production and only produces natural raw materials for the food industry. Probi's laboratory operations consume chemicals and disposable items to a limited extent, and both production and laboratory operations generate waste. Probi's business is international which entails business travel, mainly by air. Four environmental aspects that are important for Probi's business have been identified and these have laid the basis for continued environmental work:

- Business travel
- Waste management
- Energy consumption
- Use of chemicals

The environmental study also included an extensive review of the environmental regulatory requirements that apply for Probi's business. In this context, it was found that Probi's management of chemicals complies with the applicable laws and regulatory frameworks in regard to storage and waste management. All drains in Probi's production and laboratory facilities are chemical drains that go to a neutralisation facility for the entire property where the business is conducted. Probi's business does not require a permit according to the Environmental Code.

ENVIRONMENTAL POLICY AND MANAGEMENT SYSTEM

In 2010, Probi adopted an environmental policy and established an environmental management system that describes how continued environmental work shall be pursued. The environmental management system was produced in collaboration with an external consultant and is based substantially on ISO 14001. This system is not certified. All employees have received training in the environmental management system and also participated in seminars on the greenhouse effect and its impact.

ENVIRONMENTAL OBJECTIVES

The environmental management system contains objectives in three focus areas:

- Greenhouse emissions from business travel will be reduced
- Waste volumes will be reduced
- Energy consumption will be reduced

Examples of milestones in these areas are:

- Short air travel will be reduced by 20 % by the end of 2012
- The volume of expired chemicals that are thrown away will be reduced by 30 per cent annually
- The consumption of photocopying paper will be reduced by 10 per cent annually
- 90 per cent of all office electronics will be eco-labelled by the end of 2011
- Company cars will be green cars before the end of 2011, in line with the Swedish Tax Agency's definition and/or in compliance with the limits for fuel consumption and carbon dioxide emissions set out in the vehicle policy

Zero measurements were made for each milestone in 2010 and regular monitoring commenced. One person in the organisation is responsible for every milestone.

ENERGY SAVINGS 2010

Probi conducts its operations in rented premises. The electricity supplied by the landlord is 100 % renewable, a combination of water and wind power. In 2009 and 2010, Probi premises were renovated. In connection with this, office spaces were equipped with absence-controlled lighting, and waste sorting was introduced in offices, laboratories and production.

CLIMATE AND ENERGY ALLIANCE IN LUND

Since the beginning of 2010, Probi has taken part in the Climate and Energy Alliance in Lund. This is a collaboration between Lund Municipality and about 20 small and medium-sized companies in the region that work actively with climate issues. The overriding aim of the operation is that the participating companies will reduce their greenhouse emissions over time. The collaboration is pursued in network format, where companies share their experiences and gain new knowledge in the climate and energy area.

FIVE-YEAR SUMMARY



TSEK	2010	2009	2008	2007	2006
Income statement in summary					
Total operating revenue	81 127	66 230	69 362	44 656	38 417
Total operating expenses	-63 030	-52 421	-59 123	-39 474	-43 824
Operating income	18 097	13 809	10 239	5 182	-5 407
Income after financial items	18 709	14 662	12 426	6 427	-4 834
Income for the year	13 661	10 751	7 995	24 528	-4 834
Equity	122 985	114 007	103 256	95 261	70 733
Cash and cash equivalents	89 762	71 707	61 342	47 420	34 436

Key ratios	Definition	2010	2009	2008	2007	2006
Equity/assets ratio, %	1	91.0	94.0	92.6	91.9	85.9
Debt equity ratio, %	2	0.0	0.0	0.0	0.0	5.1
Return on capital employed, %	3	16.0	14.3	12.5	7.6	-6.1
Return on equity, %	4	15.8	13.5	12.5	7.7	-6.6
Acid-test ratio, %	5	865	1 152	870	645	589
Share of research costs in operating revenue, %		19	22	25	31	40
Average number of employees		21	19	17	18	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 constantly looking for new opportunities all over the world, and continue to develop our international range.

 Probi is represented





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 2010. Address: Ideon Gamma 1, SE-223 70 Lund.

Probi's shares are listed on the Nasdaq OMX Nordic Exchange 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 Dietary Supplement business areas.

SIGNIFICANT EVENTS

In 2010, Probi signed ten-year licensing agreements for ProViva with the French company Danone. These licensing agreements secure continued and competitive royalty revenue from ProViva sales in Sweden over the next ten years. The agreements also provide an opportunity to launch ProViva internationally in collaboration with Danone, the world's leading probiotics company.

The agreements are global but currently exclude North America, where Probi already has a licensing agreement with NextFoods. As a first step in Danone's investment in ProViva, a re-launch is planned in Finland in the second half of 2011. Probi received a remuneration of MSEK 10 from Skånemejerier when the agreements became effective, which was recognised in 2010.

In 2010, Probi's dietary supplements were launched under the Probi brand for the very first time. ProbiMage (for gastrointestinal health) and ProbiFrisk (for the immune system) were launched in pharmacies and health food stores in the Swedish market in collaboration with Bringwell. The products claimed a leading market position for probiotic dietary supplements in the year they were launched, and generated revenue of almost MSEK 8 for Probi.

In 2010, Probi decided to conduct additional clinical studies into gastrointestinal health and immunity. This was aimed at meeting the requirements for clinical documentation with a higher degree of certainty, which have now been defined more precisely by the European Food Safety Authority (EFSA). As a result, Probi's application for health claims will not be submitted until the end of 2011 or early 2012.

The number of markets where Probi's dietary supplements have been launched continued to grow in 2010. In early 2010, Probi's partner Institut Rosell signed an agreement with the German pharmaceutical company Merck KgaA. This agreement gives Merck KgaA exclusive rights to sell dietary supplements based on *Lp299v* through pharmacies in 13 Latin American countries. The launch in Latin America has been postponed until 2011. In addition, five new markets were acquired through agreements with Camox, Generica and Alapis Group. Two of these agreements comprise launches of Probi's dietary supplements for the immune system.

At the end of 2010, Probi signed a new long-term partnership agreement with Institut Rosell for dietary supplements based on Probi's *Lp299v* bacterium. Probi has collaborated with Institut Rosell since 2002 and this partnership constitutes the basis for 20 per cent of Probi's sales. The new agreement secures current license revenue for a long period of time. The agreement also generates higher product margins and gives Probi an opportunity to sign its own distribution agreements in several key markets such as India and China.

NET SALES AND RESULTS

Probi's net sales for the year increased by MSEK 14.9 to MSEK 80.4 (65.5), up 23 per cent. Operating income rose MSEK 4.3 to MSEK 18.1, up 31 per cent. A remuneration of MSEK 10.0 from Skånemejerier in conjunction with the Danone agreements taking effect was included in net sales and results. Income for the year was burdened with an impairment of capitalised development expenses amounting to MSEK 3.0. A payment of MSEK 5.4 from Kraft was recognised in 2009, in connection with the

termination of an agreement for probiotic muesli bars. If these three items are excluded, net sales increased MSEK 10.4 or 17 per cent, while operating income improved MSEK 2.7 or 32 per cent. The organic growth of 17 per cent was primarily driven by the launch of ProbiMage and ProbiFrisk and that royalty revenue from ProViva increased 11 per cent.

Net sales in Functional Food amounted to MSEK 55.0 (49.5). If payments from Skånemejerier 2010 and Kraft 2009 are excluded, net sales in Functional Food increased MSEK 0.9 or 2 per cent. Royalty revenue from Skånemejerier and ProViva AB increased 13 per cent during the year. Royalty revenue from NextFoods decreased concurrently. In 2008 and 2009, Probi had guaranteed royalty revenue from NextFoods but as of 2010, revenue were based on their sales to retail.

Net sales in Dietary Supplements amounted to MSEK 25.4 (15.9), of which the royalty proportion was 32 per cent (40). The sales increase of 59 per cent is primarily attributable to deliveries of ProbiMage and ProbiFrisk to Bringwell.

Total operating expenses during the year increased to MSEK 63.0 (52.4), up MSEK 10.6. Deliveries of ProbiMage and ProbiFrisk entailed greater product costs and Probi made a considerable investment in marketing in connection with the launch. In 2010, Probi's proportion of these costs has been in line with the gross margin generated by the two products and the launch resulted in a breakeven for 2010.

The company's personnel costs increased compared with the preceding year when provisions of MSEK 1.0 (0.0) were made in relation to variable remuneration to employees.

Probi made an impairment of capitalised development expenses amounting to MSEK 3.0. In 2009, a study of gastrointestinal health was carried out to investigate whether even lower doses of bacteria give positive clinical effects. The results of the study, which was completed in 2010, were not sufficiently conclusive and thus could not be used for future product solutions.

Comprehensive income for the year amounted to MSEK 13.7 (10.8), and comprehensive income per share amounted to SEK 1.46 (1.15) before and after full dilution.

CASH FLOW AND FINANCIAL POSITION

Cash flow for the year was MSEK 18.1 (10.4) and cash and cash equivalents at the end of the period amounted to MSEK 89.8 (71.7). The payment of MSEK 10.0 from Skånemejerier is included in cash flow. In 2010, Probi paid MSEK 4.7 in dividends to shareholders in line with a resolution adopted by the Annual General Meeting in April 2010. Cash flow from operating activities during the year amounted to MSEK 28.7 (17.7), up MSEK 11.0 compared with 2009.

Investments in intangible fixed assets amounted to MSEK 4.1 (5.6) during the year, of which MSEK 1.5 (2.0) is related to patents and MSEK 2.6 (3.6) to capitalised development expenses. Investments in tangible fixed assets amounted to MSEK 2.0 (1.8).

Probi invests in prioritised research and development projects to secure long-term growth. Total R&D expenses amounted to MSEK 17.8 (18.3) in 2010. The R&D proportion of overall expenses, excluding raw materials and depreciation, was 35 per cent (35). This proportion increases to 38 per cent (40) if the development expenses that were capitalised during the year are included.

Tax expenses for the year totalled MSEK 5.0 (3.9). This does not involve any liquidity effect, since recognised tax is offset against previous years' loss carryforwards. At 31 December 2010, the company's accumulated tax loss carryforwards are MSEK 17.9 (37.1). Probi's Board of Directors made the assessment that earnings and cash flow from operating activities will be positive in the future, thus the deferred tax asset of MSEK 4.7 (9.8) has been recognised in its entirety.

There are no unrecognised commitments in relation to former Board Members or senior executives. In 2010, the company was not involved in any legal disputes.

SEGMENT INFORMATION

General information

Probi's business operations are organised into two business segments: Functional Food and Dietary Supplements, with separate managers of operations. The Functional Food segment focuses on commercialising Probi's probiotics together with food companies, to market food that gives health benefits in addition to the product's normal nutritional value. The Dietary Supplements segment focuses on commercialising Probi's probiotics together with dietary supplement companies, to market products that are designed to supplement a normal diet. There are no business transactions between the two segments.

Functional Food

Revenue from ProViva showed a continued positive trend in 2010 and Probi's royalty revenue from ProViva rose 11 per cent to MSEK 42.1 (37.9). During the year, Skånemejerier supplemented its range with new flavours, which are more like juice than the rest of its range. These products were well-received by consumers.

Agreements with Danone

In 2010, Probi signed ten-year licensing agreements with Danone. These are Probi's most significant agreements to date. They ensure that Probi has a good agreement for ProViva in Sweden over the next ten years, and enables an international launch of ProViva in collaboration with the world's leading probiotic companies. Probi made the assessment that the revenue potential of an international launch is considerably greater than revenue currently generated by ProViva in Sweden.

The business solution with Danone is based on two main agreements. The first agreement covers Sweden and Finland, and was signed with Danone's subsidiary ProViva AB, which is planning to re-launch ProViva in Finland during the second half of 2011. The second agreement concerns the international launch and was signed with Danone. The ProViva agreement with Skånemejerier was terminated when these two separate agreements became effective.

The new ten-year agreement with Danone for Sweden and Finland entails considerable long-term value for Probi. Royalties from ProViva in Sweden still account for more than half of Probi's total revenue and in the new agreement, competitive royalty levels have been secured for the entire agreement period. These royalty rates are higher in Sweden than in Finland, where royalties are in line with the international agreement.

The international agreement gives Danone exclusive global rights to use Probi's *Lp299v* bacterium together with any other relevant technology in probiotic fruit drinks and fruit juices for gastrointestinal health. North America is currently excluded since Probi already has a licensing agreement with NextFoods.

A key factor for the international investment will be approval of the health claims for Probi's *Lp299v* bacterium in the EU through a recommendation by the EU body, EFSA. Probi and Danone have begun collaborating on the application to the EFSA concerning health claims. If the claims are approved, Probi will receive a higher royalty rate for the international revenue from ProViva, and a non-recurring payment that is considerably higher than that paid in 2010.

Danone also signed an agreement with Skånemejerier to purchase 51 per cent of the shares in ProViva AB, formerly one of Skånemejerier's wholly owned subsidiaries, who operates the Swedish and Finnish ProViva business. Skånemejerier still owns 49 per cent of the company and Probi holds an observer seat in ProViva AB's Board of Directors. Danone has an option to acquire the remaining 49 per cent over the next ten years in various stages.

Friscus

In autumn 2010, Skånemejerier made a major investment in Friscus, the new Bravo juice that was launched in autumn 2009 in collaboration with Probi. Friscus is a unique combination of Probi's probiotics for the immune system and 100 % pure juice. Friscus is a relatively new product in the market and sales volumes are still limited. The Friscus investment during 2010 entailed a clearer health positioning of Friscus through several channels including an extensive TV campaign. The packaging design has also been developed to promote the health message, differentiate the product from the rest of Bravo's range and increase visibility on the shelf. The new concept was well received by consumers and volumes increased by more than 50 per cent following the autumn campaign.

Dietary Supplements

Revenue from Dietary Supplements amounted to MSEK 25.7, corresponding to an increase of MSEK 9.5 or 58 per cent compared with 2009. The launch of ProbiMage and ProbiFrisk in Sweden accounted for most of this increase.

ProbiMage and ProbiFrisk

By launching ProbiMage and ProbiFrisk, Probi advanced its market positions in line with the ambition to build its own brands directly for the consumer market. Probi succeeded in establishing itself as a leading player in probiotic dietary supplements in both pharmacies and health stores in Sweden in the same year that the products were launched.

An agreement with Bringwell/Green Medicine concerning the launch of Probi's dietary supplements for gastrointestinal health (ProbiMage) and the immune system (ProbiFrisk) in the Nordic region was signed at the end of 2009. The launch was initiated in Sweden in pharmacies and health food stores by Bringwell's Swedish subsidiary Green Medicine during the first half of 2010.

Green Medicine's ambition was to renew the Swedish probiotics market. ProbiMage and ProbiFrisk were thus launched as indication-specific products with an emphasis on strong scientific evidence, which is characteristic of Probi's probiotics.

The sales forecast for the range, especially ProbiMage, was considerably exceeded. Probi's Dietary Supplements business area thus received a contribution of almost MSEK 8 in revenue from the Bringwell collaboration. Probi and Bringwell share the media expenses equally and in 2010, Probi achieved breakeven for the Swedish launch. About two thirds of sales take place through pharmacies, and the remaining through health stores. The launch of ProbiMage and ProbiFrisk in Norway and Finland will be implemented in 2011. Due to the successful launch in Sweden, Probi is now studying opportunities to implement a similar business model in other European markets outside the Nordic region.

Institut Rosell

In 2010, Probi's royalty revenue from Institut Rosell rose 23 per cent to MSEK 5.5. The agreement with Institut Rosell currently comprises more than 25 geographical markets. In early 2010, 13 new markets were acquired in Latin America through an agreement that gives German Merck KgaA exclusive rights to sell dietary supplements based on *Lp299v* through pharmacies. The launch in Latin America has been delayed due to the process of acquiring regulatory approval taking longer than expected. The regulatory process has also taken a long time in China, but approval was granted during the year and the launch of Biostime commenced at the end of 2010.

Probi has collaborated with Institut Rosell since 2002 and this partnership constitutes the basis for more than 20 per cent of Probi's sales. The agreement with Institut Rosell was renegotiated in 2010 and a new long-term partnership agreement for dietary supplements based on Probi's *Lp299v* bacterium was signed in the fourth quarter. The new agreement secures license revenue for a long period of time, and also presents opportunities for Probi to sign its own distribution agreements in several key markets including India and China. The agreement also entails that Probi secures continued supplies of high-quality gastro capsules at competitive prices.

Agreement with Camox Pharmaceuticals

In March 2010, Probi signed an agreement with Camox Pharmaceuticals in South Africa concerning the launch of Probi's dietary supplements for the immune system. This collaboration has also been further developed through a new agreement during the year, which entitles Camox to broaden its range and also sell dietary supplements based on Probi's *Lp299v* bacterium. Camox Pharmaceuticals is one of the fastest growing pharmaceutical companies in South Africa, with sales amounting to almost MUSD 150. Probi already has an agreement with Nutrilida in South Africa through Institut Rosell for dietary supplements based on *Lp299v*. This agreement will run concurrently with Camox.

Other agreements

Other new agreements have also been signed in Dietary Supplements during 2010. In the second quarter, an agreement was signed with Generica Ltd in the Czech Republic. The agreement comprises the right to distribute Probi's gastro capsule based on *Lp299v* in the Czech Republic and Slovakia. Generica sells exclusively through pharmacies and is one of the largest players in dietary supplements in its region. The first deliveries were made to Generica during the second half-year of 2010.

In December, an agreement was signed with the Alapis Group in Greece concerning the distribution of Probi's dietary supplements for the immune system in Greece and Cyprus. The launch is scheduled for the second half of 2011, and will take place under Alapis' international brand for probiotics which currently comprise two products. The Alapis Group had sales of Euro 1.2 billion in 2009 and is one of the leading pharmaceutical companies in south-east Europe.

RESEARCH AND DEVELOPMENT

In 2010, at the end of the year in particular, the EFSA specified its requirements for the clinical documentation that must be provided for health claims in the EU in the gastrointestinal and immune system areas. Probi's clinical studies in both of these areas definitely show positive results for the human subjects who have tested Probi's probiotics. The clarifications made by the EFSA regarding the formal requirements for clinical studies indicate that the EFSA, in principle, places the same requirements on food trials as they that apply in the pharmaceutical industry. This entails, for example, that the EFSA evaluates the outcome of primary endpoints (the health-related parameters, which the study was designed to show) in every study but normally disregards the outcome of secondary endpoints. There is still no complete picture of the EFSA's expectations. However, some clarifications have been issued in relation to other points concerning the formal requirements for the design and implementation of clinical studies for the EFSA to evaluate them in applications. Probi's studies fulfil a number of the EFSA's stringent requirements but the company has decided to conduct some additional studies during 2011 to further strengthen its clinical documentation. This means that Probi's applications will not be submitted until at least the end of 2011 or early 2012.

The results of a major IBS study, which was conducted in India with Probi's dietary supplements containing *Lactobacillus plantarum* 299v, were available during the year. The study comprised a total of 214 human subjects with diagnosed IBS who received either capsules with *Lp299v* or placebo capsules. The results of the study were very positive and showed a significant improvement in several critical IBS symptoms in the *Lp299v* group, compared with the placebo group. One of these was the significantly reduced frequency and degree of both abdominal pains and bloating. About 80 per cent of the subjects in the *Lp299v* group claimed that the product was effective or very effective, while the corresponding figure in the placebo group was less than 10 per cent. The results further strengthen Probi's scientific documentation that *Lp299v* is a very effective probiotic bacterium for people who suffer from stomach problems.

One of Probi's clinical studies during the year focused on the metabolic syndrome. The purpose was to study the effect of probiotic products on a variety of risk factors that increase the risk for common diseases such as cardiovascular disease and type 2-diabetes. The pilot study, which was conducted in-house in 2010, showed positive effects on not less than three symptoms that occur with metabolic syndrome: high blood pressure, high triglycerides and low HDL (good) cholesterol. During the fourth quarter, Probi commenced a major clinical study in this area. This was a double-blind and placebo-controlled study. The goal is to obtain a positive result, which can then form the basis for the development of a product that specifically counteracts the metabolic syndrome and cardiovascular disease. Assuming that the ongoing study produces the anticipated results and that the next major study confirms the positive clinical effects, a new product may arrive by 2013 at the earliest.

Within application development, Probi has continued to develop the methods that are used to apply probiotic bacteria in juices or fruit drinks during 2010. This led to a new flavour in the Bravo juice range, Friscus, which was launched during the year. Most of this work was carried out in collaboration with new potential customers, who have not previously had any probiotics in their range and approached Probi because of the company's experience with juices and fruit drinks.

Furthermore, the long-term efforts that were initiated in 2009 to further improve the offering to customers, primarily in the food industry, continued. This work comprises the development of new formulations of Probi's bacteria, which can be applied in food outside the cold chain, and to further improve the sustainability of our dietary supplement products. The first results of this work are now ready and their prime usage initially is in quality-assurance and methods for assessing technical improvements in dietary supplement products.

Probi has formed a Scientific Advisory Board in 2010 with the following members:

- Jan Nilsson, Professor in Experimental Cardiovascular research, Lund University (Chairman)
- Hans Wigzell, Professor Emeritus, Immunology, Karolinska Institutet
- Åke Lernmark, Professor in Experimental Diabetes Research, Lund University
- Göran Malin, Professorin Applied Nutrition and Food Chemistry, Lund University
- Bengt Jeppsson, Professor, Surgical Faculty, Lund University

The Board aims to advise Probi's Board of Directors and management in research-related issues based on the company's existing research portfolio, and to provide recommendations for future research. The Board has a broad structure with representatives from a range of separate research disciplines that are relevant to probiotics.

In 2010, the results of Probi's Swedish common-cold survey were published in the European Journal of Nutrition (DOI 10.1007/s00394-010-0127-6). This generated a great deal of contact from companies that were interested in Probi's products and research. This was a randomised, double-blind and placebo-controlled study conducted with 272 healthy human subjects in Lund and Uppsala. The positive results showed a significantly reduced risk of catching a cold, fewer days with cold symptoms and milder symptoms compared with the placebo.

EMPLOYEES

At the end of the period, Probi had 21 employees, of whom 12 were women and 9 were men. The average number of employees during the year was 21 (19). The company has 7 (7) employees with a doctorate degree.

OWNERSHIP

At 31 December 2010, Probi had 4,201 (4 463) shareholders according to Euroclear Sweden AB. The company currently has no outstanding convertible loans or any outstanding warrants.

EVENTS AFTER THE BALANCE-SHEET DATE

As of 7 March 2011, the Board of Directors decided to initiate a buy-back of shares in accordance with the resolution of the Annual General Meeting on 22 April 2010. The meeting's authorisation entails that acquisitions must not exceed the highest number of shares, which at all times corresponds to 10 per cent of all of the company's outstanding shares. The Board's decision pertains to a buy-back of not more than 150,000 shares, corresponding to 1.6 per cent of the total number of outstanding shares. Before the decision, Probi did not own any of its own shares. Acquisition will take place on the Nasdaq OMX Nordic Exchange Stockholm at a price that lies within the registered price interval at the time of each acquisition.

RISKS AND UNCERTAINTIES

Through its business operations, Probi is exposed to different types of risks. Work is conducted continuously within the company to identify and evaluate these risks. This work results in a Risk Management Policy that is updated at least once a year. Probi thus has a clear picture of what the risks are and how they can be managed to minimise the negative effects on the company's business and development.

Agreements with selected strategic partners

Probi has strategic partnerships and contracts with a number of selected partners. These partners are expected to contribute to increased revenue in the future. Should one or more of these partnerships be terminated, it 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 real threat to market growth.

Regulatory risks

Requirements and regulations regarding the use of health claims are constantly being made more stringent. Since 1 July 2007, nutritional and health claims have been regulated by an EU directive (1924/2006) that applies in all EU countries. This means that all applications for new health claims must be approved by the EFSA (European Food Safety

Authority). 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 2010, 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.

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. Thus, it is vital that granted patents can be maintained and that newly developed products and applications can be patented. In addition, there is always a risk that disputes concerning patents and other intellectual property rights are initiated both by and against Probi. This type of dispute would have a negative impact on the company.

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 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 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 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. If opportunities for faster growth arise, through strategic acquisition 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 builds on conducting research and development, obtaining patents and documenting probiotic bacteria and developing ready-made probiotic consumer products. Probi offers licenses for its patents and "knowhow" to companies that are active in food and dietary supplements, and sell dietary supplements through distributors. The company's objective is to continue creating profitable growth by expanding and developing sales of their products in the global market. Probi is of the opinion that both earnings and cash flow from operating activities will be favourable in 2011.

THE ENVIRONMENTAL IMPACT

Environmental Study 2009

During 2009, Probi conducted an environmental study with the help of an external party. The objective of the study was to identify, quantify and evaluate the company's direct and indirect environmental impact. The environmental study showed that the environmental impact from Probi's business is limited. The company has no large-scale production and only produces natural raw materials for the food industry. Probi's laboratory operations consume chemicals and disposable items to a limited extent, and both production and laboratory operations generate waste. Probi's business is international which entails business travel, mainly by air. Four environmental aspects that are important for Probi's business have been identified and these have laid the basis for continued environmental work:

- Business travel
- Waste management
- Energy consumption
- Use of chemicals

The environmental study also included an extensive review of the environmental regulatory requirements that apply for Probi's business. In this context, it was found that Probi's management of chemicals complies

with the applicable laws and regulatory frameworks in regard to storage and waste management. All drains in Probi's production and laboratory facilities are chemical drains that go to a neutralisation facility for the entire property where the business is conducted.

Probi's business does not require a permit according to the Environmental Code.

Environmental policy and management system

In 2010, Probi adopted an environmental policy and established an environmental management system that describes how continued environmental work shall be pursued. The environmental management system was produced in collaboration with an external consultant and is based substantially on ISO 14001. This system is not certified. All employees have received training in the environmental management system and also participated in seminars on the greenhouse effect and its impact.

Environmental objectives

The environmental management system contains objectives in three focus areas:

- Greenhouse emissions from business travel will be reduced
- Waste volumes will be reduced
- Energy consumption will be reduced

Examples of milestones in these areas are:

- Short air travel will be reduced by 20 % by the end of 2012
- The volume of expired chemicals that are thrown away will be reduced by 30 per cent annually
- The consumption of photocopying paper will be reduced by 10 per cent annually
- 90 per cent of all office electronics will be eco-labelled by the end of 2011
- Company cars will be green cars before the end of 2011, in line with the Swedish Tax Agency's definition and/or in compliance with the limits for fuel consumption and carbon dioxide emissions set out in the vehicle policy

Zero measurements were made for each milestone in 2010 and regular monitoring commenced. One person in the organisation is responsible for every milestone.

Energy savings 2010

Probi conducts its operations in rented premises. The electricity supplied by the landlord is 100 % renewable, a combination of water and wind power. In 2009 and 2010, Probi premises were renovated. In connection with this, office spaces were equipped with absence-controlled lighting, and waste sorting was introduced in offices, laboratories and production.

SUBSIDIARY

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	38 591
Profit for the year	13 661
Total	52 252

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

that a dividend of SEK 1 per share be paid to shareholders to be carried forward	9 365
Total	52 252

The Group's accumulated loss totalled TSEK 16,449 according to the consolidated balance sheet and other contributions received amount to TSEK 92,607.

The Board of Directors anticipate a continued positive trend in 2011. 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 the Nasdaq OMX Nordic Exchange 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.

This Corporate Governance Report was prepared in accordance with the Swedish Annual Accounts Act and the Code's regulations and includes the 2010 financial year. Probi's Articles of Association and additional information about Probi's Corporate Governance are available at 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.

SHAREHOLDERS

At 31 December 2010, Probi had 4,201 (4,463) shareholders according to Euroclear Sweden AB.

At that time, Probi had two owners with holdings that each represented at least one tenth of the number of votes for all shares in the company: Consepio with 15.9 per cent and Skånemejerier with 10.3 per cent of both share capital and votes.

ANNUAL GENERAL MEETING

Shareholders exercise their influence over the company at the Annual General Meeting, which is Probi's highest decision-making body. The Annual General Meeting is held within six months of the end of the financial year. The notification to convene is sent not earlier than six weeks and not later than four weeks prior to the Annual General Meeting. All shareholders listed in the shareholders' register and who registered their interest are entitled to participate in the Annual General Meeting and vote. Each share carries one vote.

The 2010 Annual General Meeting was held in Lund on 22 April 2010. The Nomination Committee, Board of Directors and auditors were chosen at the Annual General Meeting, which is described in the following. In the period prior to the 2011 Annual General Meeting, on one or more occasions, the Board of Directors was also authorised to

- make decisions regarding an acquisition of the company's own shares. This authorisation includes acquisition on the Nasdaq OMX Nordic Exchange Stockholm of not more than the company's own shares that at any time do not exceed 10 per cent of all outstanding shares. According to the authorisation, any acquisition will take place at a price within the registered price interval on the Nasdaq OMX Nordic Exchange Stockholm at the time of acquisition, meaning the spread between the highest and lowest selling price. At 31 December 2010, this authorisation had not been exercised.
- make decisions regarding a transfer of the company's own shares. This authorisation includes a transfer of the highest 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 the Nasdaq OMX Nordic Exchange Stockholm on each occasion, meaning the spread between the highest and lowest selling price. At 31 December 2010, 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 set-off 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 2010, this authorisation had not been exercised.

THE NOMINATION COMMITTEE

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

- evaluate the Board's structure and duties
- prepare proposals to the Annual General Meeting for 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 22 April 2010, the Annual General Meeting resolved that the Nomination Committee should consist of four owner representatives. Lars Gatenbeck (convenor), (GZ Group), Anders Olsson (Skånemejerier), Ragnhild Wiborg (Consepio) and Göran Molin (Professor in Food Hygiene at Skåne University Hospital and a member of the group of scientists that founded Probi AB) were re-elected to the Nomination Committee. None of the Nomination Committee's members are dependent in relation to the company or the Management Group.

The Nomination Committee's proposals are presented in conjunction with the notice to attend 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.

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 Annual General Meeting on 22 April 2010 elected a Board consisting of six members with no deputies as follows: (Figures in parentheses pertain to attendance at Board meetings in 2010.)

Per Lundin, Chairman (re-elected)	(13 of 13)
Annika Espander (re-elected)	(10 of 10)
Hilde Furberg (re-elected)	(12 of 13)
Mats Lidgard (re-elected)	(11 of 13)
Jan Nilsson (newly elected)	(7 of 9)
Bengt Nilsson (newly elected)	(9 of 9)

At the Annual General Meeting in April 2010, Hans Wigzell (3 of 4) and Jan Barchan (0 of 4) resigned.

Annika Espander, member of Probi's Board since 2009, became head of Private Banking at Handelsbanken on 1 October 2010. In conjunction with this, Annika Espander stepped down from all of her external directorships and also left Probi's Board on 30 September. A substitute will be elected in connection with the Annual General Meeting 2011.

All Board Members are independent in relation to the company and the Management Group. A presentation of the Board members is available on page 61.

The AGM decides on principles and monetary limits for Board fees. For 2010, the Board's fees were fixed at TSEK 700, of which TSEK 200 refers to the Chairman of the Board and TSEK 100 refer 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 28.

CHIEF EXECUTIVE OFFICER

A presentation of the CEO is on page 62 of the Annual Report for 2010.

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 goals for the coming financial year are set. No person 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 meet not fewer than four times distributed equally during the year and one statutory meeting. In addition to regular items, the scheduled meetings in 2010 focused primarily on strategic and structural issues. Aside from the scheduled meetings, a number of short meetings were held, mostly telephone meetings, and 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 continual 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 reports will address, while the Board informs the auditors about issues or areas that the Board wishes to highlight. The Audit Committee has met twice in 2010 and all members participated.

REMUNERATION COMMITTEE

Probi's Remuneration Committee comprises the Board in its entirety. The Remuneration Committee determines salaries and the CEO's remuneration. 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 one meeting in 2010 and all 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 reported 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 capital tied-up
- 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 partly done through ongoing contact with the company's auditors and partly through continuous evaluation of the information submitted by company management. Central to this work is ensuring that measures are undertaken to remedy any discrepancies arising in conjunction with audit and to ensure that proposed quality improvements are implemented. Furthermore, the Board has decided that the company's auditors shall conduct a limited review of all quarterly reports.

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: TSEK	Note	Group		Parent Company	
		2010	2009	2010	2009
Operating revenue					
Net sales	7	80 381	65 466	80 381	65 466
Other revenue		746	764	746	764
Total operating revenue	6, 29	81 127	66 230	81 127	66 230
Operating expenses					
Cost of good sold		-9 858	-5 094	-9 858	-5 094
Employee benefit expenses	10	-21 041	-19 447	-21 041	-19 447
Other external costs	8, 9, 15	-23 093	-22 735	-23 093	-22 735
Depreciation and impairment of fixed assets	11, 16, 17, 19, 20	-9 038	-5 114	-9 038	-5 114
Other operating expenses		-	-31	-	-31
Total operating expenses	6, 29	-63 030	-52 421	-63 030	-52 421
Operating income		18 097	13 809	18 097	13 809
Financial income	12	866	1 282	866	1 282
Financial expenses	12	-254	-429	-254	-429
Result from financial income and expenses		612	853	612	853
Profit before tax		18 709	14 662	18 709	14 662
Tax on profit for the year	13	-5 048	-3 911	-5 048	-3 911
Income for the year		13 661	10 751	13 661	10 751
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		13 661	10 751	13 661	10 751
No. of shares		9 365 300	9 365 300		
Earnings per share based on income for the year, SEK.		1.46	1.15		

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (NOTE 6)			
Currency: TSEK	Note	2010	2009
Fixed assets			
Capitalised development expenses	16	3 629	4 643
Patents and licenses	17	13 047	16 119
Goodwill	18	2 762	2 762
Equipment, tools and fixtures	19, 20	3 766	2 752
Deferred tax assets	14	4 711	9 759
Total fixed assets		27 915	36 035
Current assets			
Inventories		2 263	1 238
Accounts receivable - trade	22	12 689	10 679
Other current receivables	29	27	115
Prepaid expenses and accrued income	23	2 461	1 528
Cash and cash equivalents	22, 24	89 762	71 707
Total current assets		107 202	85 267
Total assets		135 117	121 302

EQUITY AND LIABILITIES (NOTE 6)			
Currency: TSEK	Note	2010	2009
Equity			
Share capital	25	46 827	46 827
Other contributions received		92 607	97 290
Loss brought forward		-16 449	-30 110
Total equity		122 985	114 007
Current liabilities			
Accounts payable - trade	29	4 659	3 623
Other current liabilities		3 353	1 925
Accrued expenses and deferred income	27	4 120	1 747
Total current liabilities		12 132	7 295
Total equity and liabilities		135 117	121 302

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

ASSETS (NOTE 6)			
Currency: TSEK	Note	2010	2009
Fixed assets			
Capitalised development expenses	16	3 629	4 643
Patents and licenses	17	13 047	16 119
Equipment, tools and fixtures	19, 20	3 766	2 752
Participations in Group companies	21	4 031	4 031
Deferred tax assets	14	4 711	9 759
Total fixed assets		29 184	37 304
Current assets			
Inventories		2 263	1 238
Accounts receivable - trade	22	12 689	10 679
Other current receivables	29	27	115
Prepaid expenses and accrued income	23	2 461	1 528
Cash and cash equivalents	22, 24	89 762	71 707
Total current assets		107 202	85 267
Total assets		136 386	122 571

EQUITY AND LIABILITIES (NOTE 6)			
Currency: TSEK	Note	2010	2009
Equity			
Restricted equity			
Share capital		46 827	46 827
Statutory reserve		21 140	21 140
Total restricted equity		67 967	67 967
Non-restricted equity			
Profit brought forward		38 591	32 523
Income for the year		13 661	10 751
Total non-restricted equity		52 252	43 274
Total equity		120 219	111 241
Long-term liabilities			
Liabilities to Group companies		4 035	4 035
Total long-term liabilities	26	4 035	4 035
Current liabilities			
Accounts payable - trade	29	4 659	3 623
Other current liabilities		3 353	1 925
Accrued expenses and deferred income	27	4 120	1 747
Total current liabilities		12 132	7 295
Total equity and liabilities		136 386	122 571

CHANGES IN SHAREHOLDERS' EQUITY - GROUP

Currency: TSEK	Share capital	Other contributions received	Loss brought forward	Total equity
Opening balance, 1 Jan 2009	46 827	97 290	-40 861	103 256
Income for the year	-	-	10 751	10 751
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	10 751	10 751
Opening balance, 1 Jan 2010	46 827	97 290	-30 110	114 007
Income for the year	-	-	13 661	13 661
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	13 661	13 661
Transactions with shareholders Dividend for 2009	-	-4 683	-	-4 683
Closing balance, 31 Dec 2010	46 827	92 607	-16 449	122 985

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

CHANGES IN SHAREHOLDERS' EQUITY - PARENT COMPANY

Currency: TSEK	Share capital	Statutory reserve	Non-restricted equity	Total equity
Opening balance, 1 Jan 2009	46 827	21 140	32 523	100 490
Income for the year	-	-	10 751	10 751
Opening balance, 1 Jan 2010	46 827	21 140	43 274	111 241
Income for the year	-	-	13 661	13 661
Transactions with shareholders Dividend for 2009	-	-	-4 683	-4 683
Closing balance, 31 Dec 2010	46 827	21 140	52 252	120 219

There are a total of 9,365,300 shares, each with a quotient value of SEK 5 per share.

STATEMENT OF CASH FLOWS

Currency: TSEK	Note	Group		Parent Company	
		2010	2009	2010	2009
Operating activities					
Profit before tax		18 709	14 662	18 709	14 662
Depreciation/amortisation		9 038	5 114	9 038	5 114
Capital gains from disposal of tangible fixed assets		4	31	4	31
Cash flow from operating activities before changes in working capital		27 751	19 807	27 751	19 807
Change in inventories		-1 025	382	-1 025	382
Change in operating receivables		-2 855	-1 544	-2 855	-1 544
Change in operating liabilities		4 837	-991	4 837	-991
Cash flow from operating activities		28 708	17 654	28 708	17 654
Investing activities					
Acquisition of intangible fixed assets		-4 077	-5 566	-4 077	-5 566
Acquisition of tangible fixed assets		-2 038	-1 813	-2 038	-1 813
Disposal of tangible fixed assets		145	90	145	90
Cash flow from investing activities		-5 970	-7 289	-5 970	-7 289
Financing activities					
Dividend to shareholders		-4 683	-	-4 683	-
Cash flow from financing activities		-4 683	-	-4 683	-
Change in cash and cash equivalents	24	18 055	10 365	18 055	10 365
Cash and cash equivalents at the beginning of the year		71 707	61 342	71 707	61 342
Cash and cash equivalents at year-end		89 762	71 707	89 762	71 707
Interest paid and received					
		2010	2009	2010	2009
Interest income according to profit and loss		430	552	430	552
Interest expenses according to profit and loss		0	-1	0	-1

No prepaid or accrued interest effects have 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 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.

These consolidated financial statements were approved by the Board of Directors for publication on 16 March 2011.

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 – December 2010" as well as the International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), approved by the European Commission.

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 2010 financial year. Based on the current business model and accounting policies, none of these have affected or are expected to affect the financial 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 revised standards that have not yet come into force. The International Financial Reporting Interpretations Committee (IFRIC) has published new or revised interpretations that have not yet come into force. None of these new or revised standards and interpretations has been applied. Based on the current business model and accounting policies, they are not expected to affect future financial reporting. Significant parts of IFRS 9: Financial instruments, which will replace IAS 39 are established, but will not enter into force until 2013. Thus, the possible effects on financial reporting are not 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 carrying amounts have been rounded to the nearest thousand kronor, unless otherwise stated. The valuation basis is the acquisition value, 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". 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 percent 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 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 cost 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 transfer date, plus expenses directly attributable to the acquisition. Identified acquired assets, assumed liabilities and contingent liabilities in a business acquisition are measured initially at fair value on 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 and 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

As from 2009, Probi has applied IFRS 8 "Operating Segments". Operating segments are reported 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 and 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 which time 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: Probi is in some cases 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 and 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 and 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 recognised separately is tested annually to identify any impairment requirements and is recognised at cost less accumulated impairments. Goodwill impairments are not reversed. Profits 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.

Accounting policies related to research and development expenses: Research expenses are capitalised 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, and for which Probi has decided to seek a partner or in some other manner will attempt to launch the product. Probi conducts research and development work in the probiotics field. The majority of Probi's customers are 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. Probi has developed, in certain cases, 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 contractually regulated useful lifetime. The useful life of assets is reviewed annually. The following periods of amortisation are applied:

- Patent, 10 years.
- License, 12 years, related to acquisitions of European rights. This license is 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. The carrying amount for replaced portions is derecognised from the balance sheet. All other forms of repairs and maintenance are recognised as costs in profit and loss during the period in which they arise.

Depreciation of tangible fixed assets is carried out using the straight-line method 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 and loss on the divestment of tangible fixed assets are recognised under Other operating income and Other operating expenses, respectively.

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 leasing agreements: When the leasing agreement means that the Group, in its capacity as lessee, in all material respects enjoys the financial 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).

All of Probi's lease agreements are deemed to be operational in nature.

2.11 FINANCIAL 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 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 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 fair 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 and 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 and 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.

Redundancy payments

Redundancy 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 redundancy 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.

2.18 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 and petty cash.

2.19 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 – December 2010". This implies that the Parent Company's financial statements apply 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 between the reporting of the Parent Company and the Group have been identified.

2.20 REVISED ACCOUNTING POLICIES

Changes to "RFR 2 Accounting for legal entities – December 2010" have entailed revised formats for the Parent Company. The Parent Company's income and expenses, which were formerly recognised in equity and did not pertain to transactions with owners, will in the future be recognised in the statement of comprehensive income directly after the Parent Company's income statement. In the Parent Company's changes in shareholders' equity, items in comprehensive income are recognised separately from transactions with owners. Other changes in RFR 2 have had no material effect on the Parent Company's financial statements.

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 RISK

Currency risks

Probi is active on the international market, which implies that income and expenses arise in varying currencies affected by exchange-rate fluctuations. Revenue in SEK dominates based on Probi's agreements with Skånemejerier, ProViva AB and Bringwell. In 2010, revenue arising from these agreements accounted for 75 per cent of total revenue. Revenue in foreign currency is predominantly in USD and EUR. The number of transactions in foreign currencies may gradually increase in connection with the signing of new contracts or the increase in sales via existing contracts.

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 hence, 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 2010 of a 5 per cent change in USD/SEK exchange rate would have been MSEK +/- 0.2. (2009: MSEK 0.6). 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 3 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 REVENUE

In addition to continuous revenue from licensing agreements and the sale of goods, a natural part of Probi's business is non-recurring income. This can occur in connection with agreements that are signed or terminated, or when agreement clauses for minimum royalties come into force. In 2010, Probi received MSEK 10.0 from Skånemejerier when the licensing agreements for ProViva were terminated. This revenue has been recognised in its entirety since Probi assesses that it is not connected to consideration, which carries costs for Probi, or contains revenue elements that must be amortised.

4.2 DEFERRED TAX ASSET

Probi's Board of Directors is of the opinion that both earnings and cash flow from operating activities will be positive in the future, therefore the deferred tax asset of MSEK 4.7 has been recognised in its entirety. Probi's deferred tax asset refers to taxable loss carryforwards. The company's accumulated taxable deficit on 31 December 2010 is MSEK 17.9 (37.1).

4.3 IMPAIRMENT TESTING OF PATENTS AND LICENSES

Probi carried out impairment testing in 2010 to determine the value on 31 December 2010 of its patents and the license in relation to European rights. Probi monitors the launches and development work of its partners closely. The information obtained from 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.

4.4 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 value for cash-generating units has been determined by calculating the value in use. A rate of 12 per cent (12) has been applied as the discount rate and growth has been estimated at 10 per cent (10) for the coming five years. Probi has carried out impairment testing to determine the value of goodwill on 31 December 2010. These tests did not indicate any impairment requirement.

4.5 IMPAIRMENT TESTING OF CAPITALISED DEVELOPMENT EXPENSES

Since 2008, Probi has capitalised development expenses pertaining to the development of immunology products in dietary supplements. There were no indications of an impairment requirement, since the projects that were capitalised, with reasonable certainty, can be expected to generate revenue for Probi in the near future. In 2010, Probi made an impairment of capitalised development expenses amounting to MSEK 3.0 in relation to a study of gastrointestinal health that was carried out to investigate whether even lower doses of bacteria give positive clinical effects. The results of the study, which was completed in 2010, were not sufficiently conclusive and thus could not be used for future product solutions.

NOTE 5 MANAGEMENT OF CAPITAL

The goal for Probi's management of capital is to be able to fulfil the Group's commitments in the short and long term, to make investments in developing the business and to generate returns for shareholders. Probi's core business activity is research and the strategy builds on continuing to invest significant resources in research and development. In addition, the increased focus on sales of consumer products under its own brands will increase spending on marketing campaigns.

At year-end, Probi had cash and cash equivalents amounting to MSEK 89.8 and no interest-bearing liabilities. The financial position is thus favourable and planned investments are currently covered by commercial revenue. If opportunities for faster growth arise, through strategic acquisition for example, the acquisition of other capital may be necessary through a share issue or external borrowing.

Concerning returns for shareholders, Probi's goal is to be able to pay a dividend of 30-50 per cent of profit after tax. This assumes that Probi can maintain a suitable capital structure in the future and that it is deemed possible to maintain the company's financial objectives.

NOTE 6 SEGMENT INFORMATION

Probi's business operations are organised into two business segments: Functional Food (FF) and Dietary Supplements (DS). The Functional Food segment has been fortified since the first licensing agreement was signed in 1993. Dietary Supplements has been a separate business area since 2002. "Other" comprises 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	2010		
	FF	DS	Total
Total operating revenue	55 400	25 727	81 127
Total operating expenses	-38 957	-24 073	-63 030
Operating income	16 443	1 654	18 097

Group	2009		
	FF	DS	Total
Total operating revenue	49 983	16 247	66 230
Total operating expenses	-37 844	-14 577	-52 421
Operating income	12 139	1 670	13 809

Revenue from Skånemejerier and its wholly or partly owned subsidiaries accounted for 67 per cent (58) of the total revenue. These were recognised in full in Functional Food.

Statement of financial position per operating segment

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

Group	2009			Total
	FF	DS	Other	
Total assets	29 665	10 171	81 466	121 302
Total liabilities	4 957	2 338	-	7 295
Equity	-	-	-	114 007
Investments	6 432	683	264	7 379
Depreciation/ amortisation	-4 807	-307	-	-5 114

Operating revenue, assets and investments per geographic area

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

Group	2009				Total
	Nordic region	Rest of Europe	North America	Rest of the world	
Operating revenue	39 343	8 646	12 576	5 665	66 230
Assets	104 861	11 579	4 341	521	121 302
Investments	5 909	280	416	774	7 379

NOTE 7 DISTRIBUTION OF NET SALES

	Group		Parent Company	
	2010	2009	2010	2009
Goods	18 479	10 922	18 479	10 922
Royalties, licenses, etc.	61 902	54 544	61 902	54 544
Total	80 381	65 466	80 381	65 466

NOTE 8 AUDITORS' FEES

	Group		Parent Company	
	2010	2009	2010	2009
PWC				
Audit assignment	204	298	204	298
Audit-related services	14	62	14	62
Tax consultancy	-	68	-	68
Other services	-	23	-	23
Deloitte				
Audit assignment	250	-	250	-
Audit-related services	-	-	-	-
Tax consultancy	4	-	4	-
Other services	-	-	-	-
Total	472	451	472	451

"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 constitution, Articles of Association, statutes and agreement which culminate in a report or any other document that is intended to be analytical material for parties other than the consultant. Everything else is classified as "Other assignments".

NOTE 9 RESEARCH AND DEVELOPMENT

	Group		Parent Company	
	2010	2009	2010	2009
Expensed research and development expenses	15 236	14 635	15 236	14 635

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

Average no. of employees	Group		Parent Company	
	2010	2009	2010	2009
Women	12	10	12	10
Men	9	9	9	9
Total	21	19	21	19

Salaries and remuneration	2010	2009	2010	2009
Board of Directors:				
Per Lundin	200	133	200	133
Hilde Furberg	100	100	100	100
Mats Lidgard	100	113	100	113
Jan Nilsson	75	-	75	-
Former Board Members:				
Lars Backsell	-	25	-	25
Jan Barchan	-	50	-	50
Annika Espander Jansson	75	75	75	75
Hans Wigzell	25	100	25	100
Lena Åsheim	-	25	-	25
Peter Zakrisson	-	13	-	13

	2010	2009	2010	2009
CEO, Michael Oredsson	1 675	1 666	1 675	1 666
Other management (2)	2 248	2 269	2 248	2 269
Other employees	8 809	8 386	8 809	8 386
Total	13 307	12 955	13 307	12 955

	2010	2009	2010	2009
Social security contributions, total	7 037	7 459	7 037	7 459
Of which pension costs:	2 250	2 794	2 250	2 794
Board Members	-	-	-	-
CEO, Michael Oredsson	447	433	447	433
Other management (2)	494	576	494	576
Other employees	1 309	1 785	1 309	1 785

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 per cent of the annual salary. However, bonuses shall never be paid in an amount totalling more than 50 per cent of the annual salary. According to a decision by the Remuneration Committee, TSEK 1,025, including social security contributions, was reserved on 31 December 2010 for bonuses to employees. The amount will be paid in 2011 and is distributed as follows: the CEO, TSEK 216; senior executives (2), TSEK 202 and other employees, TSEK 607.

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 other 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 is no share-based remuneration in the company. There are no women serving within the company's Management Group.

	Parent Company	
	2010	2009
Absence due to illness		
Total absence due to illness	1,0 %	1,3 %
Of which absence due to illness of more than 60 days as a percentage of total absence due to illness	0 %	47,4 %

No specification is provided since there are fewer than ten employees in each sub-category.

NOTE 11 DEPRECIATION/AMORTISATION AND IMPAIRMENT OF FIXED ASSETS

Depreciation of tangible and impairment of intangible fixed assets as shown below:

	Group		Parent Company	
	2010	2009	2010	2009
Depreciation/amortisation	5 758	5 114	5 758	5 114
Impairment	3 280	-	3 280	-

NOTE 12 FINANCIAL INCOME AND COSTS

	Group		Parent Company	
	2010	2009	2010	2009
Interest income	430	552	430	552
Exchange rate differences	182	302	182	302
Interest expenses	-	-1	-	-1
Total	612	853	612	853

NOTE 13 INCOME TAX

	Group		Parent Company	
	2010	2009	2010	2009
Current tax for the year	-	-	-	-
Deferred tax	-5 048	-3 911	-5 048	-3 911
Total	-5 048	-3 911	-5 048	-3 911

	2010	2009
Profit before tax	18 709	14 662
Nominal tax rate 26.3%	-4 920	-3 856
Tax effect on other non-taxable or tax deductible income	-128	-55
Tax cost	-5 048	-3 911

NOTE 14 DEFERRED TAX

	Group		Parent Company	
	2010	2009	2010	2009
Opening balance, 1 Jan 2009	9 759	13 670	9 759	13 670
Recognised in profit and loss	-5 048	-3 911	-5 048	-3 911
Closing balance, 31 Dec 2010	4 711	9 759	4 711	9 759

Probi's Board of Directors is of the opinion that both earnings and cash flow from operating activities will be positive in the future and the deferred tax asset of MSEK 4.7 MSEK has consequently been recognised in its entirety. Probi's deferred tax asset is attributable to taxable loss carryforwards. As of 31 December 2010, the company's accumulated taxable deficit was MSEK 17.9 (37.1).

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 charges in respect of operational leasing agreements is distributed as follows:

	Group		Parent Company	
	2010	2009	2010	2009
Leasing costs for the year	2 784	2 111	2 784	2 111
Falls due for payment within one year	2 930	2 735	2 930	2 735
Falls due for payment after one, but within five years	11 256	9 950	11 256	9 950
Falls due for payment after more than five years	-	-	-	-

NOTE 16 CAPITALISED EXPENDITURE FOR DEVELOPMENT

	Group		Parent Company	
	2010	2009	2010	2009
Opening cost	4 697	1 064	4 697	1 064
New acquisitions	2 610	3 633	2 610	3 633
Impairment	-3 280	0	-3 280	0
Closing accumulated cost	4 027	4 697	4 027	4 697
Opening amortisation	-54	-	-54	-
Amortisation for the year	-617	-54	-617	-54
Impairment for the year	273	0	273	0
Closing accumulated amortisation/impairment	-398	-54	-398	-54
Closing residual value	3 629	4 643	3 629	4 643

Development expenses are recognised as intangible assets when all criteria according to IAS 38 are met. Capitalised development expenses consist of direct expenses for materials, services and personnel costs with additions for a reasonable share of indirect costs.

NOTE 17 PATENTS AND LICENSES

	Group		Parent Company	
	2010	2009	2010	2009
Patents and licenses	53 570	51 636	53 570	51 636
Opening cost	53 570	51 636	53 570	51 636
New acquisitions	1 467	1 934	1 467	1 934
Closing accumulated cost	55 037	53 570	55 037	53 570
Opening amortisation	-37 451	-33 037	-37 451	-33 037
Amortisation for the year	-4 539	-4 414	-4 539	-4 414
Closing accumulated amortisation	-41 990	-37 451	-41 990	-37 451
Closing residual value	13 047	16 119	13 047	16 119

Of the carrying amount on 31 December 2010, patents accounted for MSEK 6.2 and licenses for MSEK 6.8. Licenses are related to the repurchase of the European rights from Skånemejerier for MSEK 40 year in 2001.

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

Probi carried out impairment tests to determine the value of patents and licenses on 31 December 2010. Probi monitors the development and launching work of its partners closely. This material provides the basis of the company's impairment tests. These tests indicated that no impairment requirements exist. The discount rate used was 12 % (12).

Group has reviewed the useful lives of its intangible assets in accordance with the provisions of IAS 38. This process has not led to any adjustments.

NOT 18 GOODWILL

Goodwill	Group	
	2010	2009
Opening cost	2 762	2 762
Closing residual value	2 762	2 762

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 value for cash-generating units has been determined by calculating the value in use. The discount rate used was 12 % (12) and growth has been calculated at 10 % (10), which is lower than the growth for the relevant licensing agreement in 2010.

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

Expenditure on leased property	Group		Parent Company	
	2010	2009	2010	2009
Opening cost	-	-	-	-
Acquisitions for the year	1 198	-	1 198	-
Closing accumulated cost	1 198	-	1 198	-
Opening depreciation	-	-	-	-
Depreciation for the year	-6	-	-6	-
Closing accumulated depreciation	-6	-	-6	-
Closing residual value	1 192	-	1 192	-

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	
	2010	2009	2010	2009
Equipment				
Opening cost	6 062	4 369	6 062	4 369
Purchases	840	1 813	840	1 813
Sales	-147	-120	-147	-120
Disposals	-78	-	-78	-
Closing accumulated cost	6 677	6 062	6 677	6 062
Opening depreciation	-3 310	-2 664	-3 310	-2 664
Depreciation for the year	-869	-646	-869	-646
Depreciation on sold equipment	-	-	-	-
Depreciation on disposed equipment	76	-	76	-
Closing accumulated depreciation	-4 103	-3 310	-4 103	-3 310
Closing residual value	2 574	2 752	2 574	2 752

NOTE 21 PARTICIPATIONS IN GROUP COMPANIES

Parent Company	2010	2009
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 FINANCIAL INSTRUMENTS

	Group		Parent Company	
	2010	2009	2010	2009
Accounts receivable	12 689	10 679	12 689	10 679
Cash and cash equivalents	89 762	71 707	89 762	71 707
Total	102 451	82 386	102 451	82 386

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.

Maturity structure of accounts receivable

	Group		Parent Company	
	2010	2009	2010	2009
Not fallen due	9 904	7 125	9 904	7 125
Falling due within 0–45 days	2 785	3 554	2 785	3 554
Total	12 689	10 679	12 689	10 679

Accounts receivable due for payment at year-end were settled before the end of February 2011. No impairments of accounts receivable took place in 2010.

NOTE 23 PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
	2010	2009	2010	2009
Royalty revenue	1 242	-	1 242	-
Prepaid rent	640	642	640	642
Other items	579	886	579	886
Total	2 461	1 528	2 461	1 528

NOTE 24 CASH AND CASH EQUIVALENTS

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

NOTE 25 SHAREHOLDERS' EQUITY

A specification of changes in equity can be found in "Changes in shareholders' equity", which follows directly after the statement of financial position.

No. of shares	A-shares	B-shares	Common share class	Total
No. on 31 Dec 2009	-	-	9 365 300	9 365 300
No. on 31 Dec 2010	-	-	9 365 300	9 365 300

The quotient value of the shares is SEK 5.

NOTE 26 OTHER LONG-TERM LIABILITIES

	Group		Parent Company	
	2010	2009	2010	2009
Liabilities to Group Companies, > five years	-	-	4 035	4 035
Total	-	-	4 035	4 035

NOTE 27 ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
	2010	2009	2010	2009
Accrued holiday pay including social security contributions	743	638	743	638
Social security contributions	352	363	352	363
Accrued royalty expenses	102	97	102	97
Accrued administration and selling expenses	844	649	844	649
Accrued variable remuneration to employees	1 025	-	1 025	-
Other accrued personnel costs	744	-	744	-
Other items	310	-	310	-
Total	4 120	1 747	4 120	1 747

NOTE 28 PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Group		Parent Company	
	2010	2009	2010	2009
Chattel mortgages	800	800	800	800
Total pledged assets	800	800	800	800

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	
	2010	2009	2010	2009
Skånemejerier, royalty revenue	11 035	274	11 035	274
Skånemejerier, sales	818	360	818	360
ProViva AB, royalty revenue	42 108	37 862	42 108	37 862
Total revenue	53 961	38 496	53 961	38 496
Skånemejerier, royalties and product costs	-58	-270	-58	-270
Lavindia AB, related party: Mats Lidgard (Board member)	-300	-144	-300	-144
Total costs	-358	-414	-358	-414

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

	Group		Parent Company	
	2010	2009	2010	2009
Operating receivables				
Skånemejerier	130	74	130	74
ProViva AB	4 268	3 805	4 268	3 805
Total operating receivables	4 398	3 879	4 398	3 879
Operating liabilities				
Skånemejerier	-	-135	-	-135
Total operating liabilities	-	-135	-	-135

In addition to the above transactions, Probi's Chairman Per Lundin invoiced Board fees from his own company, Vintage Management Nordic AB. The amount is recognised in Note 10 "Average number of employees, salaries, other remuneration and social security contributions".

Skånemejerier is Probi's second largest shareholder. Probi AB has licensing and delivery agreements with Skånemejerier pertaining to Bravo Friscus, and with ProViva AB pertaining to ProViva. Up until 30 September 2010, ProViva AB was a wholly owned subsidiary of Skånemejerier. As of 1 October 2010, ProViva AB is owned 51 per cent by Danone and 49 per cent by Skånemejerier. Revenue from Skånemejerier and ProViva AB is based on long-term agreements and the transactions have been carried out on market terms and at market values.

Transactions with other related parties mainly refer to compensation for costs and consulting fees.

NOTE 30 EVENTS AFTER THE BALANCE-SHEET DATE

Beginning 7 March 2011, the Board of Directors decided to initiate a buy-back of shares in accordance with a resolution at the 2010 Annual General Meeting on 22 April 2010. The meeting's authorisation entails that acquisitions must not exceed the highest number of shares, which at all times corresponds to 10 per cent of all of the company's outstanding shares. The Board's decision pertains to a buy-back of not more than 150,000 shares, corresponding to 1.6 per cent of the total number of outstanding shares. Before the decision, Probi did not own any of its own shares. Acquisition will take place on the Nasdaq OMX Nordic Exchange Stockholm at a price that lies within the registered price interval at the time of each acquisition.

The statement of comprehensive income and the statement of financial position will be presented to the Annual General Meeting for adoption on 28 April 2011.

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, 16 March 2011

Per Lundin
Chairman

Hilde Furberg

Mats Lidgard

Bengt Nilsson

Jan Nilsson

Michael Oredsson
CEO

Our auditor's report was submitted on 16 March 2011
Deloitte AB

Per-Arne Pettersson
Authorised Public Accountant

AUDITOR'S REPORT

To the Annual General Meeting of the shareholders of Probi AB (publ) Corporate Registration Number: 556417-7540

We have audited the annual accounts and the consolidated accounts, with the exception of the Corporate Governance Report on pages 41-42, the accounting records and the administration of the Board of Directors and the CEO of Probi AB (publ) for the period 1 January 2010 to 31 December 2010. (The company's annual accounts and consolidated accounts are included in the printed version of this document on pages 36-59.) The Board of Directors and the CEO are responsible for these accounts and the administration of the company as well as for the application of the Swedish Annual Accounts Act when preparing the annual accounts and the application of the International Financial Reporting Standards (IFRS) as adopted by the EU and the Swedish Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. These standards require that we plan and perform the audit to obtain high, but not absolute, assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting policies used and their application by the Board of Directors and the CEO when preparing the annual accounts and the consolidated accounts, assessing significant estimates made by the Board of Directors and CEO when preparing the annual accounts and the consolidated accounts and evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board Member or the CEO. We also examined whether any Board Member or the CEO has, in any other way, acted in contravention of the Swedish Companies Act, the Swedish Annual Accounts Act, or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion as set out below.

The annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and thereby provide a true and fair view of the company's financial position and results in accordance with generally accepted accounting policies in Sweden. The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and the Swedish Annual Accounts Act and thereby give a true and fair view of the Group's financial position and results. Our statements do not include the Corporate Governance Report on pages 41-42. The Directors' Report is compatible with the other sections of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting of shareholders that the income statement and the balance sheet of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Directors' Report, and that the members of the Board of Directors and CEO be discharged from liability for the financial year.

REPORT ON THE CORPORATE GOVERNANCE REPORT

The Board of Directors and the CEO are responsible for the Corporate Governance Report on pages 41-42 and that it is prepared in accordance with Swedish Annual Accounts Act.

As support for our statement that a corporate governance report has been prepared and is compatible with the other sections of the annual accounts, we have read the Corporate Governance Report and assessed its statutory contents based on our knowledge of the company.

A corporate governance report has been prepared, and its statutory information is compatible with the other sections of the annual accounts and the consolidated accounts.

Malmö, 16 March 2011
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: Yes
INDEPENDENT IN RELATION TO MAJOR SHAREHOLDERS: Yes



BENGT NILSSON

BORN 1960. Board member since 2010.
QUALIFICATIONS: LL.B., Lund University.
BACKGROUND: President of Total Produce Nordic A/S. Former positions include President and CEO of Everfresh AB.
OTHER BOARD ASSIGNMENTS: Subsidiary companies of the Total Produce Group.
SHARES IN THE COMPANY: 0
INDEPENDENT IN RELATION TO THE COMPANY: Yes
INDEPENDENT IN RELATION TO MAJOR SHAREHOLDERS: Yes



JAN NILSSON

BORN 1953. Board member since 2010.
QUALIFICATIONS: MD, PhD, Karolinska Institutet.
BACKGROUND: Board member since 2010. Professor in Experimental Cardiovascular Research at Lund University. Former positions held include Dean of the Faculty of Medicine at Lund University 2000-2005 and Deputy Secretary General at the Swedish Medical Research Council 1993-1996.
OTHER BOARD ASSIGNMENTS: Malmö Högskola.
SHARES IN THE COMPANY: 0
INDEPENDENT IN RELATION TO THE COMPANY: Yes
INDEPENDENT IN RELATION TO MAJOR SHAREHOLDERS: Yes



HILDE FURBERG

BORN 1958. Board member since 2005.
QUALIFICATIONS: B.Sc. in Medical Technology, University of Oslo.
BACKGROUND: Senior Vice President, Europe Personalized Genetic Health, Genzymes.
OTHER BOARD ASSIGNMENTS: Copenhagen Capacity.
SHARES IN THE COMPANY: 0
INDEPENDENT IN RELATION TO THE COMPANY: Yes
INDEPENDENT IN RELATION TO MAJOR SHAREHOLDERS: Yes



MATS LIDGARD

BORN 1954. Board member since 2004.
QUALIFICATIONS: LL.B., Lund University.
BACKGROUND: Board member since 2004. Senior Partner in the human venture capital company Lavindia AB. Formerly worked in the Pharmacia group, Active Biotech AB and SBL Vaccin AB as Chief Legal Officer and other managerial positions.
OTHER BOARD ASSIGNMENTS: Cebix AB, Eurocine Vaccines AB, Jatab Care AB, Synphora AB and Unitech Pharma AB.
SHARES IN THE COMPANY: 1 000
INDEPENDENT IN RELATION TO THE COMPANY: Yes
INDEPENDENT IN RELATION TO MAJOR SHAREHOLDERS: Yes

MANAGEMENT GROUP AND AUDITORS



MICHAEL OREDSSON

BORN 1960
CEO

QUALIFICATIONS: Degree in International Business Administration from Lund University.

BACKGROUND: 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



NIKLAS BRANDT

BORN 1959
CFO

QUALIFICATIONS: Business Administration Degree from Lund University.

BACKGROUND: 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



NIKLAS BJÄRUM

BORN 1963
Vice President of Marketing and Sales

QUALIFICATIONS: Degree in International Business Administration from Lund University.

BACKGROUND: Niklas Bjärum was employed in February 2001 and was given responsibility for the company's sales and marketing. Since receiving his degree in 1988, he has 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

AUDITOR

Deloitte AB

Per-Arne Pettersson, Authorised Public Accountant

ANNUAL GENERAL MEETING

The AGM will be held at 3 p.m. on Thursday 28 April 2011 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 at Wednesday 20 April 2011 and shall have notified the company of their intention to participate not later than 4 p.m. on Wednesday, 20 April 2011.

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 effected not later than Wednesday, 20 April 2011. This means that shareholders must notify of their intention to temporarily re-register these shares with the trustee 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
- 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 in addition to the representatives' names. The name of the representative must be provided.

A power of attorney form is available upon request.

CALENDAR FOR 2011

Interim Report, Q1	28 April 2011
Annual General Meeting 2010	28 April 2011 at 3:00 p.m.
Interim Report, Q2	19 July 2011
Interim Report, Q3	19 October 2011
Year-end report 2011	25 January 2012



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