

BIGGER!
STRONGER!
BETTER!
PROBI
2016!

Now even stronger

Organic growth is important. With the right acquisitions, you advance positions much faster and can create new opportunities.

In 2015, net sales rose 60% to MSEK 216.

In 2016, we upped the pace and net sales in existing business increased by 71% to MSEK 368.

To become even stronger, on all levels, we made our first major acquisition during the year of the US company Nutraceutix. If the acquisition is added, our net sales during 2016 totaled MSEK 444. (Nutraceutix is included as of the fourth quarter.)

Probi and Nutraceutix are a combination of two successful probiotics companies with strengths in different areas. Probi has longstanding research experience and Nutraceutix has longstanding production experience.

We are now seriously building a global probiotics group – we are already one of the four largest – and can leverage attractive synergism, primarily in sales in North America.

With a better presence in the market, and an exciting and creative broadening of our products, we are now even stronger.

Positive impact of probiotics

When we are born, we are sterile. Bacteria form on the skin, in the mouth and in the intestines directly after birth and then start to multiply. We carry a variety of microorganisms for the rest of our lives, with bacteria accounting for more than one kilo of a person's weight.

For a long time, scientists tried to understand, prevent and treat the diseases caused by bacteria. The enthusiasm was therefore considerable when penicillin and other antibiotics were discovered.

In the past three years, research has shown that only a very few of the bacteria that humans carry can be considered harmful. The opposite is true in that we can't live without the vast majority of them; they are good for the body.

Scientists have found a clear correlation between intestinal microbiota and good health. In healthy intestines, the bacteria live in symbiosis with the body by feeding on the fibres we consume and converting them into substances that are useful for the body. The bacteria are also important for stimulating the body's immune system. Half of the cells that affect our immune system exist in the intestines.

The natural intake of probiotic bacteria has declined

According to WHO (World Health Organization), Probiotics are defined as "live microorganisms, which when administered in adequate amounts confer a health benefit on the host" (FAO/WHO, 2001).

The microbial flora in the gastrointestinal tract is very important for our health. If the balance between "good" and "bad" bacteria is impacted, we can become ill. Probiotics help to balance intestinal flora, thus resulting in, for example, a healthier digestive system and more efficient immune response.

For thousands of years, people have eaten probiotic-rich fermented foods, such



Lactobacillus plantarum 299v (DSM 9843).

as yoghurt, sauerkraut, sausage, pickled herring and cheese. Fermentation, a method previously used for preserving food, has now essentially been completely replaced by refrigerators and freezers, as well as by new methods of preservation. Today, our intake of probiotics through the normal food we eat has declined considerably. One way to increase uptake is to eat food with added probiotics or dietary supplements that contain probiotics.

Probiotics are currently used to improve human health in a variety of areas, ranging from relieving cold symptoms and reducing diarrhoea, constipation and flatulence to preventing allergies and eczema. They can also reduce the side-effects of radiation and chemotherapy, and have beneficial effects on oral and vaginal health.

Research into global lifestyle diseases and the microbiota

In recent years, research has largely focused on studying the significance of bacteria to the emergence of lifestyle-related illnesses such as obesity, diabetes and cardiovascular diseases.

They have also started to chart the importance of human microflora, or "microbiota". New technology and major international research initiatives have demonstrated a link between low microbial diversity and the risk of developing various medical conditions. As a result, interest in increasing and widening the use of probiotics has grown considerably.

Probi's history

In the early 1980s, a number of researchers in Lund were exploring the high mortality of intensive-care patients. They concluded that this was probably due to a damaged intestinal lining, enabling harmful bacteria to leak from the intestine into the body. Scientists wondered whether the intestines could be tightened with the help of bacteria.

The foundation for Probi was laid in 1986 through an interdisciplinary research project between surgeons, microbiologists and nutritionists at Lund University in Sweden. The company was founded in 1991, based on promising research in which specific probiotics were identified and used to save the lives of critically ill patients and, in conjunction with this, a patent application was submitted for Probi's most studied bacterial strain *Lactobacillus plantarum* 299v (LP299V®). Probi's commercial phase began in 1994 when the company signed a licensing agreement with Skånemejerier, which led to ProViva being launched onto the Swedish market.

For more than 20 years, Probi has conducted research and clinical trials with

excellent results. During the late 1990s and the first half of the 2000s, extensive research and development activities commenced that would then pave the way for the international expansion that began in 2005 through collaboration with Institut Rosell and the launch of Probi's digestive health capsules, Probi Digestis®. Probi's immune function product platform, Probi Defendum®, was launched in 2010.

The US expansion, which commenced in 2011 through an agreement with Pharmavite, accelerated in 2012 due to the distribution agreement with Viva 5 and sales to NBTY.

Following a positive outcome in clinical studies of iron absorption, the Probi FerroSorb® product was launched in 2016.

The acquisition of the US company Nutraceutix during 2016 means that Probi is a complete probiotic company featuring R&D, production, fermentation, marketing and sales.



Throughout the years, Probi has been headquartered in the Ideon research park in Lund, Sweden.



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This is Probi

Probi AB is a global probiotics company, headquartered in Ideon in Lund, that develops, produces and markets effective probiotics.

Probi has created a strong product portfolio, primarily in the gastrointestinal health and immune system niches, which was broadened in 2016 with the acquisition of American firm Nutraceutix. This acquisition has provided Probi with access to fermentation and production capacity in GMP-certified facilities. Probi's customers are leading food, health-product and pharmaceutical companies in the Group's two business areas: Consumer Healthcare and Functional Food. Probi's shares are listed on the Nasdaq OMX Stockholm, and on 1 January 2017 they were moved up to the Mid Cap segment. At that time Probi had slightly over 4,700 shareholders.

More than 30 countries

Probi's products are sold or in the process of being launched in slightly more than 30 countries, and the geographic spread is increasing gradually.

71% organic growth

In 2016, net sales increased to MSEK 444 (216). During the year, Probi's sales grew organically by 71%, mainly because of a highly positive trend in the US. Net sales in existing business increased by MSEK 152 to MSEK 368 (216). Net sales from the acquired business, which is incorporated as of the fourth quarter, totalled MSEK 76.

444
million

Net sales rose to MSEK 444 (216).

130
million

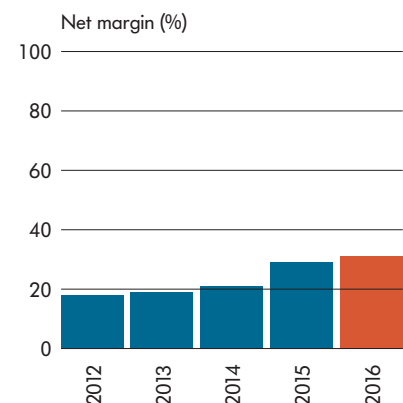
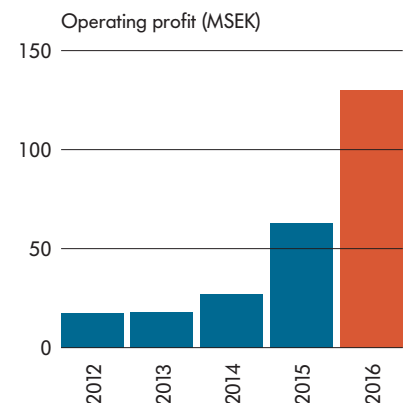
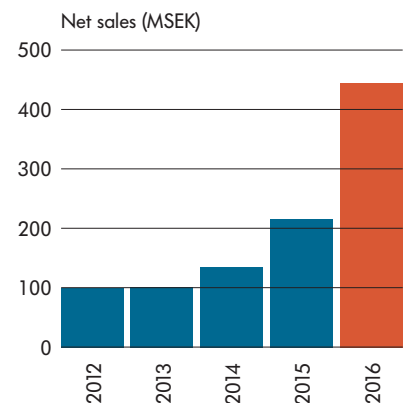
Operating profit increased to MSEK 130 (63).

31
%

The net margin increased to 31% (29).

200
employees

At the end of 2016, Probi had 200 employees (37).



2016 in brief

Four probiotic platforms

Probi markets probiotic products within four different product platforms:

PROBI PREMIUM™ is Probi's well-documented probiotic product platforms that have undergone thorough clinical trials; Probi Digestis® primarily for stomach problems, Probi Defendum® which strengthens the immune system and Probi FerroSorb® which stimulates the body's absorption of iron.

PROBI SELECT™ is three of Probi's existing probiotic platforms that were not previously commercialised. During autumn 2016 Probi compiled historic documentation to prepare for marketing and sales of these strains in the US.

PROBI LIVEBAC® comprises a technology platform that makes it possible to produce probi-

otic products that are guaranteed to keep for their entire shelf life, even when stored at room temperature.

PROBI BIO-TRACT® is a patented delivery technology that protects probiotics from gastric acids and ensures that a larger share of living bacteria reaches the intestinal system. The technology also helps to optimally release the living probiotics throughout the digestion process.

Commercial research

Probi conducts extensive and structured research and development activities, with all projects based on customer requirements. In recent years, several trials have presented results that are important for Probi's future development, in both the long and the short term.

Two business areas

In the company's two business areas, Consumer Healthcare and Functional Food, and in partnership with leading food, health-product and pharmaceutical companies, Probi develops, markets and sells probiotics in the form of capsules, tablets and fruit juice drinks. Probi has its own fermentation and production capacity in GMP-certified facilities in the US.

From 37 to 200 employees

In 2016, the number of employees rose from 37 to 200, primarily due to the acquisition of American firm Nutraceutix with 159 employees.

FIRST QUARTER

- Probi Järn®, Probi's product to increase iron absorption, was launched in Sweden.
- Launch of Probi's products in Singapore.
- Acquisition of license for new probiotic strains for food applications from Swedish company Probac.

SECOND QUARTER

- Agreement to acquire Nutraceutix, leading to a significantly expanded presence in North America.
- An Extraordinary General Meeting resolved on a preference share issue of about MSEK 602 to finance the acquisition of Nutraceutix.
- New agreement with Ipsen Pharma for the launch of Probi's digestive health capsules in 18 markets.
- Agreement on launch of Probi FerroSorb® in Austria, the first market outside Scandinavia.

THIRD QUARTER

- Probi Digestis® Probi's digestive health capsule was launched onto the German market.

FOURTH QUARTER

- Acquisition of Nutraceutix completed.
- The preference share issue was fully subscribed, contributing MSEK 587.3 to Probi after deductions for issue expenses.

We are building a globally leading probiotics group

Probi continues to grow extremely rapidly. Organic growth remained high in 2016, amounting to 71%. While managing to post such high growth figures, we completed our largest acquisition ever during the year with the acquisition of the American firm Nutraceutix.

We see great potential in Nutraceutix. The combination of Probi's outstanding research and development skills with Nutraceutix' expertise in technologies and manufacturing will contribute to Probi's growth and create a new integrated probiotics player. This acquisition creates a stable platform for pursuing growth in the US and in the global market. The two businesses are a good match, bringing positive change to both parties which facilitates the integration process. In the autumn we worked hard to integrate Nutraceutix, and the process has advanced much faster than expected.

We have taken a major step in the building of an important group within the probiotics world through this acquisition. Probi now ranks in the top group of integrated probiotic players, with enhanced size and capacity. Proprietary production in the US improves our position in the value chain. Our market position in North America is stronger, and opportunities for continued growth in other markets have increased significantly. The acquisition will add new technologies, manufacturing capabilities and about 175 new customers, as well as creating a stable platform for further acquisitions in the future.

During the autumn, we highlighted three of Probi's proprietary probiotic strains that have not yet reached the market because we did not have a suitable channel. One strain is for children, one for adults and one for the immune system area. We are expanding our range in the US and immediately creating added value. We know that many customers in the US are demanding these

products, and we believe that the greatest synergy from the acquisition will initially come from the sales growth generated by these new strains.

Focus on Functional Food and Asia

In 2015, we expanded the organisation to develop the market for the Functional Food business area. The business area has held discussions with several potential customers, primarily food companies, in order to produce new ideas and solutions based on our probiotics. I am optimistic that we will close at least one significant deal in 2017.

Asia currently has the greatest geographic potential for Probi. Since China has experienced strong growth, and Japan is the second-largest probiotics market in the world, in per capita terms, one of our focus areas for 2017 will be to determine how we can grow in Asia and implement an establishment strategy.

Operations and R&D

In early 2016 we completed a reorganisation in the course of which we created an Operations department because we needed to clarify and structure our internal processes.

The reorganisation was a success, and it has clarified areas of responsibility for the various parts of our organisation. The R&D pipeline performed well during 2016, with few delays and more studies being completed.

In 2017, we will present the results of our large gastrointestinal study, in which we used new technology and compared changes in intestinal microflora with a placebo group. We also had a successful pilot study where we were able to use new methods to demonstrate positive effects from an intervention using Probi's probiotics. In total, I view these studies as a breakthrough for Probi's research in the gastrointestinal field.

New share issue fully subscribed

Our successful issue of new shares in order to finance the Nutraceutix acquisition was fully subscribed, thus demonstrating the strong interest in the company. The number of Probi shareholders increased to about 4,700 during the year, while Probi's share turnover rose significantly. Probi's shares have been traded on the Stockholm exchange Mid Cap list since the beginning of the year.

The future

At Probi, we have a passion for probiotics. We work with others who have the same passion, so that we can successfully get our products out to the people who need them. We are building a globally leading probiotics group, and the acquisition of Nutraceutix in 2016 was a major step forward. The probiotics market is growing globally, and we have now gained a strong foothold in the North American market. Asia has several large and growing markets where probiotics have been available for several decades. We see opportunities for Probi in this area.

Now we've completed a major acquisition, but we're not satisfied yet. Since the integration of Nutraceutix has gone more rapidly than expected, this may mean that we will be ready to take the next step already in 2017. However, many factors still have to be taken into account. The timing of an acquisition is not always up to us.

Probi will continue building a globally leading probiotics group in every respect in 2017, in a market with multiple opportunities for growth.



Peter Nählstedt
CEO





175 customers

Nutraceutix has about 175 customers, primarily in the US.

BIG

160 employees

Nutraceutix employed about 160 people at the end of 2016.



340 million tablets

In 2015, Nutraceutix produced about 340 million tablets and 4.3 million packages.

GER!

Redmond and Lafayette

Nutraceutix' head office and fermentation facilities are located in Redmond Washington, while its production and packaging facilities are in Lafayette Colorado. Both facilities are GMP certified.



The Big Five

Nutraceuticals is one of the five largest probiotics manufacturers in North America.

STROM

Bio-tract[®]

Customers view the Bio-tract[®] delivery technology as a very important reason to choose Nutraceuticals.

Loyal customers

Customer surveys show that Nutraceutix has extremely loyal customers, thanks to good customer support, high productivity and access to technology platforms.

LiveBac®

LiveBac® processing technology enables Nutraceutix to produce probiotic products with a guaranteed shelf life.

WARGER!

High flexibility

With its extremely flexible production, Nutraceutix has built a portfolio of strong customers, including e-commerce customers, contributing to its strong growth.

Patents in 30 countries

Nutraceutix has been granted patents in over 30 countries.

BET

Four product categories

Nutraceutix sells its products in four different categories: pure bacterial powder, formulated bacteria powder, tablets and capsules and products packaged for consumers.

Naturally derived strains

All Nutraceutix strains used for human consumption are naturally derived.

Proprietary brands and “white labels”

Nutraceutix sells products under proprietary brands and “white labels”, giving its customers the opportunity to sell the products under private labels.

TER!

33 years of experience

Nutraceutix was founded in 1983.

Fermentation and manufacturing

The probiotics are fermented and mixed at the Redmond facility, while capsules and tablets are produced at the Lafayette facility. Both facilities are GMP certified.

“ I like Probi’s internal communication, and the way everyone gets involved and looks forward to all the exciting things that are on the way. Of course I was nervous at first, as with all acquisitions. But I relaxed when we had the chance to find out about the company’s goals and intentions.”

José Lanza, Quality Control Supervisor, Lafayette, CO



“ The Nutraceutix acquisition is in line with our ambitions. It’s Probi’s first major acquisition, but definitely not the last. A successful integration significantly elevates employees’ expertise, thus strengthening Probi as a company. Financial profitability is a positive side effect of the process.”

Magdolna Dimén, Group Controller, Lund

“ It’s a privilege to be a Probi employee, and I’m grateful. Probi will become a larger and more global company through this acquisition, which will affect my duties in different ways. I hope that we’ll learn from each other and take advantage of our different strengths and experiences.”

Pernilla Ekberg, Clinical Project Manager, Lund



“ Probi is an open company. Everyone is welcoming, and they really listen. I like the fact that they are integrating the two companies rather than just changing the structure. The manufacturing capacity that is now available to Probi will give us better control over the entire process. These two companies are a perfect match. Probi provides research, and Nutraceutix provides manufacturing.”

Stephen Preston, Fermentation Manager, Maintenance Manager, Safety Manager, Redmond, WA

“ I like working for Probi and I really enjoy my job. The most exciting thing is the future growth potential. This acquisition strengthens Probi by providing major opportunities to expand and become an important player in the global probiotics industry.”

Christian Solano, Maintenance Supervisor, Lafayette, CO



“ Probi demands high-quality and sets clear objectives within stated time frames. The internal atmosphere is good, and employees work well together. The company has good growth prospects in both the short and long terms, thanks to Nutraceutix’s existing customer base and Probi’s research background.”

Rodney Wittenhagen, Blending Supervisor, Redmond, WA



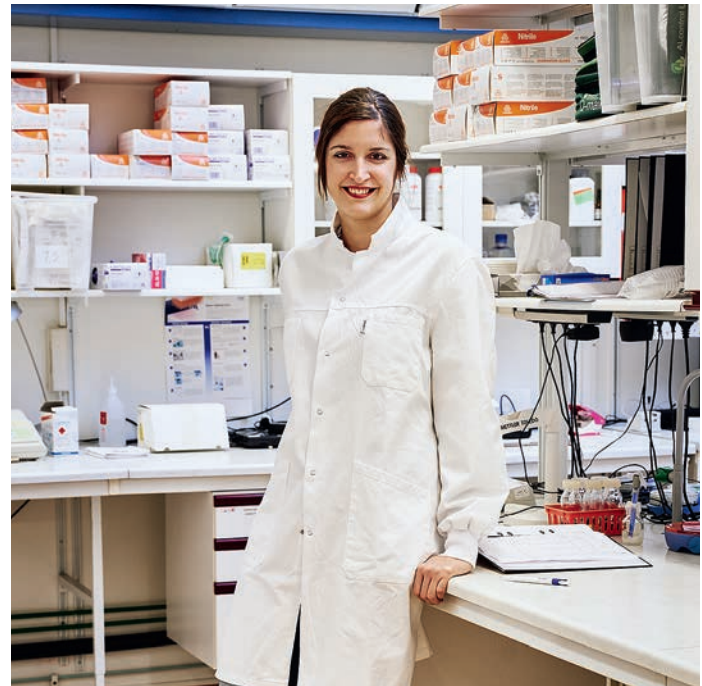
“ It’s interesting to work at a company that makes such large ongoing investments in research. We’re now one of the four largest probiotics companies in the world, which is exciting. This represents a tremendous opportunity for our products to develop, become even more competitive and reach more markets.”

Jorge Mosqueda, Production Manager, Lafayette, CO



“ During my time as a Probi employee, the company has done an excellent job at making sure that all of us feel part of the same team. The acquisition will result in lots of opportunities. Above all, Probi will now have a presence in North America, which opens up a lot of new business opportunities.”

Nicole Nies, Plant Manager, Lafayette, CO



“ I’m really happy to be part of the Probi family. All of the different projects going on and our rapid growth are exciting. Nutraceutix is a good strategic acquisition – the two companies complement one another nicely. It’s very exciting that we’re on the way to becoming one of the top four in probiotics in the world.”

Marusa Bratus, QA associate, Lund



“ It’s exciting being part of a company that wants to be a global leader in probiotics, coming from what’s already a strong position. Nutraceutix is an experienced producer and, when this is combined with Probi’s solid scientific research, the result will be top-quality products.”

Carlos Montes, Quality Control Supervisor, Lafayette, CO



“ I’m really looking forward to continuing to work at Probi. I’ve met a lot of interesting people, and we have an exciting future ahead of us. Being acquired by a European company is an interesting new development for me – and a challenge as well. It’s exciting to see how companies outside the US manage their businesses.”

Becky Olson, Human Resources Manager, Redmond, WA

AN INTEGRATED PROBIOTIC

Both Probi and Nutraceutix have experienced extremely strong sales growth in recent years. The acquisition gives Probi a unique opportunity to establish a fully integrated probiotics company with promising sales synergies, primarily in the North American market, but also in Asia, Europe and South America.

The acquisition confirms Probi's position as one of the four largest global, integrated probiotic operators. It creates a solid platform for further acquisitions, which can initially help to strengthen Probi's market presence and growth potential, while continuing to broaden the product offering.

The combination of Probi's strong research focus and Nutraceutix's manufacturing experience will enable Probi to develop the combined customer portfolio with both knowledge and a broad product offering. Access to own production creates flexibility and in-depth knowledge of the entire value chain, which will further strengthen Probi's competitiveness.

INTEGRATED BUSINESS GROUP

Probi's objective is to achieve growth that exceeds the market average. The company has the following strategic priorities in order to achieve this objective:

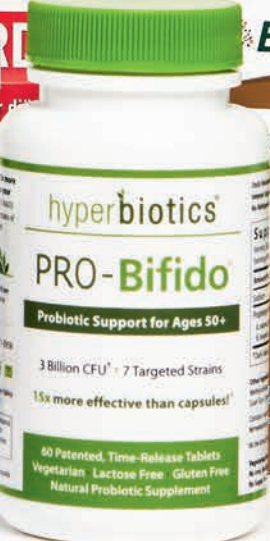
- strengthen and develop existing products
- enter new markets, with a focus on the rapidly growing markets in Asia, and North and South America
- continuously launch new products
- enter new indication areas

The Nutraceutix acquisition is completely in line with these priorities, and it will help to achieve:

- a noticeably larger presence in the attractive North American market
- important new technologies, manufacturing capacity and customer relationships
- a strong platform for further acquisitions in the future

Probi markets probiotic products within four different product platforms: **Probi Premium™**, Probi's well-documented probiotic product platforms that have undergone thorough clinical trials. **Probi Select™**, three of Probi's existing probiotic platforms that were not previously commercialised. **Probi LiveBac®**, a technology platform that makes it possible to produce probiotic products that are guaranteed to keep for their entire shelf life, even when stored at room temperature. **Probi Bio-trac®**, a patented delivery technology that protects probiotics from gastric acids and ensures that a larger share of living bacteria reaches the intestinal system.





Business concept, vision and mission

Probi operates in the global health products market. The company offers probiotics of the highest quality to food, health and pharmaceutical companies.

Vision

Probi's vision is to become a world leader in probiotics and to help people live healthier lives. With world-class research and effective products, Probi is the natural choice for customers, employees and partners who wish to share our passion for probiotics.

Mission

Probi contributes to the global development of probiotics through inquisitiveness, passion and research. At Probi we work with our partners with the focus on consumers' health.

Business concept

To provide probiotics with proven health effects to leading food and consumer health-care companies. With an exclusive focus on probiotics Probi offers flexibility, expertise and partnership all the way from R&D and marketing to production of the finished product.

Two business areas

Probi's business is organised in two business areas: Consumer Healthcare and Functional Food.

Consumer Healthcare

Consumer Healthcare develops, manufactures and markets Probi's probiotics. Customers are pharmaceutical companies and other companies specialised in probiotics and self-care products. The regulatory status of the products is either food or consumer healthcare products, depending on the market. Revenue is derived from sales of goods in bulk or in consumer packaging.

Functional Food

Functional Food develops food that contains Probi's probiotics. Development takes place in partnership with food companies, in order to commercialise and market products with high volume potential. Revenue is mainly derived from royalties from partner-generated sales.

Four probiotic platforms

Probi markets probiotic products within four different product platforms:

- Probi Premium™ is Probi's well-documented probiotic product platforms that have undergone thorough clinical trials; Probi Digestis®, primarily for stomach problems; Probi Defendum®, which strengthens the immune system and Probi FerroSorb®, which stimulates the body's absorption of iron.
- Probi Select™ comprises three of Probi's existing probiotic platforms that were not previously commercialised. During

autumn 2016, Probi compiled historic documentation to prepare for marketing and sales of these strains in the US.

- Probi LiveBac® is a technology platform that makes it possible to produce probiotic products that are guaranteed to keep for their entire shelf life, even when stored at room temperature.
- Probi Bio-tract® is a patented delivery technology that protects probiotics from gastric acids and ensures that a larger share of living bacteria reaches the intestinal system. In addition, the technology helps to release the living probiotics in the best way throughout the entire digestion process.

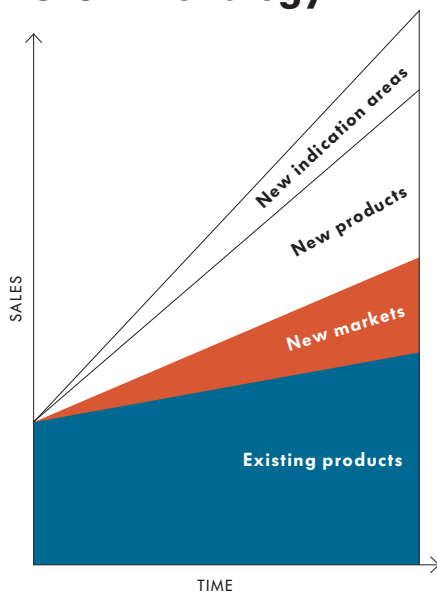
Financial objectives

Probi's overall objectives are to generate a return for its owners, and to generate funds for developing the business operations and creating growth. The Management Team manages and controls the company based on the guidelines and financial objectives adopted by the Board.

Growth

To generate growth that outperforms the market. During 2016, Probi achieved growth of 106% (60), including acquired operations. Organic growth in existing operations was 71% (60). Organic growth was 67% (42), adjusted for currency effects.

Growth strategy



Margin

Growth is to be combined with a profit margin (EBITDA) exceeding 20%. Probi's EBITDA margin for 2016 was 34% (32). Adjusted for currency effects, the EBITDA margin for 2016 was 34% (27).

Strategy

Probi's strategic focus is on probiotic-based products, in which Probi has world-leading, patented technology.

Probi's growth strategy

Probi's growth strategy encompasses investments in four areas: existing products, new markets, new products and new indication areas. Growth may be achieved organically or through acquisitions in all of these areas. The growth strategy is illustrated in the diagram to the left.

Existing products in existing markets

The company constantly works to achieve growth for existing products in existing markets. This can be achieved by gaining market share, chiefly by expanding distribution and increasing marketing and sales efforts. Probi works closely with its B2B partners in order to provide the best possible support, and thereby prospects for growth in existing markets.

New markets

Probi believes that there is major potential for continued international growth. Its strategy is to continue launching existing products in new geographic markets with significant growth opportunities. Probi sees great potential today in markets in Asia and South America, but also in parts of Europe and the Middle East.

New products

Probi's research strategy includes developing additional clinical platforms, and Probi has a number of clinical projects under way with the aim of developing new platforms and improving existing ones.

The strategy also includes developing new product applications based on the existing platforms, which can include targeted products that combine probiotics with vitamins or minerals, for example.

New indication areas

Technical advances in microbiome research have produced greater opportunities to demonstrate the efficacy of probiotics in new indication areas. Probi partners with leading microbiome research teams, and the company intends to commercialise new platforms in promising new indication areas in the future.

Global growth for probiotics remains extremely strong

The market for probiotics is driven by a combination of consumer-related factors and scientific advances.

Consumer-driven factors

Research has demonstrated that intestinal microflora are important to our health. Public interest in health, diet, exercise and well-being among consumers is growing across essentially the entire world, thus increasing demand for products with beneficial health effects such as probiotics.

The middle class is growing internationally, and higher disposable incomes mean increased purchasing power. With an aging population comes an increased need for healthcare and pharmaceuticals, as well as higher demand for health products. As people age, the microbiota (intestinal microflora) change,

which can have negative effects on health. It has been demonstrated that probiotics can have a positive effect on intestinal microflora.

Scientific advances

Research into intestinal microflora and probiotics has increased as new technology has made it possible to analyse the human microbiome. Research findings show the potential efficacy of probiotics in metabolic and psychological conditions, alongside the more established areas of the gastrointestinal tract and immune response. These results are driving the development of new indication areas for probiotics, which is expected to contribute to continued market growth in the longer term as well.

The global market for probiotics

The market for probiotics can be divided into an ingredient market ("B2B" – business to business) and the consumer market ("B2C"

– business to consumer). Probi's primary business is in the B2B category. The market can also be divided into areas of application: consumer healthcare and functional food.

Market size and growth

According to Euromonitor the total market for probiotics sold to consumers is expected to grow by an average of about 9% per year until 2021. In 2016, global sales of probiotics totalled some USD 37 billion, and the market is expected to grow to about USD 58 billion by 2021. According to Euromonitor's categorisation, Functional food products account for about 90% of global probiotics sales and the consumer healthcare category for about 10%.



USA

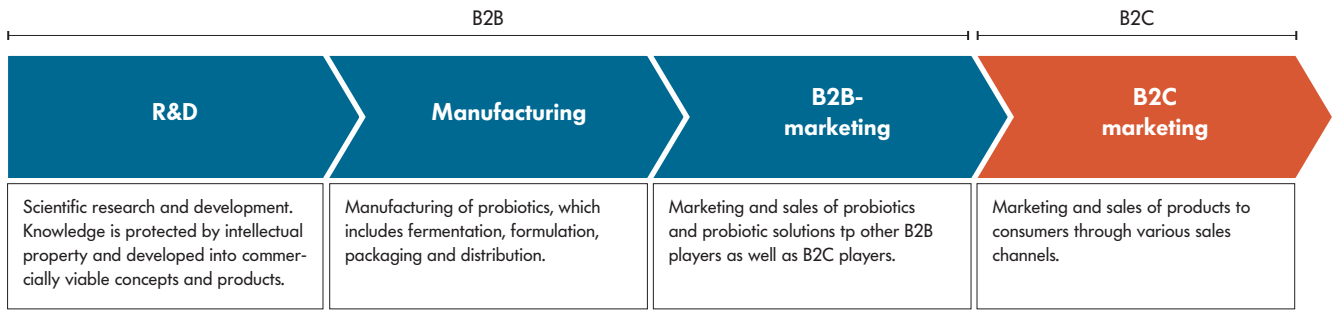


South Korea



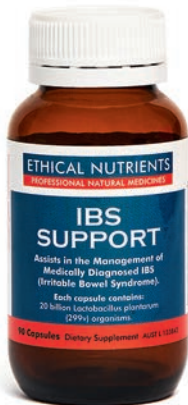
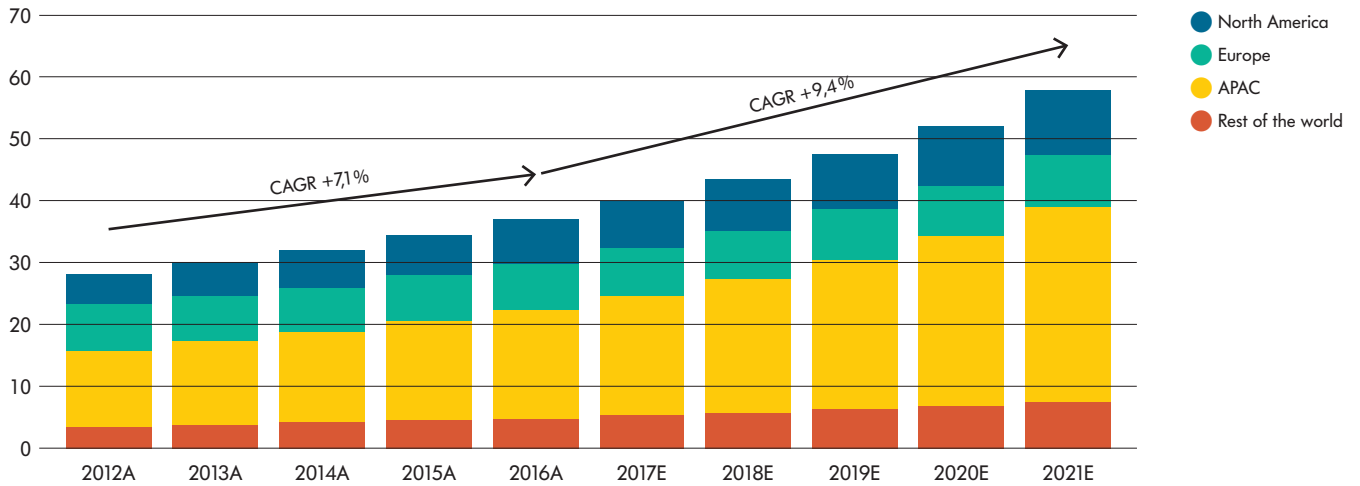
South Korea

The probiotic valuechain

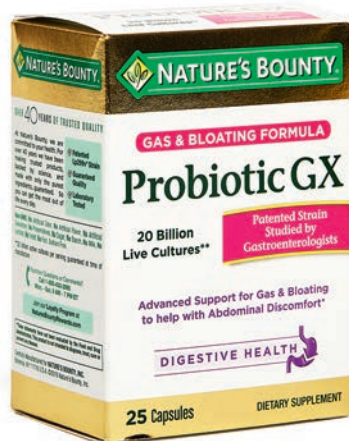


Total consumer market (B2C) for probiotics 2012-2021

USD billion



Australia



USA



South Africa

Geography and product categories

Europe

Consumption of probiotic foods has been strong in many markets in Europe for several years. Growth has been restrained by the regulation of health claims that was introduced in 2012, which meant that the term “probiotics” could not be used in marketing, as well as by generally weak economic growth. However the European market is still large in general, with favourable growth prospects in several countries.

Consumer Healthcare

After North America, Europe is the second largest region for consumer healthcare products. Consumer healthcare products appeal to European consumers thanks to their convenient format, clear dosages and the near absence of calories. Italy is the single largest market in Europe, showing the highest per capita consumption of consumer healthcare products in the entire world.

Functional Food

Probiotic yoghurt is an important driver of sales in the functional food category. The regulation of health claims in the EU has had a negative impact on sales for several years. Moreover, the yogurt category has suffered in general from poor economic conditions in Southern Europe. Taken together, these two factors have resulted in a decline in functional food sales in Europe.

North America

The North American market is expected to show continued strong growth. Consumer healthcare is expected to show strong growth of almost 11%, while functional food is expected to show weaker growth. The North American market is characterised by receptiveness to innovation. Products are sold through multiple sales channels, including the Internet, retail food and pharmacy, health food stores and direct sales. The ability to offer a broad range with multiple product variations is an important competitive factor since it generates better exposure. A number of new players are establishing themselves directly in e-commerce channels and achiev-

ing significant sales in a short time. Consumer trends in the US point to a higher share of online purchases.

Consumer Healthcare

North America is the largest market for consumer healthcare products. Dietary supplements are the category with the strongest growth. North American consumers have had the habit of supplementing their diet with various supplements for several years.

Altogether numerous factors with a positive interaction result in the positive market trend in North America:

- Increased interest in probiotics, and an increase in the number of available products containing probiotics was one of the strongest trends in the natural health area in 2016.
- Increased availability in all market channels.
- Increased availability in retail via “private label”.
- New technologies that improve the efficacy of probiotics, such as delivery technologies that prevent the bacteria from being affected by the low pH in the stomach.
- There is receptiveness to natural dietary supplements in Canada, with demand for consumer healthcare products.

Functional Food

The North American functional food market is characterised by strong competition from other product categories. In the dairy area, probiotic yoghurt competes with products characterised as “origin yoghurt”, which refers to yoghurt that originates from Greek or Turkish yoghurt, for example. These products often have other nutritional benefits, such as high protein content and low fat content.

Asia and the Pacific area (APAC)

The total market for probiotics in APAC is expected to grow by more than 12% per year until 2021. There is an ancient tradition of fermented foods on several Asian markets, resulting in high awareness of probiotics. Products that specialise in improving children’s

health have strong growth potential in Japan, South Korea and China, since families, which often have only one child, devote significant resources to their child’s performance and development.

Consumer Healthcare

APAC is the third-largest market for consumer healthcare products. In Asia, consumer healthcare products are commonly sold as medications or OTC products. The consumer base in the region is expanding in pace with economic growth. Consumer healthcare is currently a retail niche in China, and the pharmacy channel is beginning to develop as a primary sales channel. The largest individual consumer healthcare markets are Japan, Taiwan, South Korea and China.

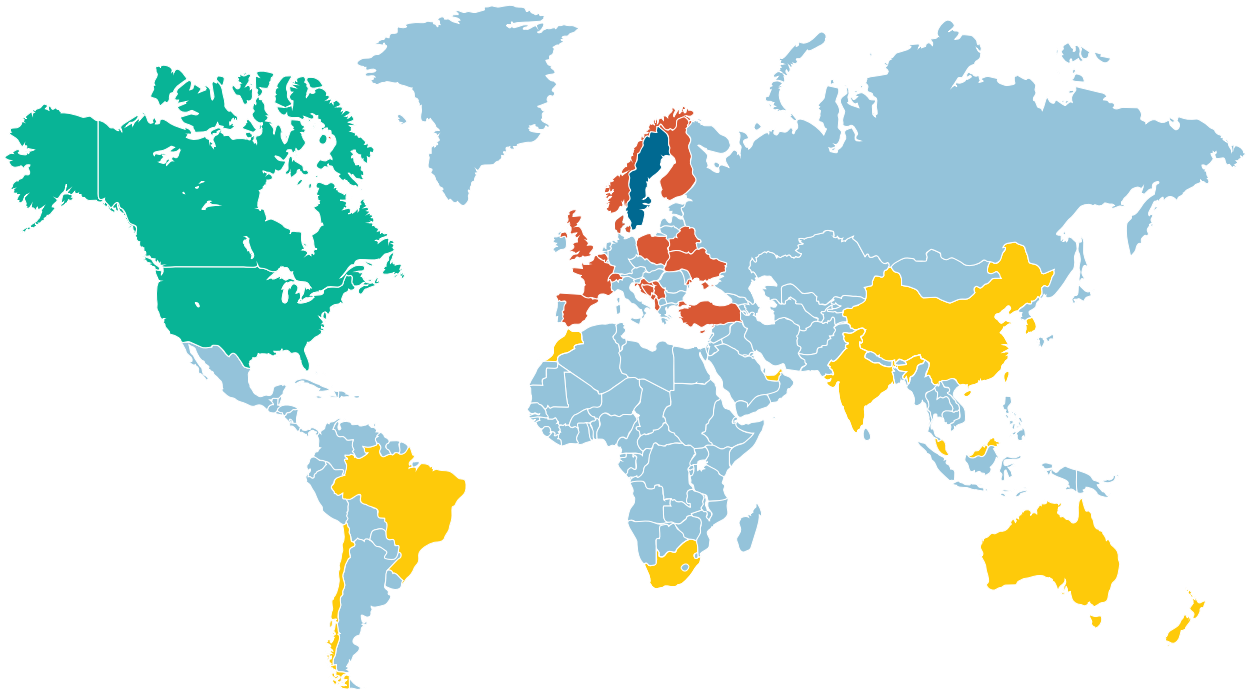
Functional Food

Growth in the functional food category in APAC is primarily driven by strong growth in sales of probiotic yoghurt in China. Growth in India comes primarily from sales of probiotic yoghurt drinks. Despite its maturity, the Japanese market is showing healthy growth thanks to high health consciousness.

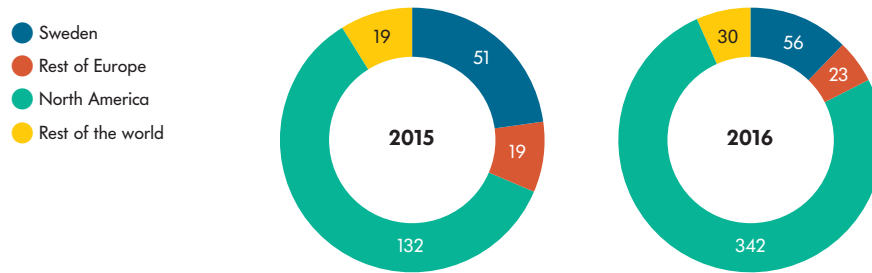
Market players

The probiotics market is fragmented, and characterised by cooperative arrangements in the form of partnerships and other types of business relationships between different players. Three categories of players operate in the market: research and development firms, manufacturing firms and sales companies and brand owners. There are also a number of integrated players, i.e. those who are active in the entire B2B value chain.

The leading players are Chr. Hansen, DuPont/Danisco and Lallemand. Unlike Probi, none of them focus exclusively on probiotics. Chr. Hansen and DuPont/Danisco have a well-developed sales and distribution network and large-scale production. In addition to a focus on the value chain, most of the other players are geographically focused on a particular regional market.



Geographic distribution of revenue (MSEK)



Europe – Market size and growth for probiotics

USD billion	2012A	2016A	2021E	CAGR 2012-2016A	CAGR 2016-2021E
Consumer Healthcare market	1.0	1.3	1.7	7.2 %	5.9 %
Functional Food market	6.5	6.1	6.7	-1.5 %	1.6 %
Total	7.5	7.4	8.4	-0.2 %	2.4 %

North America – Market size and growth for probiotics

USD billion	2012A	2016A	2021E	CAGR 2012-2016A	CAGR 2016-2021E
Consumer Healthcare market	1.0	2.1	3.6	20.8 %	11.2 %
Functional Food market	3.8	4.9	6.8	6.5 %	6.6 %
Total	4.8	7.0	10.4	9.9 %	8.1 %

APAC – Market size and growth for probiotics

USD billion	2012A	2016A	2021E	CAGR 2012-2016A	CAGR 2016-2021E
Consumer Healthcare market	0.6	0.8	1.0	5.6 %	5.4 %
Functional Food market	11.6	16.8	30.4	9.6 %	12.7 %
Total	12.2	17.6	31.4	9.4%	12.4 %

CAGR = Compound Average Growth Rate

Source: Euromonitor

The right product with the right quality at the right time

Operations’ overall objective is to “Provide customers with the right product with the right quality at the right time”.

Operations has overall responsibility for production and supply, product and application development and quality. Operations interfaces with the entire organisation, and focuses on the customer, both internally and externally. The customer could be R&D, which needs a study project for a clinical trial, a customer who needs a unique new product format or

faster delivery, or a new customer who needs assistance in setting up an analysis prior to releasing the packaged product.

Through its acquisition of the American company Nutraceutix, Probi has access to its own production capacity and is thereby a fully integrated organisation that encompasses the entire value chain. Bacteria cultures are cultured and processed in the Redmond (WA) fermentation facility, and capsules and tablets are produced and packaged for consumers in Lafayette (CO). Both facilities are GMP certified. In 2017, Probi will begin an expansion of its fermentation capacity and establish a

fermentation laboratory in Redmond.

Access to its own production capacity allows Probi to make the strategically important “make or buy” decision, in other words whether to purchase the product or manufacture it themselves. This will permit greater flexibility and speed than in the past, and will permeate a large part of Operations going forward. Decisions are governed by multiple factors such as volume, access, demand and price.

The Product & Application Development department is responsible for product formulation. Different formulation technologies are used for different types of products and application areas, such as drinks, tablets and capsules. The choice of packaging is important, and it is influenced by external factors such as the climate where the product is to be sold.

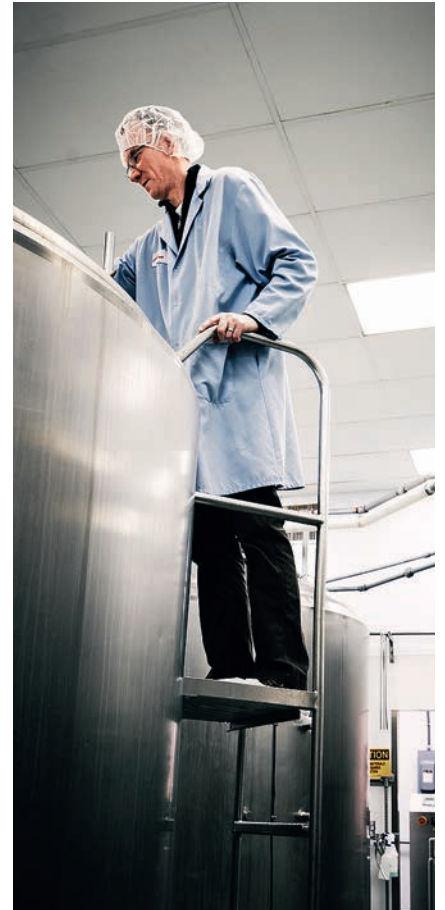
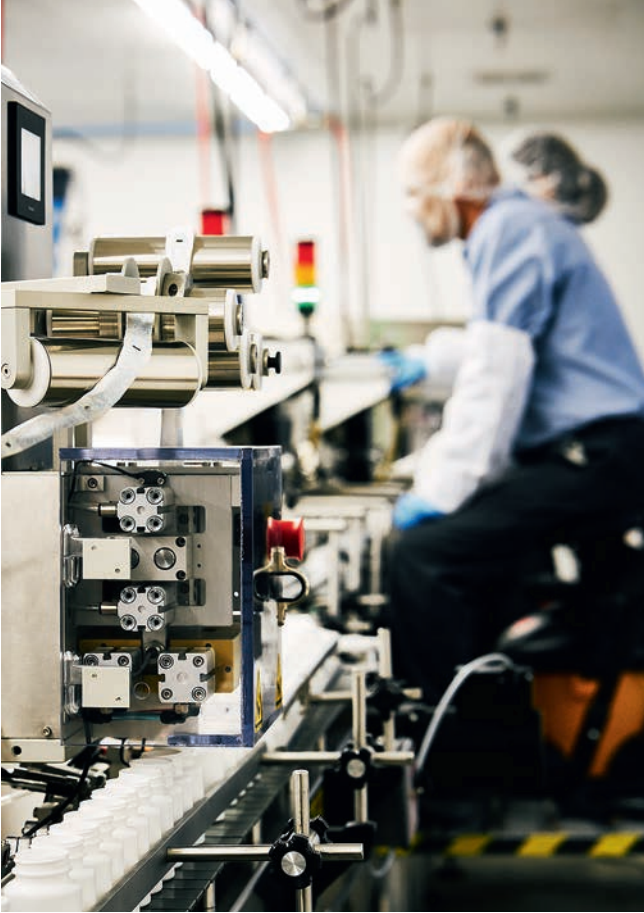
Probi’s laboratory performs microbiological analyses in order to guarantee product quality, and it analyses samples from clinical trials. The laboratory also implements a comprehensive stability programme for new and existing products. Its working methods were updated in 2016 to be able to handle an ever increasing number of analyses.

The quality department is responsible for overall quality, both internally and on the part of suppliers. Evaluations and in some cases inspections are performed regularly in order to guarantee quality. Among many other tasks in the past year, the department has worked to ensure the quality of processes together with important suppliers.

Going forward, Operations will focus on ensuring the quality of the entire value chain, which is a requirement for Probi’s continued rapid growth.

Operations’ duties





Consumer Healthcare business area

Continued strong growth in the US – breakthrough orders in Europe

2016 proved to be yet another strong year for Consumer Healthcare. North America in particular, led by the US, continued to rise sharply and is now the business area’s largest market by far. Probi has gained a strong foothold in the US in recent years, during which time the total North American market has grown rapidly.

The pace of innovation and new product offerings are key drivers of the probiotic supplement market in North America. The acquisition of Nutraceutix and the presence that Probi will gain in the US market will enable the company to act even faster there.

Nutraceutix gives Probi both a stronger presence and more breadth to its product range. Probi’s customer base is increasing from about 10 to nearly 200 customers, while the company now has an offering that is attractive to a broader share of the market. Local market knowledge, combined with flex-

ibility and speed, provides an additional competitive edge. Probi is now able to market Nutraceutix’s products and technologies beyond the North American market. Sales of three of Probi’s developed probiotic strains, which have not yet been commercialised, will also begin in the North American market in 2017.

The business area has been successful in Asia, including with partners in South Korea. Asia remains a market with huge potential for Probi.

Along with restrictive EU regulations, a high level of activity in North America and Asia has resulted in a period of less focus on business development in Europe. The expansion of Probi’s market and sales organisation in 2015 combined with higher market growth led to a number of new and significant agreements during the year.

Early in the year, a distribution agreement was signed with StarXYZ regarding a launch in Singapore. The launch will include Consumer Healthcare products from Probi’s three product platforms Probi Digestis®, Probi Immune® and Probi FerroSorb®.

Probi signed a licence and distribution agreement with the French company Ipsen Pharma in the second quarter. The agreement

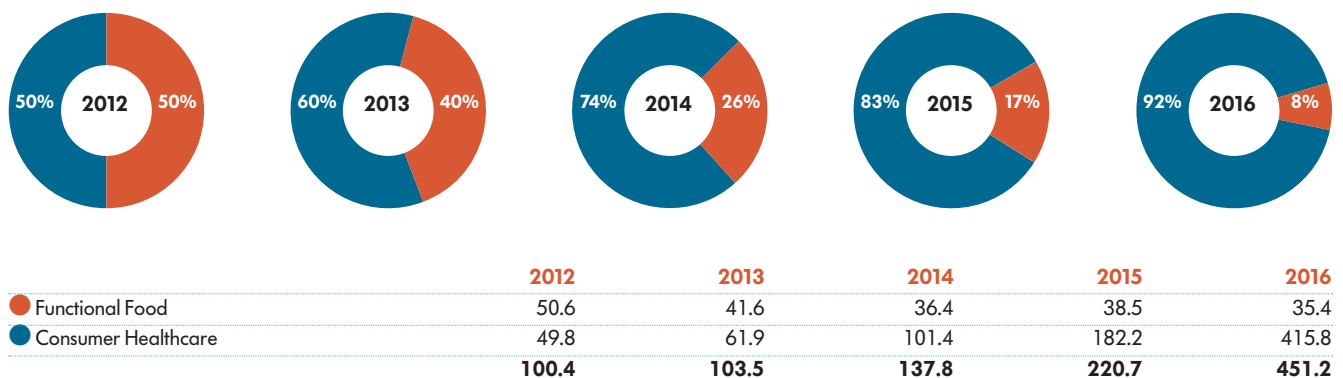
concerns Probi’s digestive health capsules containing the *Lactobacillus plantarum* LP299V (LP299V®) bacterial strain and covers 18 markets. The launch is scheduled for the first half of 2017, initially onto the European market and then onto other key markets such as Russia and China, following approval by local regulatory authorities.

Probi also signed an agreement with Weber & Weber for the distribution of Probi Digestis® in Germany. This represents a major step forward in one of the largest markets in Europe.

In 2016, Probi’s latest probiotic platform – Probi FerroSorb®, Probi Järn – was successfully launched onto the Swedish market, where it was extremely well received by pharmacy chains and specialist shops. An agreement was also signed during the year to launch Probi FerroSorb® in Austria. FerroSorb® has been shown to improve the body’s absorption of iron in comprehensive clinical trials.

Probi organised yet another successful partner conference in Lund in 2016. The event, which has received extremely positive feedback, gathers customers and business partners from all over the world to exchange knowledge and experiences.

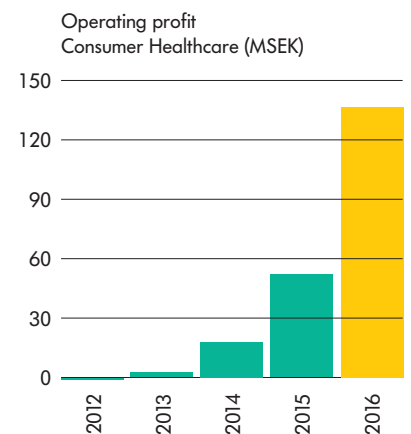
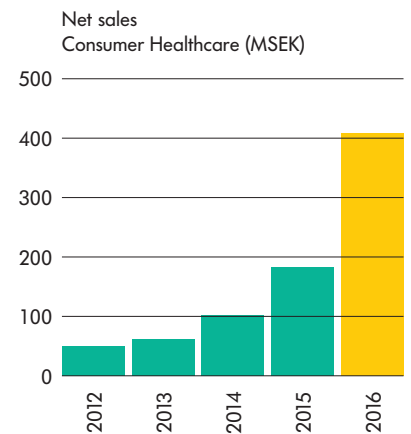
Share of Group revenue (% and MSEK)





Consumer Healthcare business area

Consumer Healthcare develops, manufactures and markets Probi's probiotics. Customers are pharmaceutical companies and other companies specialised in probiotics and self-care products. The regulatory status of the products is either food or consumer healthcare products, depending on the market. Revenue is derived from sales of goods in bulk or consumer packaging.



Functional Food business area

Asia an important market for future expansion

In Functional Food, probiotics are primarily used in dairy products and chilled fruit juice drinks, but applications in other areas such as baby food and other types of drinks are increasing. The products are developed in close cooperation with customers in order to focus on products with high volume potential or uniqueness. To create growth in the business area Probi has increased the organisation and invested in marketing activities and product development.

The business logic of Functional Food is different to that of Consumer Healthcare. Probi is not only selling a product, it's selling an idea, which means that lead times are longer. A concept is invented based on the

idea, and then comes a product. Today Probi has a large portfolio of probiotic bacteria, and it has been demonstrated that probiotics work in dry applications such as powdered milk and protein powder.

Probi is now strengthening its general business development efforts in Functional Food to accelerate growth. With their high consumption of probiotic food, Asia and the Pacific region are an attractive area for future expansion, with a significant broadening of the company's geographic presence there a key objective in coming years.

ProViva has maintained its leading position in a large and competitive category. During the autumn, Danone performed a comprehensive relaunch of ProViva in the Swedish market, which included upgrades to its flavours and packaging design. During the year, Probi participated in marketing activities in connection with the relaunch.

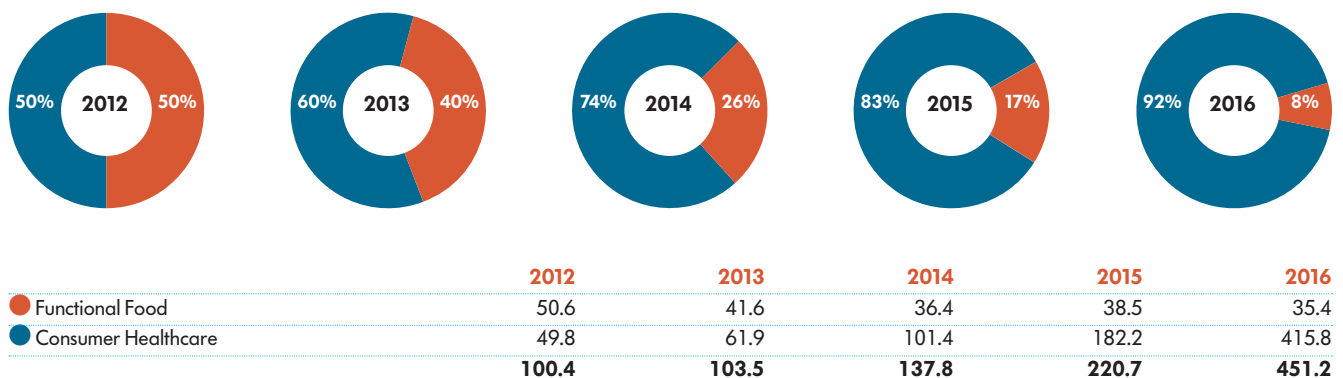
Sales of GoodBelly, marketed by US company NextFoods, have shown a positive trend in the US market and continue to grow in popularity. New On-the-Go Packaging products, new sales channels and creative marketing activities contributed to this success. The range was broadened with a protein

shake in three different flavours.

Soya-based foods are growing rapidly in Western Europe. In Sweden, the business area entered a partnership with Bofood during the year, which produces ice cream made from soya beans featuring Probi's Lp299v bacterial strain. Bofood launched its probiotic ice cream in Europe in 2016, starting with a small selection of shops in Stockholm. The ice cream will subsequently be launched in Germany and Spain, which are more attractive markets in terms of size. Bofood's vegan ice cream has successfully demonstrated how Probi's probiotics work excellently in chilled food products.

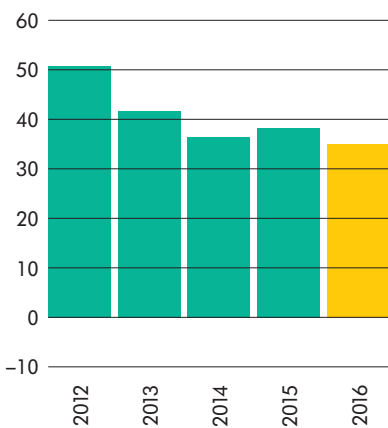
During 2016, the business area signed an agreement with Swedish bioengineering company Probac to acquire a license for two probiotic bacterial strains for food applications, primarily dairy products. The agreement strengthens Functional Food's ability to offer these types of applications. The license applies globally, with the exception of Nordic countries. The agreement also includes the intellectual property rights for two thermostable bacterial strains, enabling Probi to expand its offering to new applications.

Share of Group revenue (% and MSEK)

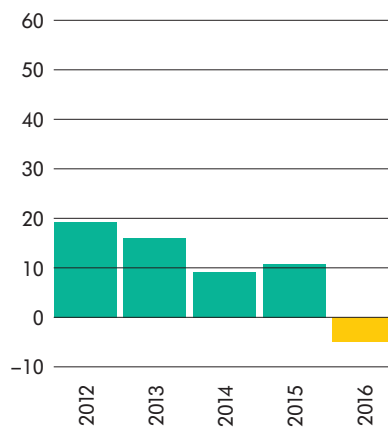




Net sales
Functional Food (MSEK)



Operating profit
Functional Food (MSEK)



Functional Food business area

Functional Food develops food that contains Probi's probiotics, with development taking place in partnership with food companies, in order to commercialise and market products with high volume potential. Revenue is mainly derived from royalties from partner-generated sales.

The largest clinical programme in Probi's history

In early 2017, Probi had the most comprehensive clinical programme in the history of the company. The programme includes clinical trials in Probi's existing product platforms as well as totally new indication areas.

In 2016 three clinical trials were concluded and four new trials commenced. In addition, the acquisition of US firm Nutraceutix led to the development of three new product platforms based on scientifically documented bacterial strains from Probi's strain library. These strains were not offered on the market in the past, but will now be commercialised and marketed, primarily in the US.

Research and development into the company's own probiotic bacterial strains and their health benefits is the basis of Probi's commercial success. The process from initial idea to finished product usually takes about five years. Most of this time is used to conduct clinical trials, which are necessary to document the desired health benefits. The research also includes more basic trials with Probi's strains, in order to understand the underlying mechanisms of the positive effects on health. Greater understanding of Probi's existing strains and products increases the potential to develop products in the future with even better, or totally new, health benefits.

Probi's Research and Development

Probi's Research and Development is organised in three units: Research & scientific support, Project management & clinical trials and Discovery. Research & scientific support also conducts trials and compiles clinical documentation on the health benefits of bacteria. This function monitors international research

in the field and ensures that Probi's work practices comply with the latest recommendations in the field. It also provides scientific support and assistance to both Probi's marketing organisation and external business partners and other stakeholders. Project Management & clinical trials is responsible for ensuring that Probi has an effective process for both product development projects and more long-term research projects, with the ultimate aim of reducing time-to-market and improving quality in each project. The function is also responsible for ensuring that the trials are performed correctly from a scientific standpoint, so that they can be used to support any health claims that Probi and its customers intend to make. Probi works on the research front in its Discovery function to identify new and interesting development opportunities, and secure the company's future competitiveness through collaboration with internationally renowned academic research groups.

Due to the rapid development of existing product platforms and new indications, a large number of clinical trials were conducted in 2016. Meanwhile, Probi strengthened its R&D team in 2016 and plans for more recruitments in the next few years, thanks to greater interest from customers and business partners in seeing scientific studies and evaluations.

In order to ensure high-quality operations, Probi has also stepped up its collaboration with researchers and specialists in various areas that are relevant to existing products, and new clinical projects at numerous research institutes and clinics around the world.

New areas

Probi continuously devotes resources to research and development in promising new areas. These efforts address both the health effects of traditional bacterial strains in new indication areas, and studies of entirely new strains that the industry has not yet commer-

cialised. With the advance of knowledge of the microbiome (intestinal microflora), it is expected that completely new probiotic products will be developed in the future, and Probi's ambition is to be a leading player in this development. Two areas of focus where Probi conducts research are bone health and metabolic health, which are both considered to be of scientific and commercial interest in the future.

Osteoporosis

Osteoporosis is a serious health problem that is costly for society and severely disabling for those affected. In Sweden alone, about 70,000 fractures occur every year that could be linked to osteoporosis. An estimated 25% of women over the age of 65 have already sustained one fracture that is linked to osteoporosis. These women have a strongly increased risk of subsequent fractures later in life. It has already been shown that inflammatory intestinal disorders are associated with low bone mineral density, which also suggests a relationship between the digestive system and the skeletal system.^{1, 2, 3}

Two trials conducted in 2014 showed that a combination of three of Probi's strains led to reduced bone loss in mice, compared with a placebo. Based on these findings, Probi has planned a larger clinical trial using a group of 250 women aged between 60 and 65 years.

1 Sjögren K, Engdahl C, Henning P, Lerner UK, Tremaroli V, Lagerquist MK, Bäckhed F, Ohlsson C. (2012) The Gut Microbiota Regulates Bone Mass in Mice. *Journal of Bone and Mineral Research*, 27(6): 1357–1367.

2 Ohlsson C, Engdahl C, Fåk F, Andersson A, Windahl SH, Farman HH, Movérare-Skrtic S, Islander U, Sjögren K. (2014) Probiotics Protect Mice from Ovariectomy-Induced Cortical Bone Loss. *PLoS ONE* 9(3): e92368. doi:10.1371/journal.pone.0092368.

3 Iqbal J, Yuen T, Sun L, Zaidi M. (2016) From the gut to the strut: where inflammation reigns, bone abstains. *J Clin Invest*. doi:10.1172/JCI87430.



The trial will continue for about 18 months and began in the first quarter of 2016. All of the research subjects have been recruited for the trial, and they will take a probiotic or placebo product for a year.

New indication

A trial is underway at Skåne University Hospital and Sahlgrenska University Hospital in Gothenburg, in an indication area that is entirely new to Probi. This is a long-term trial and a first interim analysis is planned for the first half of 2017.

Commercialisation of probiotic strains

During the autumn of 2016, three new products based on scientifically well-documented bacterial strains from Probi's strain library were developed. These strains were previously included in both preclinical and clinical research studies, but were not offered on the market. The three bacterial strains will now be commercialised and marketed, primarily in the US, through the market channels to which Nutraceutix has provided access.

The three bacterial strains are positioned as follows:

1. *Probi Rhamnosus 6594*[®]: Improved gastrointestinal function and strengthened immune response for infants and children.
2. *Probi Paracasei 13434*[®]: Strengthened immune response for adults.
3. *Probi Plantarum 6595*[®]: Strengthened gastrointestinal function and immune response for people with weakened immune systems due to factors such as age, chronic diseases or hard physical training.

Nutraceutix also has an extensive strain library, which will be evaluated and eventually supplemented with new trials. BIO-Tract[®], a patented delivery technology belonging to Nutraceutix, will also be studied further, primarily in the preclinical phase and in combination with Probi's various strains.

Probiotic products of the future

It is extremely important to continue building knowledge about the bacterial strains that are used today, in order to understand mechanisms of action and better document their effects. Participating in the development of next-generation probiotic strains is equally important.

Simultaneously increasing knowledge of the bacterial strains of both today and the future also improves the prospects to develop next-generation products with

further beneficial health effects or effects that differ from current products.

Probi expects next-generation probiotics to have significant potential in metabolic health, an area that is becoming ever more important. Metabolic diseases are increasing as more cultures embrace Western lifestyle patterns, and have evolved into what can be called a global epidemic. For example, more than 300 million people worldwide now have type 2 diabetes, and the disease is appearing in ever younger people⁴. New studies point to the major differences between the microbiome (intestinal flora) in healthy people, and those with metabolic diseases. Experiments have shown that if the intestinal microbiota is transferred from healthy individuals to individuals with impaired insulin sensitivity, which is a sign of early onset type 2 diabetes, their insulin sensitivity will improve. This suggests that it is possible to influence metabolic diseases with probiotic bacteria, provided the right strain or strains can be identified.

Research in Discovery is focused on metabolic health, but other new areas with significant potential are also evaluated. Probi engages in research collaboration with prominent researchers at universities and research institutes, both in Sweden and abroad. One example is Probi's long-term collaboration with Professor Michiel Kleerebezem of the Host-Microbe Interactomics Group at Wageningen University.

In addition to studies that Probi initiates and conducts on its own, clinical research studies are also initiated and conducted by completely independent external academic researchers. These studies are more exploratory in nature and are conducted in order to ascertain the efficacy of bacteria in completely new fields of health. All of these projects are being conducted by researchers at Lund University and Skåne University Hospital. Another clinical research is underway at Columbia University Medical Center in the US.

Partnership with Symrise

Probi has conducted a development project in the area of oral health together with Symrise since early 2014. Another partnership has been initiated in the skin care area. Both partnerships have a degree of mutual exclusivity in their respective areas. Symrise has a well-established marketing and sales organi-

sation for ingredients in various areas, such as oral health and cosmetics. This is expected to facilitate any future launches resulting from these projects.

New probiotic strains for foods

During the first quarter of 2016, Probi acquired a license for two probiotic strains with documented usage in probiotic foods, primarily dairy products. The license was acquired from Probac, a Swedish bioengineering company, and is expected to contribute to Probi's continued development in the Functional Food business area. The concept includes scientific documentation, which partly encompasses already published results from previously completed studies, and formulation expertise. The IP rights to two additional probiotic strains are also included, creating opportunities to develop new products with strong patent protection.

Strong patent protection

Probi has extensive patent protection for both single probiotic strains and for various applications within food and dietary supplements, thus enabling the company to offer its customers the possibility of a unique product offering in many cases.

Probi's patent portfolio currently contains 25 different patent families with a total of 466 individual patents for probiotic strains, their usage and delivery technologies. The 398 granted patents and 68 patent applications have an estimated maximum duration ranging from 2017 to 2037. Usage and application of Probi's most important commercial strain, LP299V[®], is protected by 266 granted patents and covered by 40 patent applications. In geographic terms, the patents cover the US, Canada, Europe, Japan, China, South Korea, India, Russia, Australia, Brazil, Mexico and South Africa, among others.

Probi's Scientific Advisory Board

Probi is assisted by a Scientific Advisory Board, comprising renowned researchers and physicians from a range of disciplines, and research areas of high relevance to Probi's future development. The role of the Advisory Board is to advise Probi's Board and group management in research-related matters based on Probi's current research portfolio, and to provide recommendations for Probi's future research and product development. Probi's Scientific Advisory Board meets about twice per year. Individual Advisory Board members also participate in discussions and the planning of new scientific studies between meetings.

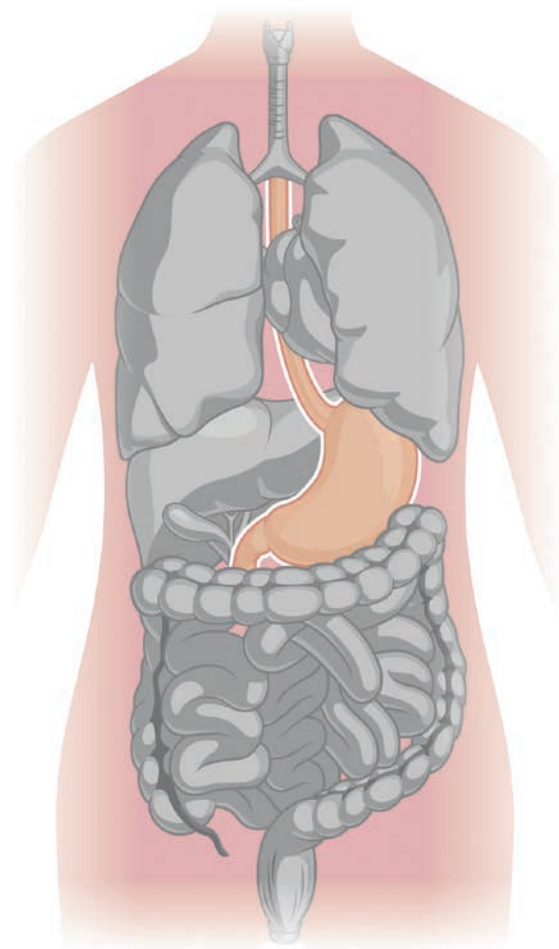
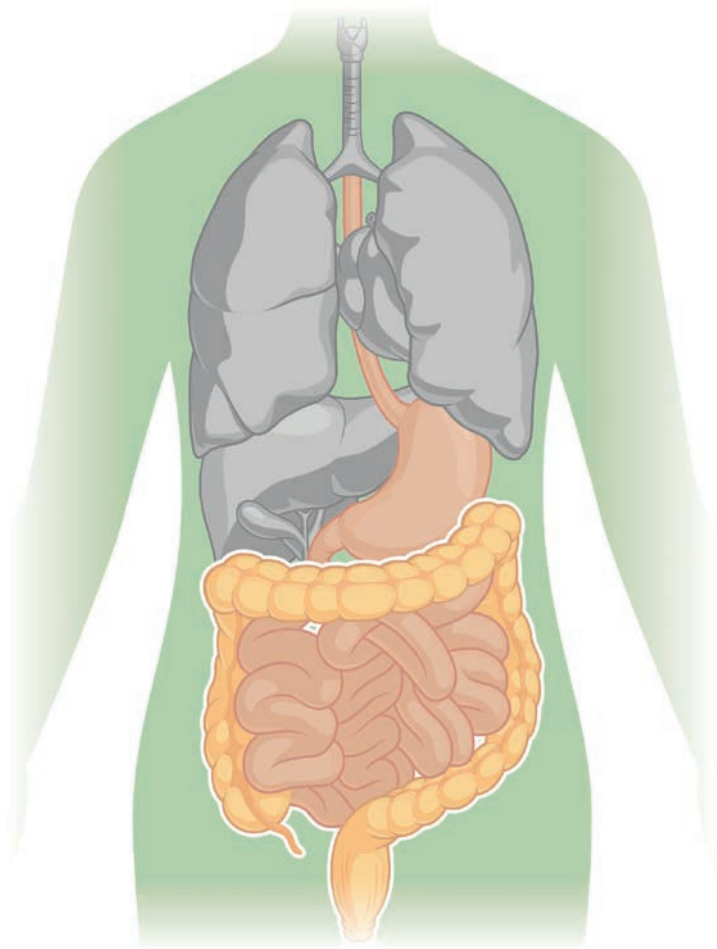
4 International Diabetes Federation. IDF Diabetes Atlas, 6th edn Brussels, Belgium: International Diabetes Federation, 2013



The members of Probi's Scientific Advisory Board are: Jan Nilsson (Chairman), Professor of Experimental Cardiovascular Research at Lund University, Sweden, Lars Gatenbeck, PhD doctor, Chairman and Director of several Life Science companies and organisations, Glenn Gibson, Professor of Food Microbiology at the University of Reading in the UK, Maria Rescigno, professor and head of the unit for Immunobiology of Dendritic Cells and Immunotherapy at the European Institute of Oncology in Milan, Italy, Henrik Vestergaard, Associate Professor at the Novo Nordisk Foundation Center for Basic Metabolic Research in Copenhagen, Denmark and Hans Wigzell, Professor Emeritus in Immunology, Karolinska University Hospital, Stockholm.

Publications in 2016

- Andersson H, Tullberg C, Ahrné S, Hamberg K, Lazou Ahrén I, Molin G, Sonesson M, Håkansson Å. (2016) Oral administration of *Lactobacillus plantarum* 299v reduces cortisol levels in human saliva during examination induced stress: A randomized, double-blind controlled trial. *International Journal of Microbiology* Article ID 8469018, page 1-7. <http://dx.doi.org/10.155/2016/8469018>.
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Development of existing product platforms

Probi continuously works on its existing product platforms in order to expand the use of the products to new target groups and indications, meet new regulatory requirements and further strengthen the clinical documentation of the products.



Probi Digestis®

A major trial with the aim of increasing knowledge and improving documentation for ProbiDigestis® (Probi Mage) was completed in the first half of 2016. The results show, when accounting for the major degree of intra-individual variability in the trial, that a significantly higher percentage of the number of research subjects who were given LP299V® experienced an improvement in their Irritable Bowel Syndrome symptoms (based on the IBS Symptoms Severity Score, IBS-SSS) compared with those who were given a placebo. For the very first time in a Probi trial, the trial included a comprehensive analysis of the microbiota (intestinal microflora) to determine how they are affected by the intake of LP299V®. Analyses are in progress and it is expected that the complete trial results can be published in 2017.

A paediatric trial within the same product platform also commenced during the year. The trial investigates whether LP299V® can reduce stomach problems in children who receive antibiotic therapy, based on the findings from the previous trial in which no significant effect was achieved for the entire group, but where a sub-analysis showed that children who had previously suffered from diarrhoea after antibiotic therapy were helped by the treatment.

An additional smaller trial in the gastrointestinal field was conducted in 2016 in collaboration with Lund University. A method new to Probi was evaluated in the trial in order to demonstrate the efficacy of Probi Digestis® for digestive problems. The recently completed pilot study showed very good results and will be followed by a larger study in 2017.

Probi Defendum®

The major trial in the immune area has been completed after three cold seasons. 900 people participated in total, which is Probi's largest controlled clinical trial ever. The trial intends to deepen knowledge and improve documentation of Probi Defendum® (Probi Frisk®). The aim of the trial was to demonstrate the efficacy of Probi Defendum® on the occurrence and severity of common cold symptoms. The trial results, which are still under analysis, show that research subjects given Probi Defendum® suffer significantly fewer colds than those who are given a placebo. The results showed no significant reduction in the severity of cold symptoms, according to a predefined analysis method. Since this was the primary objective, the trial results are not likely to be used as documentation for a health claim application in Europe. During 2016 an impairment loss of 11.1 MSEK related to this clinical trial was recognized.

A paediatric cold trial in the same product platform commenced in late 2015, with the aim of expanding the target group for Probi Defendum® to lower age groups. Since the first season did not generate a sufficient number of cold episodes, the trial was extended by an additional season and is expected to be concluded in the first six months of 2017.

Probi FerroSorb®

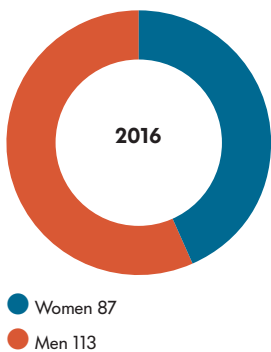
Iron deficiency and low iron status are mainly prevalent in women of child-bearing age, both in the Western World and in developing countries. Iron deficiency can lead to iron deficiency anaemia, resulting in increased fatigue, lethargy, impaired cognition and a weaker immune response. Menstruating women need extra iron yet frequently their iron intake is insufficient. Iron deficiency can cause the body to increase its iron intake, but often this is not enough to meet the body's needs. One alternative for people with iron deficiency is to take medication with high potency iron. However, these often have side effects such as gastrointestinal discomfort.

Five human studies have been conducted that show that Probi probiotics can increase iron absorption from food in women of child-bearing age. In 2015, these studies were followed up with a study to identify the mechanisms that result in the increased absorption. Based on the positive outcome for iron absorption, Probi established a new product platform: Probi FerroSorb®. Probi's iron product containing iron and *Lactobacillus plantarum* DSM 9843 was launched in Sweden in the first quarter of 2016 under the brand Probi Järn®.

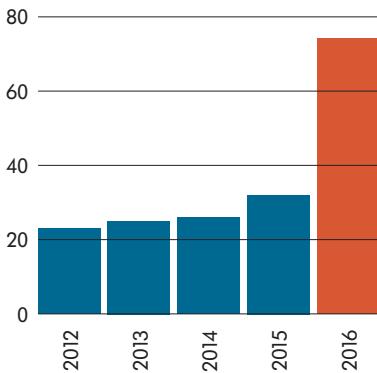
In 2016, Probi began a new trial in this area, which aims to investigate the effects of the product on the development of iron deficiency in pregnant women. The trial was conducted at a number of antenatal clinics in Sweden.

A sharp rise in the number of employees and a new organisation

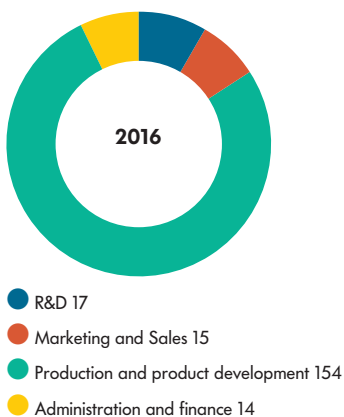
Gender distribution



Average number of employees



Employees distributed by function



In 2016, the number of employees at Probi rose sharply, from 37 to 200. The major increase is due primarily to the acquisition of Nutraceutix.

Nutraceutix has approximately 160 employees at its facilities in Redmond, Washington, and Lafayette, Colorado in the US. Work to integrate the company and its employees was intense during the entire autumn of 2016, and took up the attention of both the Swedish and the American businesses. The process included special integration teams with representatives from the company's main units, and an introduction to the company's values in order to create a shared foundation.

As early as the beginning of 2016, Probi adapted the organisation to meet the growing number of customers and increasing share of goods sold. This was achieved by gathering logistics, production, quality issues and customisations under a new unit, Operations (read more on page 26).

Probi's personnel policy

One of Probi's most important objectives is to offer a dynamic and open environment. The employee is given considerable opportunities and expected to take a high level of responsibility. Probi also continuously offers significant opportunities for individual development.

Probi's operations are based on the following five fundamental values:

Credibility

We keep our promises and our products live up to what we say. We are experts in our field. Our reputation as a serious player in the industry is rock solid.

Dedication

Our work involves research and products that improve health. We never look for the easiest route but always take one step extra to make sure we succeed. Our business model is flexible, we help our customers surpass their expectations.

Courage

We dare to try new routes by challenging ourselves and established ways of thinking. We break new ground and establish partnerships with world-leading companies. Our research takes on the most difficult challenges in our field.

Curiosity

By studying new fields, we find new solutions. We always want to move on and acquire new knowledge of how our products can improve human health. We always want to learn more about our customers' needs so that we can jointly develop new business solutions.

Clarity

Our messages are straightforward and we define our goals clearly. We explain where the company is heading and tell things as they are, both to each other and to our business partners.



What's it like working for Probi? I'm very happy at Probi. The atmosphere is great and everyone has fun. We've managed to keep the family feeling you get at a small company, even though we're pretty big these days.

What do you think about the acquisition of Nutraceutix? I think it's been an unusually successful fusion of two companies. We're a perfect match. The US market is huge and growing.

In what ways do you think the acquisition will strengthen Probi? In every way. We get access to our very own proprietary producer, which already has its own bacterial strains and customers. Probi had development but no manufacturing, and Nutraceutix had manufacturing but no development. Win-win!

Pär Thored, Director Regulatory Affairs, Lund

What's it like working for Probi? I like the fact that the company acts decisively. Once they've chosen a direction, they act quickly and in a well-planned manner.

What do you think about Nutraceutix being acquired by Probi? When news of the acquisition broke, a lot of people were worried that there would be layoffs. But everyone has been able to keep their jobs, which is great, a lot of us worked hard to make Nutraceutix a strong challenger in the industry.

What do you think about being acquired by a European/Swedish company? If you're going to work for a non-US employer, there must be a high level of trust. After the meeting with Probi's Management Group, I completely trust that they have good intentions and good ideas.

Lorenzo Parra, Materials Supervisor, Redmond, WA



What's it like working for Probi? Everyone at Probi that I have met to date has been extremely knowledgeable, professional and approachable.

What do you think about Nutraceutix being acquired by Probi? It will be exciting to see the advances and the growth that our merged companies can achieve.

In what ways do you think that this will strengthen Probi? Adding Nutraceutix's manufacturing of probiotic strains, ready-made products and packages to Probi's current business will strengthen both the American and European businesses.

Michelle Walsh, Materials Manager, Lafayette, CO

What's it like working for Probi? A company with such a strong scientific background and solid research findings that support all of its products is unique. I'm very pleased and proud to be part of Probi.

What do you think about the acquisition of Nutraceutix? It's exciting that Probi is growing and expanding in the US and global markets. With Nutraceutix we gain proprietary production, which additionally strengthens the company.

How do you think the acquisition will affect you? In research and development, we'll be working on strengthening research into the probiotic strains in Nutraceutix's library. We'll broaden our research to bacteria other than those that have historically been a part of Probi.

Caroline Montelius, Associate scientist, Lund



The share

Listing

Probi has been listed on Nasdaq Stockholm since 2004, and is traded under the PROB ticker. Probi is traded in the Mid Cap segment, which consists of companies with market capitalisation from MEUR 150 to EUR 1 billion. Probi belongs to the Healthcare and Biotech sectors.

Share capital

In the fourth quarter of 2016 Probi issued new shares with preemptive rights for the company's shareholders. The new share issue was fully subscribed, contributing MSEK 587.3 to Probi after deductions for issue expenses. At the end of 2016, Probi's share capital amounted to SEK 58,220,625 (46,826,500), represented by 11,644,125 shares (9,365,300). Each share carries the right to one vote and the same rights to a share in the company's assets and profit. The quotient value of the share is SEK 5.

Ownership

At 31 December 2016, the number of registered shareholders was 4,729, compared with 3,884 at 31 December 2015. Of the total number of shares, institutional ownership accounted for about 84.5%

(80.1), private owners 15.5% (19.9) and foreign owners 58.2% (59.8). Europe accounts for the largest proportion of shares held by foreign owners, corresponding to 55.9% (58.6) of the total number of shares. Probi's principal owner, Symrise AG, held 50.3% of the capital and 51.4% of the voting rights at year-end. Symrise AG treats Probi AB as a subsidiary in its consolidated financial statements and consolidates the company in full.

Holding of treasury shares

At year-end, Probi held 250,000 treasury shares, corresponding to 2.1% of the total number of shares, with a quotient value of SEK 5 per share. These shares were acquired in 2011 for MSEK 11.8. No shares were bought back during 2012-2016.

Share performance

In 2016, Probi's share price rose 236% and was quoted at a closing price of SEK 475.50 (141.50) at year-end. OMX Stockholm PI rose 9% during the year. The highest and lowest prices in 2016 were SEK 510.00 (175.00) and SEK 101.90 (59.50), respectively. On 31 December 2016, Probi's market capitalisation was MSEK 5,418 (1,290). During 2016, 2,931,918 (3,101,057) Probi shares were

traded on Nasdaq OMX Stockholm. The average turnover of shares per trading day was 11,589 (12,355).

Dividend policy

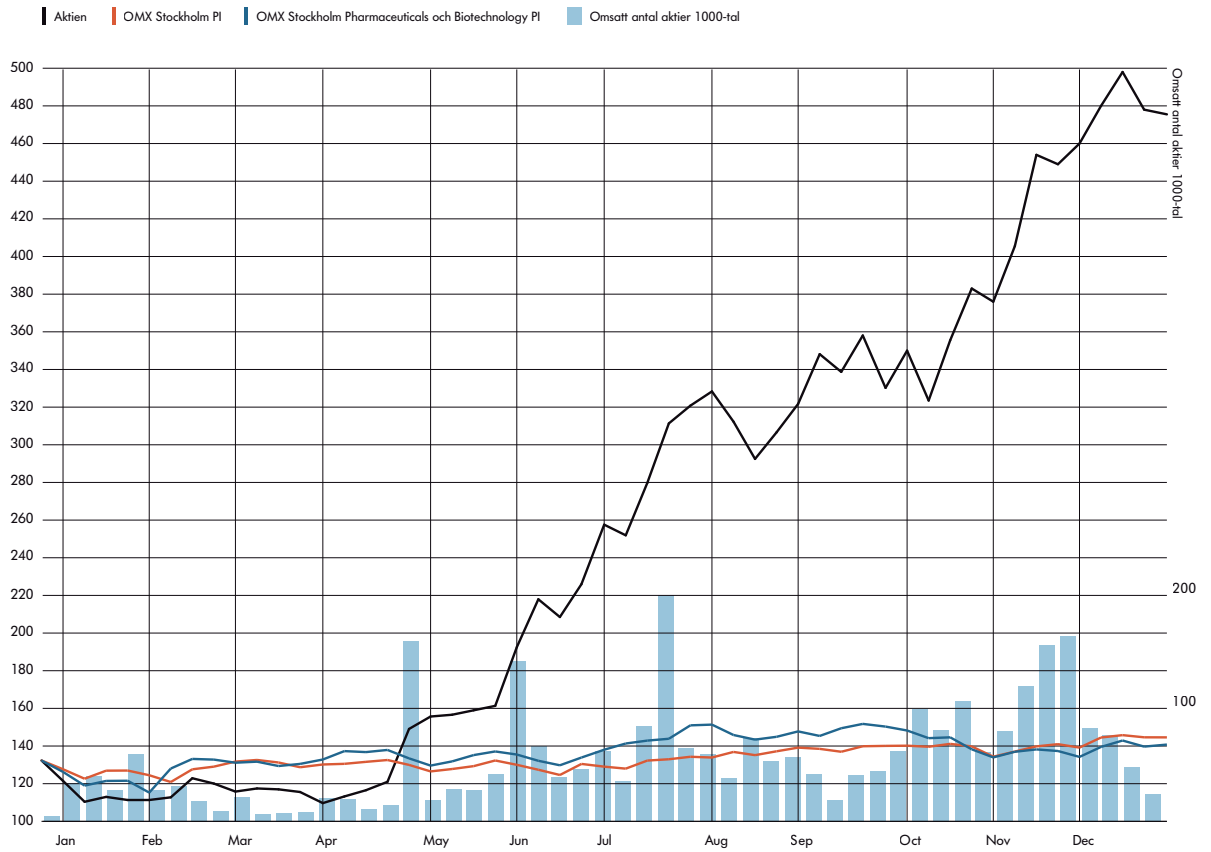
In future, the dividend will be based on Probi's earnings level and financial position, as well as requirements for the financing of available expansion and acquisition opportunities. On an annual basis, the Board will evaluate the potential to pay a dividend and, in so doing, will balance the shareholders' expectations of a reasonable dividend yield with the company's needs to self-finance its continued growth and expansion.

The Board of Directors and the CEO propose to the 2017 Annual General Meeting that the company pay a dividend of SEK 1.00 per share (1.00). This entails a total dividend of MSEK 11.4 (9.1), and the proposal is that the Parent Company's remaining retained earnings of MSEK 781.6 be carried forward. The proposed dividend represents 10% of consolidated profit after tax for 2016.

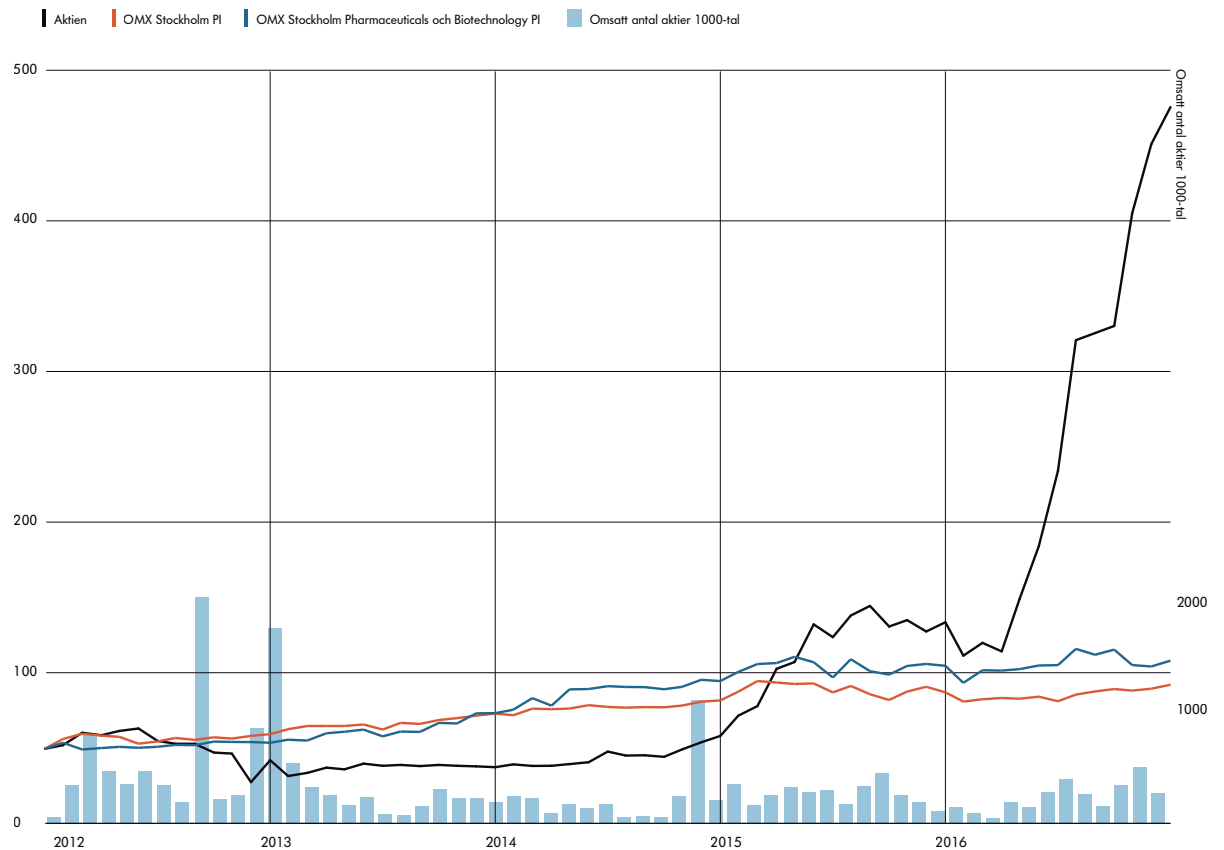
Options programme

Probi has no outstanding convertible loans and no outstanding warrants.

The share 2016



The share 2012–2016



Share capital development

Event	Year	Issue price	Increase in no. of shares	Total no. of shares	Par value of share	Increase in the 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	–	115,000
Bonus issue 34:1	1998		3,910,000	4,025,000	1	3,910,000	4,025,000
Targeted issue ²	1998		1,006,250	5,031,250	1	1,006,250	5,031,250
Bonus issue 15:10	1998		7,546,875	12,578,125	1	7,546,875	12,578,125
Targeted issue ³	1998	12	1,721,875	14,300,000	1	1,721,875	14,300,000
Bonus issue 13:10	1998		18,590,000	32,890,000	1	18,590,000	32,890,000
Rights issue	2000	10	8,222,500	41,112,500	1	8,222,500	41,112,500
Reverse split 5:1	2004		–	8,222,500	5	–	41,112,500
New issue	2004		1,142,800	9,365,300	5	5,714,000	46,826,500
Rights issue	2016	264	2,278,825	11,644,125	5	11,394,125	58,220,625

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.

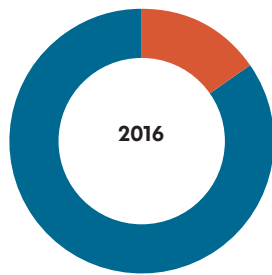
Shareholders

	No. of Series A shares	Share of capital (%)	Proportion of votes (%)
Symrise AG	5,856,050	50.3	51.4
Swedbank Robur fonder	956,795	8.2	8.4
Fourth Swedish National Pension Fund	696,647	6.0	6.1
Handelsbanken Fonder	477,324	4.1	4.2
Avanza pension	183,400	1.6	1.6
Nordnet pensionsförsäkring	173,748	1.5	1.5
Solveig Johannesson	72,800	0.6	0.7
JP Morgan Chase Bank	69,477	0.6	0.6
BK Julius Baer & Co	66,901	0.6	0.6
Other	2,840,983	24.4	24.9
Total Shares outstanding	11,394,125	97.9	100.0
Probi AB	250,000	2.1	–
Total no. of shares	11,644,125	100.0	100.0

Holding per shareholder

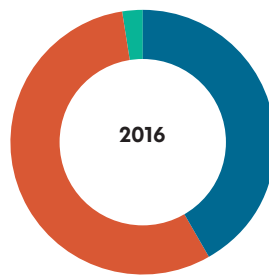
Share distribution	No. of shareholders	No. of shares	Proportion of shares (%)
1 – 500	3,856	463,183	4.0
501 – 1,000	411	301,111	2.6
1,001 – 5,000	354	713,495	6.1
5,001 – 10,000	51	342,225	2.9
10,001 – 15,000	14	168,485	1.5
15,001 – 20,000	9	158,836	1.4
20,001 –	34	9,496,790	81.5
Total	4,729	11,644,125	100.0

Distribution institutional/legal entities – private owners (no. of shares)



● Legal entities, 84.5%
● Physical persons, 15.5%

Distribution Swedish – foreign shareholders (no. of shares)



● Sweden, 41.8%
● Rest of Europe, 55.9%
● Rest of the world, 2.3%

Five-year summary

Per-share data

	2016	2015	2014	2013	2012
No. of shares as at 31/12, thousands	11,644	9,365	9,365	9,365	9,365
Earnings per share, SEK	11.43	5.38	2.39	1.65	1.48
Shareholders' equity per share, SEK	79.40	20.54	16.01	14.37	13.47
Cash flow per share, SEK	-3.50	3.82	1.85	0.44	1.22
Share prices at 31/12 closing price, SEK	475.50	141.50	61.50	39.50	44.40
Price/equity ratio per share, multiple	5.99	6.89	3.84	2.75	3.30
P/E ratio, multiple	41.60	26.30	25.73	23.94	30.00
Dividend, SEK/share	1.00 ¹	1.00	0.85	0.75	0.75
Market cap as at 31/12, SEK 000s	5,417,906	1,289,815	560,591	360,054	404,719

¹ The Board's proposal to the Annual General Meeting on 4 May 2017

Income statement in summary

	2016	2015	2014	2013	2012
Net sales Functional Food	35,005	38,144	36,100	41,265	50,442
Net sales Consumer Healthcare	408,470	177,567	99,142	60,945	49,120
Other revenue	7,732	4,973	2,510	1,344	830
Total operating revenue	451,207	220,684	137,752	103,554	100,392
EBITDA	152,568	69,244	36,208	23,077	23,560
Operating profit	130,349	63,068	27,049	18,143	17,209
Income for the year	108,567	49,035	21,765	15,045	13,505
Shareholders' equity	898,832	187,239	145,953	131,025	122,816
Cash and cash equivalents	103,161	143,024	108,181	91,301	87,285

Key ratios

	2016	2015	2014	2013	2012
1 EBITDA margin, %	34.4	32.1	26.8	22.6	23.7
2 Operating margin, %	29.4	29.2	20.0	17.8	17.3
3 Equity/assets ratio, %	74.2	82.2	82.9	87.5	89.8
4 Debt/equity ratio, %	25.1	0.0	0.0	0.0	0.0
5 Return on equity, %	25.1	37.9	20.3	15.4	15.3
6 Liquid ratio, %	250	432	460	628	933
7 R&D expenses as part of operating income, %	11	13	16	19	18
8 Average number of employees	74	32	26	25	23

For definitions of key ratios refer to the back cover.

Probi AB (publ)

**Annual Report and consolidated financial statements
for 2016 financial year**

Directors' report

The Board of Directors and the 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 2016. Address: Ideon Gamma 1, SE-223 70 Lund, Sweden.

Probi's shares are listed on NASDAQ Stockholm.

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

Significant Events

- Through its US subsidiary, Probi USA Inc., Probi acquired the operations of TNT-Gamble Inc., a US probiotic company that had conducted operations under the name of Nutraceutix. The acquisition was finalised on 3 October and the purchase consideration was MUS\$ 106.4, or approximately MSEK 912 at the rate of exchange on the date of access, including adjustments for working capital and other contractual undertakings. The acquisition was financed with a rights issue of MSEK 587.3, following deductions for issue expenses, bank loans, and with own funds. Nutraceutix is a leading, highly regarded and customer service focused US manufacturer and supplier of probiotics. The operations are headquartered and have a fermentation plant in Redmond, near Seattle in the State of Washington, and also have a packaging facility in Lafayette, near Denver in Colorado. Both manufacturing sites are audited and registered as GMP compliant. The operations had net sales of MUS\$ 34 (MSEK 290) in 2015, EBITDA of about MUS\$ 8 (MSEK 70) and produced 340 million tablets and 4.3

million bottles of products. The acquisition strengthens Probi's position in North America, which is the largest and fastest-growing probiotic dietary supplements market in the world, and adds important new technologies, manufacturing capabilities and customers.

- Probi implemented a new issue of shares with preemptive rights for existing shareholders. The rights issue was completed as a feature of the financing of the acquisition of the assets of the US probiotic company Nutraceutix. The rights issue contributed proceeds of MSEK 587.3 to Probi following deductions for issue expenses, and the bridge facility raised in conjunction with the acquisition was repaid in full. Probi's share capital was increased through the rights issue and amounted to SEK 58,220,625 (46,826,500) at the end of 2016, represented by 11,644,125 shares (9,365,300).
- A licence and distribution agreement was entered into with the French company Ipsen Pharma. The agreement applies to Probi's digestive health capsules containing the *Lactobacillus plantarum* 299v (LP299V®) bacterial strain and covers 18 markets. The launch is scheduled for the first half of 2017, initially onto the European market and then onto Ipsen's other key markets, including Russia and China, following approval by local regulatory authorities.
- Probi's latest probiotic platforms – Probi FerroSorb® and Probi Järn – were launched onto the Swedish market. Also during the year, an agreement was signed concerning the launch of Probi FerroSorb® in Austria. In comprehensive clinical trials, FerroSorb® has been shown to improve the body's absorption of iron.
- Probi acquired a license for two probiotic bacterial strains for food applications, primarily dairy products, from ProBac, a Swedish biotech company. The license applies globally, with the exception of Nordic countries. The agreement also includes the intellectual property rights for two thermostable bacterial strains, enabling Probi to expand its offering to new applications.

- During the year, agreements were concluded concerning the launch of Probi's Consumer Healthcare products in markets such as Germany and Singapore.

Net sales and results

During 2016, Probi's net sales totalled MSEK 443.5 (215.7). The total increase was MSEK 227.8, corresponding to 106%. Net sales from the acquired operation, which has been consolidated since 3 October 2016, amounted to MSEK 75.6. Organic growth in the existing business was MSEK 152.2, or 71%. Most of Probi's sales are denominated in foreign currencies, mainly USD and EUR. Based on exchange rates from the preceding year, organic growth was MSEK 7.4 lower.

Net sales in Consumer Healthcare rose MSEK 230.9, or 130%, to MSEK 408.5 (177.6). The acquired operation accounted for MSEK 75.6 of this increase. Excluding the acquisition, growth was 87%, primarily driven by positive performance in the North American market. Net sales in Functional Food totalled MSEK 35.0 (38.1).

Operating expenses amounted to MSEK 320.9 (157.6), an increase of 104%. The cost of goods sold was MSEK 172.9 (68.0), up 154%, with the increase primarily due to the rise in sales. To this should be added manufacturing costs in the US operations, where gross margins are lower than in the operations excluding the acquisition. Sales costs amounted to MSEK 47.1 (38.3), up 23%, mainly due to additional costs for the US sales organisation and a major marketing campaign for ProViva in Sweden. Administrative expenses amounted to MSEK 49.8 (18.7). Transaction costs of MSEK 16.2 for the acquisition are included. Research and development expenditure amounted to MSEK 47.9 (30.6). An impairment loss of MSEK 11.1 was recognised for a capitalised clinical trial in the immune system area, due to Probi's assessment that only one of the findings will be commercially useful. Cost for integrating the acquired operation are included in a total amount of MSEK 5.0, allocated among the various functional areas. At the end of the year, the number of employees was 200, of whom 159 were employed in the acquired operations.

In 2016, operating profit for the Consumer Healthcare business area totalled MSEK 135.3 (52.3), representing an operating margin of 33%. The operating result for the Functional Food business area was a loss of MSEK 5.0 (profit: 10.8). The decline was mainly due to investments in major promotional activities, aimed at reversing the sales trend in Sweden.

Consolidated operating profit for the year totalled MSEK 130.3 (63.1). Adjusted for currency effects, operating profit totalled MSEK 124.2. Operating profit was charged with transaction costs of MSEK 16.2 and integration costs of MSEK 5.0 incurred in conjunction with the acquisition of Nutraceutix, as well as an impairment loss of MSEK 11.1.

Other financial income and expenses mainly comprise the revaluation of financial receivables and liabilities, and profit/loss from forward contracts. Profit of MSEK 7.4 arose in conjunction with a market valuation of a forward contract signed to ensure liquidity for repayment of the bridge loan raised for the acquisition. The Parent Company has a financial receivable of MUSD 63 (573 MSEK) from the US subsidiary and a bank loan of MUSD 25 (227 MSEK). The currency risk subsequently arising is regularly hedged with forward contracts. Exchange gains and losses incurred in connection with the revaluation of the loan, or market valuation and realisation of forward contracts, is recognised gross in other financial income and expenses.

Tax expense was MSEK 28.5 (14.1).

Net profit for the year was MSEK 108.6 (49.0), corresponding to earnings per share of SEK 11.43 (5.38) before and after full dilution.

Cash flow and financial position

Cash and cash equivalents at year-end amounted to MSEK 103.2 (143.0), down MSEK 39.8. The decline was primarily due to the acquisition of Nutraceutix being financed in part using own funds. Cash flow from operating activities increased by MSEK 24.2 year-on-year to MSEK 86.3 (62.1). Cash flow from investing activities was a negative MSEK 930.1 (neg: 19.5) and mainly consists of the purchase consideration of MSEK 912.1 for the acquisition of Nutraceutix. Investments in intangible assets amounted to MSEK 16.3 (18.3), of which MSEK 1.9 (2.5) pertained to patents, MSEK 12.6 (15.8) to capitalised development expenses and MSEK 1.8 to licences. Capitalised development expenditure was mainly related to clinical trials in immune function and digestive health. Net investments in tangible assets amounted to MSEK 1.8 (1.2).

Cash flow from financing activities was MSEK 803.9 (neg: 7.7). The rights issue imple-

mented during the year contributed proceeds of MSEK 587.3 to Probi after deductions for issue expenses. The liquidity contribution from loans raised in 2016 totalled MSEK 225.7. In 2016, Probi paid dividends of MSEK 9.1 (7.7) to shareholders.

Segment information

Probi's business operations are organised in two business segments, each with its own operational manager: Consumer Healthcare and Functional Food. The Consumer Healthcare segment develops, manufactures and markets Probi's probiotics. Customers are pharmaceutical companies and other companies specialised in probiotics and self-care products. The regulatory status of the products is either food or consumer healthcare products, depending on the market. Revenue is generated from sales in bulk or consumer packaging. The operation acquired during the year is included in its entirety in CHC. The Functional Food segment develops food that contains Probi's probiotics. This development takes place in partnership with food companies, in order to commercialise and market products with high volume potential. Revenue mainly comprises royalties from partner-generated sales. No business transactions are conducted between the two segments.

Consumer Healthcare

Net sales in Consumer Healthcare rose MSEK 230.9, or 130%, to MSEK 408.5 (177.6). The acquired operation accounted for MSEK 75.6 of this increase. Excluding the acquisition, growth was 87%. Operating profit for the Consumer Healthcare business area totalled MSEK 135.3 (52.3), representing an operating margin of 33%.

The sharp growth in both net sales and operating profit is largely attributable to continued successes in the North American market, which continues to show strong growth. The business area's revenue from other markets, such as Sweden, Poland and South Korea, also developed well.

A number of new agreements were signed during the year. During the second quarter, Probi signed a licence and distribution agreement with the French company Ipsen Pharma. The agreement applies to Probi's digestive health capsules containing the *Lactobacillus plantarum* 299v (LP299V®) bacterial strain and covers 18 markets. The launch is scheduled for the first half of 2017, initially onto the European market and then onto Ipsen's other key markets, including Russia and China, following approval by local regulatory authorities. For the German market,

an agreement was concluded with Weber & Weber concerning the launch of Probi Digestis®. This represents a major step forward in one of the largest markets in Europe. A distribution agreement was signed with StarXYZ regarding a launch in Singapore. This launch will include Consumer Healthcare products from Probi's product platforms Probi Digestis®, Probi Immune® and Probi FerroSorb®.

In early 2016, Probi's latest probiotic platform – Probi FerroSorb®, Probi Järn – was launched onto the Swedish market, and enjoyed a highly favourable reception among pharmacy chains and specialist retailers. Also during the year, an agreement was signed concerning the launch of Probi FerroSorb® in Austria. In comprehensive clinical trials, FerroSorb® has been shown to improve the body's absorption of iron.

Functional Food

Net sales in Functional Food totalled MSEK 35.0 (38.1). The decline was due primarily to a contractual reduction in the royalty rate for sales of ProViva in Sweden. The business area's operating result declined to a loss of 5.0 MSEK (profit: 10.8). During the year, Probi conducted marketing activities in conjunction with a comprehensive relaunch of ProViva in the Swedish market. Significant investment were also made in research and development to support the business area's efforts in new markets and applications.

Sales of GoodBelly, marketed by NextFoods in the North American market, showed a positive trend. New products, new sales channels and creative marketing activities contributed to the increase.

During the year, a partnership was entered into with the Swedish company Bofood, which produces ice cream made from soya beans with Probi's Lp299v bacterial strain. The probiotic ice cream was launched in Sweden during 2016, and major markets such as Germany and Spain are next in line.

A license was also acquired for two probiotic bacterial strains for food applications, primarily dairy products, from ProBac, a Swedish biotech company. The license applies globally, with the exception of Nordic countries. The agreement also includes the intellectual property rights for two thermo-stable bacterial strains. Through the agreement, Functional Food broadens its offering for these types of applications.

Research and development

In 2016, Probi conducted the most comprehensive clinical programme in the history of the company. During the year, three clinical trials were concluded and four new trials

commenced. In addition, the acquisition of Nutraceutix led to the development of three new product platforms based on scientifically documented bacterial strains from Probi's strain library, which had previously been included in both preclinical and clinical research studies, but not offered on the market. The three platforms, positioned toward improved gastrointestinal tract function and strengthened immune function of infants and young children, strengthened immune function of adults, and strengthened gastrointestinal tract and immune function for people with an impaired immune system, will now be commercialised and marketed, initially in the US.

The two major trials conducted during the year with the aim of improving clinical documentation for Probi's digestive health platform (Probi Digestis) and immune health platform (Probi Defendum) have now been completed. The primary objective of the trials was to further strengthen clinical documentation in order to apply for approval of future health claims in both EU and non-EU markets.

Probi Digestis

In the major trial conducted to expand the knowledge and documentation of Probi Digestis (Probi Mage®) the results show, after taking into account the major degree of intra-individual variability in the trial, that a significantly higher percentage of the number of research subjects who were given the *Lactobacillus plantarum* LP299v (LP299V®) experienced an improvement in their IBS (Irritable Bowel Syndrome) symptoms (based on the IBS Symptoms Severity Score, IBS-SSS) compared with those who were given a placebo. For the very first time in a Probi trial, the trial included a comprehensive analysis of the microbiota (intestinal flora) to determine how they are affected by the intake of LP299V®. Analyses are in progress and it is expected that the complete trial results can be published in 2017. In the same field, a smaller trial – or pilot study – was conducted during the year in order to evaluate a methodology that is new for Probi and to demonstrate the efficacy of Probi Digestis on digestive problems. The pilot study showed positive results, which has led to plans for a larger study in 2017. Another new trial aimed at expanding the Probi Digestis target group to lower age groups was launched during the year.

Probi Defendum

The largest trial ever conducted by Probi, with the objective of expanding the knowledge and documentation of Probi Defendum (Probi Frisk®), was completed in the second

half of 2016. The trial was conducted over three common-cold seasons, and included a total of 900 people. The aim of the trial was to demonstrate the efficacy of Probi Defendum on the occurrence and severity of common cold symptoms. The trial, which is still under analysis, showed that those given Probi Defendum suffered significantly fewer colds than those who were given a placebo. The results showed no significant reduction in the severity of cold symptoms, according to a predefined analysis method. Since this was the primary objective, the trial results are not likely to be used as documentation for a health claim application in Europe. It was for this trial that an impairment loss of assets was recognised in the amount of MSEK 11.1.

Probi Ferrosorb

Based on the positive results of previous trials regarding iron absorption using one of Probi's bacterial strains, which led to a launch in Sweden of the new Probi FerroSorb® product platform earlier this year, a new trial commenced in 2016 aimed at studying the effects of the product on the development of iron deficiency in pregnant women. The trial was conducted at a number of antenatal clinics in Sweden.

Other clinical trials

The ongoing trial in a new indication for Probi, and the research collaboration with Professor Michiel Kleerebezem from Host-Microbe Interactomics at Wageningen University in the Netherlands, both aimed at creating new future product platforms, are progressing as planned. The same applies for the two collaborative projects in oral health and skincare with Symrise. Based on earlier trials demonstrating that a combination of three of Probi's bacterial strains led to reduced bone loss in mice, a major clinical trial commenced in this area during the year. The trial is progressing as planned and all research subjects have been recruited.

At the end of 2016, an extensive research study on the development of gluten intolerance in children was completed. As part of the study, a combination of Probi's lactobacilli were given to a population of children at increased risk of developing gluten intolerance. Preliminary results shows a positive trend for the product on the development of gluten intolerance in children, a totally new indication area.

During the year, four studies of Probi's bacterial strains were published in scientific journals in the indications of stress, bone marrow transplantation and discomfort caused by diverticulosis. The results of Probi's

clinical trials were presented at the following conferences: Vitafoods (Geneva), SupplySide West (Las Vegas), Microbiome Summit 2016 (London).

Employees

At year-end, Probi had 200 (37) employees, 87 (24) women and 113 (13) men. The average number of employees was 74 (32). The number of employees in operations acquired during the year was 159. In early 2016, Probi adapted the Parent Company's organisation to meet the growing number of customers and the ever-increasing share of goods sold. This was achieved by gathering logistics, production, production and quality issues and customisations under a new unit, Operations.

Events after the balance-sheet date

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

Risks and uncertainties

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

Changes in consumer trends

An over-riding social trend among consumers in many geographic markets is that interest in health, health products and a healthy lifestyle is continuing to increase. The prevailing health trend has favorably influenced customer demand for, among other products, probiotics. If the prevailing health trend diminishes or changes and leads to a change in consumption patterns and changes in consumer trends, this would result in demand for Probi's products slowing or declining, which could have a negative impact on Probi's operations, financial position and earnings.

Agreements with strategically selected partners

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

Acquisitions

Probi's business strategy includes growing through acquisitions. Opportunities for this depend on the company's ability to identify

suitable acquisition targets, implement the acquisitions on favourable terms for Probi and successfully integrate them into the Group. If acquisitions cannot be implemented, the company's capacity for future growth could decline. The implementation of acquisitions could also give rise to a number of risks, such as if the due-diligence studies carried out ahead of an acquisition not being sufficient or being subject to shortcomings. Such flaws could, for example, result in expected acquisition synergism not being realised or in unforeseen costs arising from the integration process, which could have a negative impact on Probi's operations, financial position and earnings.

Competition

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

Regulatory risks

The requirements and regulations for the use of health claims for probiotics, for example, are constantly being sharpened. Since 1 July 2007, nutritional and health claims have been regulated by an EU directive (1924/2006) that applies in all EU countries, which entails considerable restrictions on possibilities to communicate the health-related benefits of products to consumers. A sharpening of regulatory processes is also under way in other geographic markets. In the US, for example, discussions are centering on the requirements, in terms of number and quality, that should be placed on scientific studies so that such studies can provide evidence of a health claim for products containing probiotics.

Since Probi's continued expansion presumes product launches in a greater number of geographic markets, a sharpening of regulatory processes in various markets could entail a risk of increased costs and delayed launches for Probi.

Patents and rights

Probi's continued development is largely dependent on continued successful research and the ability to protect future revenue streams through sales of products with extensive patent protection. Thus, it is vital that granted patents can be maintained and that newly developed products and applications can be patented or protected in some other way. There is a risk that current or future patents, trademarks and other intellectual

property rights held by Probi will not provide adequate protection against infringement and competition. Moreover, patents held by other operators may limit the potential or prevent Probi and its licencees from freely utilising a certain product or production method in certain territories.

Operations subject to permit obligations

After the acquisition of Nutraceutix, Probi conducts operations that require permits under environmental legislation in the US. While Probi currently holds the permits required to conduct these operations, there is a risk that the company will be unable in the future to fulfil appropriate conditions for such permits, or that the regulatory framework is changed so that additional operations become subject to permit obligations without Probi having the capacity to obtain appropriate permits. If Probi should lack requisite permits in the future for a certain part of its operations, this would have a negative impact on Probi's operations, financial position and earnings.

Supply of goods

A significant portion of Probi's future growth is based on the delivery of ready-made products in the form of powder, capsules and tablets. Accordingly, Probi is dependent on a limited number of suppliers complying with agreed requirements in areas such as quality, volumes and delivery dates.

Product liability

Probi could be subject to product liability claims if the company's products are alleged to have caused personal injury or property damage. Probi's insurance programme contains product liability protection. Probi's business could give rise to claims for damages that are not covered by the insurance, which could have an adverse impact on Probi's earnings and financial position.

Strategic research and development

Probi's research and development encompasses both proprietary efforts and partnerships with external Swedish and international researchers and organisations. However, there is no guarantee that these efforts or partnerships will lead to new and launchable products, or that Probi will receive exclusive rights to the results.

Key individuals and employees

The company's future development is dependent on being able to retain employees and recruit new employees with the skills that are in demand.

Financial risks

The Probi Group is exposed to a number of financial risks that largely arise in connection with the purchase and sales of products in foreign currency and through the financing in USD of the acquired operation. Exchange and interest rates impact the Group's earnings and cash flow. The Group is also exposed to liquidity risks and to credit and counterparty risks. The company's financial policy is established by the Board and contains guidelines for the management of various types of financial risk exposure. The corporate finance function in the Group is responsible for identifying and effectively limiting the Group's financial risks. For more information, refer to Note 3.

Future development

Probi's business model is based on conducting research and development, obtaining patents for and documenting probiotic bacteria and developing and producing ready-made probiotic consumer products. Probi's strategy is based on complementary business models for the two business areas Consumer Healthcare and Functional Food. The company's long-term objective is to continue creating profitable growth by expanding and advancing its sales in the global market for products in both business areas. The global market for probiotics is anticipated to continue to show growth in the years ahead. Probi is also positioned well in the important and major North American market. In view of this, Probi's assessment is that the prospects for continued growth are favourable, and that both earnings and cash flow from operating activities will be positive during the financial year ahead.

Environment and quality

Probi's fermentation and production facilities in Redmond (WA) and Lafayette (CO) are GMP certified and hold all of the permits required under environmental legislation in the US. Probi's operations in Lund do not require permits under the Swedish Environmental Code.

Probi's operations in Lund are covered by an environmental management system that was certified according to ISO 14001:2004 in 2012, with the SP Technical Research Institute of Sweden as the external certification body. The system comprises an environmental policy, an environmental manual and a list of environmental aspects.

The significant environmental aspects of this environmental management system are:

- Selection of suppliers for products and services.

- Selection of packaging materials for products.
- Management of risk waste from laboratory operations.

Probi's business is global, which entails business travel by air. For 2016, Probi's climate compensation corresponded to 438 tonnes (354) of carbon equivalents in the the Nakau rain forest project at Fiji, Pacific Ocean, in partnership with the ZeroMission in accordance with the PlanVivo standard. The climate compensation pertains to carbon emissions arising in conjunction with business travel by air in respect of personnel employed by the Parent Company.

Since 1998, Probi's laboratory operations in Lund have been accredited according to ISO 17025 "General requirements for the competence of testing and calibration laboratories." SWEDAC is the regulatory authority for accreditation according to this ISO standard.

Proposed allocation of profit in the Parent Company

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

Profit brought forward	97,444,122
Share premium reserve	579,064,772
Profit for the year	116,456,927
Total	792,965,821

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

that a dividend of SEK 1.00 per share be paid to shareholders	11,394,125
that the following amount be carried forward	781,571,696
Total	792,965,821

The proposed dividend has taken into consideration that the company has treasury shares that do not qualify for a dividend. The earnings brought forward by the Group totalled TSEK 175,127 according to the consolidated statement of financial position and other contributions received amount to TSEK 643,805.

The Board of Directors anticipates a continued positive trend in 2017. The Board's assessment is that the proposed dividend will not prevent Probi from fulfilling its commitments in the short or long term, or from implementing necessary investments.

Corporate governance report

Probi AB (publ) is a Swedish limited liability company, listed on NASDAQ OMX Stockholm since 2004. According to its Articles of Association, Probi shall engage in the development, manufacture and marketing of products that stimulate the growth and/or regulate the natural microflora in humans, and conduct other compatible operations.

Probi's Corporate Governance is based on applicable legislation, resolutions by the Annual General Meeting (AGM), Articles of Association, listing agreement, the Swedish Code of Corporate Governance (the "Code") and work by the Board of Directors and Executive Management. For more information about the contents of the Code, reference is made to www.bolagsstyrningskollegiet.se.

This Corporate Governance Report pertains to the 2016 financial year and has been prepared in accordance with the Swedish Annual Accounts Act and the Code's regulations. Probi's Articles of Association and additional information about Probi's Corporate Governance are available at www.probi.se, under "Investor Relations."

Application of the code

Probi, its Board of Directors and Nomination Committee apply the Swedish Code of Corporate Governance. No deviation from the Code has taken place.

Ownership structure and share capital

At 31 December 2016, Probi had 4,729 (3,884) shareholders, according to Euroclear Sweden AB. On that date, Probi had one owner with a shareholding representing at least one-tenth of the votes for all shares in the company: Symrise AG, Germany, with 51.4% of the votes.

During the fourth quarter of 2016, Probi implemented an issue of new shares with preemptive rights for the company's shareholders for the purpose of financing the acquisition of Nutraceutix. The rights issue was fully subscribed and contributed proceeds of MSEK 587.3 to Probi after deductions for issue expenses. Probi's share capital amounted to SEK 58,220,625 (46,826,500) at the end of 2016, represented by 11,644,125 shares (9,365,300). All shares are of the same type and entitle their holder to one vote and equal rights to the company's assets and earnings.

The Articles of Association include no limitations related to share assignability.

At year-end, Probi held 250,000 treasury shares, corresponding to 2.1% of the total number of shares, with a quotient value of SEK 5 per share. These shares carry no voting rights and do not qualify for dividends.

General Meeting of Shareholders

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

The Annual General Meeting (AGM) was held in Lund on 27 April 2016. The Board of Directors, auditors and Nomination Committee were elected at the AGM, which also resolved on guidelines for the remuneration of senior executives, as described in the following. The Board of Directors was also authorised during the period prior to the 2017 AGM to

- make decisions on one or more occasions regarding a new share issue of up to a total of 936,530 shares. This authorisation includes the right to dis-apply the shareholders' pre-emptive rights provided that the new share issue is paid for in kind in connection with acquisitions. The issue price for the new shares is to be determined on the basis of the prevailing market price at the time of issue. At the date of the resolution by the AGM, full utilisation of the authorisation would have entailed 9% dilution of share capital and voting rights. The Board did not exercise this authorisation during 2016.
- make decisions regarding the transfer of treasury shares. This authorisation includes a transfer of not more than the number of outstanding shares held by the company at the time of transfer. Any transfer may only take place at a price within the registered price span on Nasdaq OMX Stock-

holm on each occasion, meaning the spread between the highest and lowest selling price. The Board did not exercise this authorisation during 2016.

Remuneration of senior executives

The 2016 AGM resolved on the following guidelines for remuneration of senior executives. Probi is to offer market-aligned total remuneration that enables the recruitment and retention of senior executives. Remuneration to executive management shall comprise a fixed salary, variable salary, pension and other remuneration. Combined, these comprise components of the employee's total remuneration. The fixed salary is to take into account the employee's areas of responsibility and experience. The variable salary is to depend on the employee's fulfilment of quantitative and qualitative goals and is not to exceed 50% of the fixed annual salary. Other remuneration and benefits are to be in line with market terms and contribute to facilitating the senior executive's ability to complete his/her work tasks. Executive management's employment agreements include notification stipulations. Under these agreements, termination initiated by the employee entails a notice period of three to six months, and when initiated by the company a notice period of six to 12 months. Unchanged salary is paid during the notice period. The Remuneration Committee is entitled to deviate from the aforementioned guidelines if the Board finds specific reasons to motivate this in isolated cases. As a result of the company's exceptionally positive performance in 2016, the Board decided on 8 December 2016 that variable salary would be payable to the CEO at a rate of 80% of fixed annual salary for the 2016 financial year.

Ahead of the 2017 AGM, the Board proposes that the Meeting resolve on guidelines with the same wording, with the addendum that variable salary is to be payable at a rate of no more than 60% of fixed annual salary.

Nomination Committee

The Nomination Committee is elected at the AGM and its principal tasks are to:

- evaluate the Board's composition and duties
- prepare proposals to the AGM for the election of Board members and Chairman of the Board and their remuneration
- prepare proposals for the AGM for the election of auditors and their remuneration

On 27 April 2016, the AGM resolved that the Nomination Committee should consist of four owner representatives. Heinz-Jürgen Bertram (CEO Symrise AG) (convenor), Bengt Jeppsson (Professor at the Department of Surgery at Lund University), Marianne Flink (Swedbank Robur Funds) and Jannis Kitsakis (Fourth Swedish National Pension Fund) were re-elected as members of the Nomination Committee.

The Nomination Committee's proposals are presented in conjunction with the official notification of the AGM. Shareholders who wish to contact the Nomination Committee can do so in accordance with the information provided on Probi's website at www.probi.se.

Board of Directors

According to Probi's Articles of Association, the Board is to consist of no fewer than three and no more than seven members, with no more than three deputies, and be elected at the AGM. The company's Articles of Association lack specific stipulations concerning the appointment and dismissal of Board Members and concerning amendments to the Articles of Association. The AGM on 27 April 2016 resolved to elect a Board consisting of six members with no deputies as follows: (Figures in parentheses pertain to attendance at Board meetings in 2016).

Jean-Yves Parisot, Chairman
(re-elected) (17 of 17)

Jan Nilsson (re-elected) (16 of 17)

Benedicte Fossum (re-elected) (16 of 17)

Eva Redhe (re-elected) (16 of 17)

Jonny Olsson (re-elected) (16 of 17)

Jörn Andreas (re-elected) (17 of 17)

All Board Members are independent in relation to the company and senior executives. Four board members are independent in relation to major shareholders. On March 1,

2017 Jörn Andreas assumed the position as CFO of Probi, and resigned from the Board of Directors. A presentation of the Board Members is available on the company's www.probi.se website and in the printed version of the 2016 Annual Report on pages 74–75.

The AGM resolves on principles and monetary limits for Board fees. For 2016, the Board's fees were fixed at KSEK 1,175, of which KSEK 300 was paid to the Chairman of the Board and KSEK 150 to each of the other Board members.

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

For information regarding Board fees, see Notes 11 and 30.

CEO

A presentation of the CEO is available on the company's www.probi.se website and in the printed version of the 2016 Annual Report on page 76.

Auditors

The 2016 AGM elected the registered accounting firm Deloitte AB with Authorised Public Accountant Per-Arne Petterson as auditor-in-charge for the period up to the 2017 AGM.

Extraordinary General Meeting

Probi AB held an Extraordinary General Meeting on 29 June 2016. At this Meeting, the Board of Directors was authorised, during the period up to the 2017 AGM, to resolve on the issue of new shares with pre-emptive rights for the company's shareholders. The authorisation pertained to at most the number of shares that corresponds to issue proceeds of approximately MSEK 600 and that is encompassed within the limits for the share capital. The purpose of the authorisation was to enable financing of the acquisition of the US company Nutraceutix's operations. The authorisation was utilised through the Board's decision of 29 September

2016. The rights issue was completed in October and contributed proceeds of MSEK 587.3 to Probi after deductions for issue expenses.

Work of the Board and its formal work procedures

The Board is ultimately responsible for Probi's organisation and the administration of the company's affairs. The Board decides whether to appoint or dismiss the CEO, and on major organisational and operational changes. The Board's duties also include evaluating and determining strategies, business plans and budgets. The Board also adopts quarterly reports, year-end reports and annual reports.

Every year, the Board evaluates the CEO's performance in relation to the identified long and short-term objectives. In conjunction with this, the CEO's objectives for the coming financial year are set. No representative from executive management participated in this evaluation.

The Board annually prepares a procedure regulating the division of work and responsibilities between the Board, Chairman and CEO. This work procedure is adopted at the Board's statutory meeting, which is held in conjunction with the AGM.

The Chairman of the Board is responsible for continuously monitoring the company and ensuring that all Board Members continuously receive the relevant information for making decisions and evaluating Probi. The Chairman must consult with the CEO on strategic issues, supervise Board meetings and ensure that Board matters do not contravene the regulations regarding conflicts of interest stipulated by the Companies Act. The Board annually establishes instructions for the CEO. This include guidelines for the ongoing administration, accounting and asset management and internal control of the company. These instructions also cover the CEO's authorisations and disclosure requirements towards the Board.

The Board is to convene no fewer than four scheduled Board meetings distributed equally during the year and hold one statutory meeting. In addition to regular items, the scheduled Board meetings in 2016 focused primarily on acquisition matters as well as

strategic and structural issues involving Probi's long-term development and growth. In addition, the Board held 13 telephone meetings in 2016. Among other matters, these meetings addressed issues connected to acquisitions and negotiations of commercial agreements.

Audit Committee

Probi's Audit Committee comprises the Board in its entirety. The Board maintains continuous contact with the auditors, who personally report their findings and observations at least twice annually. The auditors also provide information on the priority areas that future audits will examine, while the Board informs the auditors about issues or areas that the Board wishes to specifically highlight. In 2016, the Audit Committee held two meetings. One member was absent at one of these meetings.

Remuneration Committee

Probi's Remuneration Committee comprises the Board in its entirety. The Remuneration Committee is tasked with determining the salary and remuneration of the CEO, as well as bonus systems for the company. Salaries and remuneration of other senior executives are decided by the CEO in consultation with the Chairman of the Board. Policies for remuneration and other terms and conditions of

employment for the CEO and senior executives are resolved by the AGM. In 2016, the Remuneration Committee held two meetings. All members attended both meetings.

For information regarding salaries and remuneration of the CEO and other senior executives, see Note 11.

The Board's internal control report

The Board is responsible for the internal control of financial reporting. This report is limited to the internal control of financial reporting.

Authorisation and responsibility is documented and recognised in internal guidelines and instructions. These encompass the division of responsibilities between the Board and the CEO, attestation instructions and accounting and reporting instructions. The purpose of the instructions in these documents is to minimise the risk of irregularities and improper benefits to other parties at the expense of the company.

The Board monitors the company's financial development through reporting at Board meetings and through continuous financial reporting. The CEO is responsible for preparing and presenting reports at each Board meeting, with the following principal content for the period in question:

- Sales and market development and status of R&D projects

- Balance sheets, income statements and financing analyses
- Investments and tied-up capital
- Key ratios
- Forecasts for current quarters and full-year

The CEO must also, in accordance with the established time schedule, submit a financial report to the Board members.

Quality of financial reporting

The Board is responsible for ensuring the quality of the company's financial reporting. The information submitted by executive management is continuously evaluated by the Board. In this work, it is essential to ensure that actions are taken concerning potential shortcomings that are detected and implementing the adopted quality improvements. In addition, continuous contact is maintained with the company's auditors who also conducted a review of all quarterly reports during 2016 in accordance with the Board's decision. Considering the size of the company, it has not been deemed reasonable to establish a specific internal audit function. Each year, the question of establishing a specific internal audit function is to be addressed by the Board.

Financial statements

Consolidated and Parent Company statements of comprehensive income

Currency: SEK 000S	Note	THE GROUP		PARENT COMPANY	
		2016	2015	2016	2015
Operating revenue					
Net sales	8	443,475	215,711	367,857	215,711
Other revenue	8	7,732	4,973	9,965	4,973
Total operating revenue	7	451,207	220,684	377,822	220,684
Operating expenses					
Cost of goods sold	9, 11, 15	-172,873	-68,014	-117,326	-68,014
Gross profit		278,334	152,670	260,496	152,670
Sales costs	9, 11, 15	-47,131	-38,325	-43,567	-38,397
Administration costs	9, 10, 11, 15	-49,832	-18,743	-27,909	-18,713
Research and development costs	9, 11, 12, 15	-47,930	-30,614	-47,930	-30,614
Other operating expenses	9	-3,092	-1,920	-3,092	-1,951
Operating profit	7, 29	130,349	63,068	137,998	62,995
Interest income		49	128	4,503	128
Interest expenses		-2,382	-19	-2,417	-19
Financial income		55,598	3,120	55,598	3,120
Financial expenses		-46,586	-3,207	-46,574	-3,403
Result from financial income and expenses	13	6,679	22	11,110	-174
Difference between book depreciation and depreciation according to plan		-	-	85	105
Income before tax		137,028	63,090	149,193	62,926
Tax for the period	14	-28,461	-14,051	-33,035	-14,031
Income for the year		108,567	49,039	116,158	48,895
Other comprehensive income					
Hedging instruments		299	-	299	-
Translation differences in translation of foreign operations		21,384	-4	-	-
Total comprehensive income for the year		130,250	49,035	116,457	48,895
Number of shares at end of reporting period		11,394,125	9,115,300		
Average number of shares outstanding		9,495,104	9,115,300		
Earnings per share based on income for the year, SEK.		11.43	5.38		

Any future impact on revenue by items that are recognised under Other total revenue will be carried forward to the Income statement.

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

The company currently has no outstanding convertible loans or outstanding warrants, so no dilution effect can be recognised.

Probi bought back own shares in 2011 and owned a total of 250,000 treasury shares at the end of 2016.

Consolidated statement of financial position

Assets			
	Note	2016	2015
Currency: SEK 000S			
Fixed assets			
Capitalised costs for development activities	16	29,692	31,250
Patents and licenses	17	46,312	9,570
Goodwill	18	799,740	2,762
Equipment, tools and fixtures	19, 20	41,490	4,581
Deferred tax assets	14	4,554	–
Total fixed assets		921,788	48,163
Current assets			
Inventories	22	72,752	4,468
Accounts receivable	23	78,039	26,930
Other current receivables		3,508	1,473
Derivatives		5,740	–
Prepaid expenses and accrued income	24	26,222	3,826
Cash and cash equivalents	3	103,161	143,024
Total current assets		289,422	179,721
Total assets		1,211,210	227,884

Shareholders' equity and liabilities			
	Note	2016	2015
Currency: SEK 000S			
Equity			
Share capital		58,221	46,827
Other contributions received		643,805	64,740
Provision		21,679	–4
Profit brought forward including profit for the year		175,127	75,676
Total equity		898,832	187,239
Long-term liabilities			
Deferred tax	14	111	122
Total long-term liabilities		111	122
Current liabilities			
Accounts payable – trade		46,023	16,235
Bank loans	26	225,717	–
Other current liabilities		11,708	8,737
Accrued expenses and deferred income	27	28,819	15,551
Total current liabilities		312,267	40,523
Total equity and liabilities		1,211,210	227,884

Parent Company's balance sheet

Assets			
Currency: SEK 000S	Note	2016	2015
Fixed assets			
Capitalised costs for development activities	16	29,692	31,250
Patents and licenses	17	10,990	9,570
Equipment, tools and fixtures	19, 20	3,747	4,581
Shares in Group companies	21	383,147	4,329
Long-term receivable from Group companies		573,117	-
Total fixed assets		1,000,693	49,730
Current assets			
Inventories	22	8,564	4,468
Accounts receivable	23	52,117	27,135
Short-term receivable Group companies		22,421	-
Other current receivables		3,197	1,473
Derivatives		5,740	-
Prepaid expenses and accrued income	24	24,078	3,815
Cash and cash equivalents	3	64,846	142,718
Total current assets		180,963	179,609
Total assets		1,181,656	229,339
Shareholders' equity and liabilities			
Currency: SEK 000S	Note	2016	2015
Restricted equity			
Share capital		58,221	46,827
Statutory reserve		21,140	21,140
Reserve for capitalised development expenses		9,444	-
Total restricted equity		88,805	67,967
Non-restricted equity			
Profit brought forward		97,443	67,108
Share premium reserve		579,065	-
Income for the year		116,457	48,895
Total non-restricted equity		792,965	116,003
Total equity		881,770	183,970
Long-term liabilities			
Liabilities to Group companies		4,035	4,035
Total long-term liabilities	25	4,035	4,035
Untaxed reserves			
Accumulated accelerated depreciation/amortisation		470	555
Total untaxed reserves		470	555
Current liabilities			
Bank loans	26	225,717	-
Accounts payable – trade		37,374	16,507
Tax liabilities		9,564	-
Other current liabilities		2,207	8,737
Accrued expenses and deferred income	27	20,519	15,535
Total current liabilities		295,381	40,779
Total equity and liabilities		1,181,656	229,339

Consolidated statement of changes in shareholders' equity

Currency: SEK 000S

	Share capital	Other contributions received equity	Provisions	Profit brought forward	Total equity
Opening balance, 1 Jan. 2015	46,827	64,740	-	34,386	145,953
Income for the year	-	-	-	49,039	49,039
Other comprehensive income	-	-	-4	-	-4
Total comprehensive income	-	-	-4	49,039	49,035
Dividend for 2014	-	-	-	-7,749	-7,749
Total transactions with shareholders	-	-	-	-7,749	-7,749
Opening balance, 1 Jan. 2016	46,827	64,740	-4	75,676	187,239
Income for the year	-	-	-	108,567	108,567
Other comprehensive income	-	-	21,683	-	21,683
Total comprehensive income	-	-	21,679	108,567	130,246
New issue	11,394	579,065	-	-	590,459
Dividend for 2015	-	-	-	-9,116	-9,116
Total transactions with shareholders	11,394	579,065	-	-9,116	581,343
Closing balance, 31 Dec 2016	58,221	643,805	21,679	175,127	898,832

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

Parent company's statement of changes in shareholders' equity

Currency: SEK 000S

	Share capital	Statutory reserve	Reserve for capitalised development expenses	Non-restricted equity	Total equity
Opening balance, 1 Jan. 2015	46,827	21,140	-	74,856	142,823
Income for the year	-	-	-	48,895	48,895
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	48,895	48,895
Dividend for 2014	-	-	-	-7,748	-7,748
Total transactions with shareholders	-	-	-	-7,748	-7,748
Opening balance, 1 Jan. 2016	46,827	21,140	-	116,003	183,970
Income for the year	-	-	-	116,158	116,158
Other comprehensive income	-	-	-	299	299
Reserve for capitalised development expenses	-	-	9,444	-9,444	-
Total comprehensive income	-	-	9,444	107,013	116,457
Dividend for 2015	-	-	-	-9,116	-9,116
New issue	11,394	-	-	579,065	590,459
Total transactions with shareholders	-	-	-	569,949	569,949
Closing balance, 31 Dec 2016	58,221	21,140	9,444	792,965	881,770

There are 11,644,125 shares with a quotient value of SEK 5, of which Probi AB holds 250,000 shares, corresponding to 2.1%.

Consolidated and Parent Company statements of cash flows

Currency: SEK 000S	Note	THE GROUP		PARENT COMPANY	
		2016	2015	2016	2015
Operating activities					
Income before tax		137,028	63,090	149,193	62,926
Depreciation/amortisation and impairment		22,246	6,176	17,900	6,071
Capital gains/losses from divestment of tangible fixed assets		27	31	24	31
Non-cash items		-30,139	-	-30,139	-
Income tax paid		-20,325	-16,689	-20,325	-16,689
Cash flow from operating activities before changes in working capital		108,837	52,608	116,653	52,339
Change in inventories		-11,695	-907	-4,096	-907
Change in operating receivables		-35,426	-2,901	-75,130	-3,234
Change in operating liabilities		24,633	13,286	19,534	13,880
Cash flow from operating activities		86,349	62,086	56,961	62,078
Investing activities					
Acquisition of intangible fixed assets	16, 17	-16,257	-18,256	-16,257	-18,554
Acquisition of tangible fixed assets	19, 20	-2,070	-1,238	-962	-1,238
Divestment of tangible fixed assets		315	-	315	-
Shares in subsidiaries		-	-	-378,818	-
Loans to subsidiaries		-	-	-542,978	-
Acquisitions	5	-912,067	-	-	-
Cash flow from investing activities		-930,079	-19,494	-938,700	-19,792
Financing activities					
Raising of loans	26	227,428	-	227,428	-
Fees for raising loans		-1,759	-	-1,759	-
New issue		601,610	-	601,610	-
Costs for issue of new shares		-14,296	-	-14,296	-
Dividend		-9,116	-7,749	-9,116	-7,749
Cash flow from financing activities		803,867	-7,749	803,867	-7,749
Change in cash and cash equivalents		-39,863	34,843	-77,872	34,537
Cash and cash equivalents at the beginning of the year		143,024	108,181	142,718	108,181
Cash and cash equivalents at the end of the period		103,161	143,024	64,846	142,718
		2016	2015	2016	2015
Interest received		45	128	23	128
Interest paid		-3,727	-19	-2,340	-19

Non-cash items refer to currency results from translation of foreign currency loans.

Notes

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 fields of research are digestive health and immune response. Probi's customers are leading companies active in the Consumer Healthcare and Functional Food business areas.

The Group comprises the Parent Company, Probi AB, and four subsidiaries: Probi USA Inc., Probi Asia-Pacific Pte. Ltd., Probi Food AB (dormant) and Probi Feed AB (dormant). In turn, Probi AB is a subsidiary of Symrise AG, Corp. Reg. No. HRB 200436, with its registered office in Holzminden, Germany. Consolidated financial statements for Symrise AG are available at www.symrise.com. Probi's shares are listed on the Nasdaq OMX Stockholm.

Note 2 Accounting and measurement policies

The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act, "RFR 1, Supplementary accounting regulations for Groups – January 2016" as well as the International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU.

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

New and revised standards

A number of new or revised standards have come into force and applied for the 2016 financial year. However, none of these have or will have any impact on the Group's financial statements.

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

The new or amended standards and new interpretations that have been issued but that did not come into effect until 1 January 2017 or thereafter have not yet been applied by the Group in the preparation of its financial statements.

The amendments to IAS 7 Statement of Cash Flows are part of the Disclosure Initiative. The amendments entail additional disclosure requirements to be able to understand changes in liabilities whose cash flow is recognised in financing activities. Information must be disclosed concerning:

- Changes involving cash flow from financing activities
- Non-cash changes, such as the effects of acquisitions, sales of subsidiaries and effects of unrealised exchange rate differences.

- Changes in financial assets, for example if they hedge liabilities deriving from financing activities (provided that cash flow from these assets are/will be included in financing activities).

IFRS 9, which is applicable for the financial year that begins on 1 January 2018. IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard is divided into three parts: (1) Classification and measurement, (2) Impairment and (3) Hedge accounting. IFRS 9 contains three measurement categories for financial assets: fair value via profit or loss, fair value via other comprehensive income and amortised cost. The measurement category to which a financial asset belongs is determined partly by the company's purpose for holding the asset ("business model") and partly by the nature of the financial asset's contractual cash flows. The new standard also contains new rules for impairment testing of financial assets, which means that the previous incurred loss method is being replaced by a new expected loss method. This means that the financial statements must reflect expected credit losses and changes in these expectations. The impairment rules in IFRS 9 also apply to more types of assets than the corresponding rules in IAS 39. The new hedge accounting rules are intended to ensure that the company's risk management is reflected in the financial statements. The new standard entails expanded opportunities to hedge risk components of non-financial items, and that more types of instruments may be part of a hedge relationship. Furthermore, there is no longer any quantitative requirement of 80-125% retrospective effectiveness. Executive management is of the opinion that application of IFRS 9 will not have any material impact on carrying amounts in the financial statements in respect of the Group's financial assets and liabilities.

IFRS 15, which is applicable for the financial year that begins on 1 January 2018. Although IFRS 15 Revenue from Contracts with Customers is not expected to have any material impact on the Group's recognition of revenue, the Group will be affected by the expanded disclosure requirements.

IFRS 16 Leasing will replace IAS 17 beginning on 1 January 2019. The new standard is not considered to have any material impact on the Group's recognition of leasing contracts. Operational leasing contracts will be recognised in the same way as financial leasing contracts are recognised today. This means that leasing costs that are currently recognised as operational costs will be divided into an interest increment and an amortisation increment in the profit or loss statement. The leasing object is entered in the balance sheet as a fixed asset and a corresponding financial liability. The Group's leasing activities are extremely limited.

Executive management's assessment is that other new or amended standards and new interpretations that have not come into effect are not expected to have any material impact on the consolidated financial statements on initial application.

2.1 Basis of preparation of the consolidated financial statements

The Parent Company's functional currency is the Swedish krona, which is also the reporting currency for both the Parent Company

and the Group. All amounts stated have been rounded to the nearest thousand kronor, unless otherwise stated. The valuation basis is the cost, unless otherwise stated.

The most important accounting policies applied during the preparation of these consolidated financial statements are stipulated below. These policies have been applied consistently for all years presented, unless otherwise indicated. The Parent Company applies the same accounting policies as the Group, with the exceptions and supplements stipulated in RFR 2 Accounting for legal entities – January 2016. The accounting policies for the Parent Company are stipulated in section 2.16 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 those of all subsidiaries. All companies in which the Group holds or controls more than 50% of the votes or in which the Group has the right to formulate financial and operative strategies are consolidated as subsidiaries. Subsidiaries are included in the consolidated financial statements from the date on which the controlling influence is transferred to the Group. Subsidiaries are excluded from the consolidated financial statements from the date on which the controlling influence ceases.

2.3 Segment reporting

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

2.4 Revenue

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

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

- Royalty revenue: Royalty revenue is recognised as revenue on a percentage basis, based on the licensee's reporting of the sales value of consumer products containing Probi's products and ingredients. If the percentage is connected to various levels of the sales value, and thus changes when these are achieved, an estimated average percentage for the year is used each quarter, if this complies with the economic intent of the agreement. Such a check will be undertaken at the end of the year to ensure that royalty revenue actually matches royalty received from customers.
- Income from goods sold: Income from goods sold is recognised upon delivery of the goods in accordance with the sales and delivery conditions in each individual case.
- Nonrecurring revenue: Probi may receive a lump sum down payment in conjunction with the signing or completion of a contract (exit fees). Certain contracts contain clauses in respect of minimum royalties that can give rise to nonrecurring amounts. These transactions are recognised in their entirety as revenue in conjunction with the actual event 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 Income tax

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

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

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

2.6 Intangible assets

- Goodwill: Goodwill is tested annually to identify any impairment requirements and is recognised at cost less accumulated impairments. Goodwill impairments are not reversed. Profit or losses on the sale of a unit include the residual carrying amount of the goodwill referring to the divested unit. Goodwill is allocated among the smallest cash-generating units in connection with impairment testing.
- Research and development expenditure: Research expenses are expensed on an ongoing basis. Development expenses are recognised as assets from the date on which it is deemed that the project or activity to which they relate will lead to a technically and commercially viable product or lead in some other way to future economic value for the company. 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 life. Amortisation is initiated when the asset is ready for use. The value of capitalised assets not yet ready for use is impairment tested annually. Such testing could lead to the value of the asset being impaired, in which case the asset's carrying amount will be reduced and the reduction recognised in operating profit as an impairment loss. Capitalised assets can also be discarded, in which case the entire carrying amount of the asset will be derecognised from the statement of financial position and recognised in operating profit as being discarded.
- Patents Patent expenses are recognised at cost and are amortised on a straight-line basis over their useful life. The amortisation period for patents is 10 years. Annual fees and other additional fees are expensed on an ongoing basis.

2.7 Tangible fixed assets

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

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

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

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

2.8 Impairment of non-financial assets

Assets with an indeterminate useful life are not impaired; instead, they are impairment tested annually. 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. Impairment is effected in the amount by which the asset's carrying amount exceeds its recoverable amount. When assessing the impairment requirement, assets are grouped at the lowest level at which separate identifiable cash flows (cash-generating units) exist.

2.9 Leasing

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

- Operational leasing agreements: Leasing of fixed assets for which the lessor, in all material respects, remains as the owner of the asset is classified as operational leasing. The leasing fees for operational leasing are expensed on a straight-line basis over the period of the lease.
- Financial lease agreements: When the leasing agreement entails that the Group, in its capacity as lessee, in all material respects enjoys the economic benefits and carries the financial risks attributable to the leasing object, in the same way as direct ownership, 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.

2.10 Financial instruments

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

- Cash and cash equivalents: Cash and cash equivalents include cash and bank balances. Cash and cash equivalents do not include any current investments.
- Accounts receivable: Accounts receivable are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. These items are distinguished by the fact that they arise when the Group supplies goods or services directly to a customer without intending to trade in the receivable. Accounts receivable are recognised at nominal value less any

decline in value. A provision for the depreciation of accounts receivable is made when there is objective proof that the Group will be unable to obtain the full amount due in accordance with the original terms of the receivable. In such cases, the provision is recognised in profit or loss.

- Accounts payable: Accounts payable are commitments to pay for goods or services acquired in operating activities from suppliers. Accounts payable are classified as current liabilities if they fall due within one year; otherwise they are recognised as long-term liabilities.
- Receivables and liabilities in foreign currencies: Receivables and liabilities in foreign currency are recognised at the exchange prevailing on the balance sheet date and the change in value is recognised in operating profit. Exchange-rate changes regarding receivables and liabilities relating to operations are recognised in operating profit, while exchange-rate changes pertaining to financial receivables and liabilities are recognised in net financial items.
- Forward contracts – hedge accounting: All derivatives pertain to currency forward contracts hedging the currency exposure resulting from customer disbursements in USD and are initially and subsequently measured at fair value in the balance sheet. When applying hedge accounting, the relationship between the hedging instrument and the hedged item is documented, as is an assessment of hedge effectiveness, at both the inception of the transaction and on an ongoing basis. Effectiveness refers to the degree to which fair value and cash flow changes in the hedging instrument offset corresponding changes in the hedged item.

If the hedge accounting criteria are met, the effective portion of change in fair value when derivatives held for cash flow hedges are remeasured is recognised in other comprehensive income and accumulated in the hedging reserve in equity. The cumulative hedging gain or loss that was recognised in the hedging reserve is reversed to profit or loss in the same period as the hedged cash flow affects profit or loss. Any ineffective portion of the change in value is recognised immediately in profit or loss.

If the hedging relationship is interrupted but cash flow is still expected to occur, the cumulative change in value is recognised in the hedging reserve until the underlying cash flow for the hedging transaction is no longer expected to occur, and the cumulative change in value recognised in the hedging reserve is immediately transferred to profit or loss.

Probi applies hedge accounting for derivatives in order to hedge operating flows in USD. Hedge accounting is not applied for derivatives whose purpose is to hedge financial receivables and liabilities.

2.11 Inventories

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

2.12 Provisions

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

restructuring measures is made once a detailed, formal plan for the measures has been established.

2.13 Remuneration of employees

Pensions

Pensions are classified as defined-contribution or defined-benefit plans. Obligations resulting from defined-contribution plans are fulfilled by paying premiums to independent authorities or companies that administrate the plans. Most of Probi's employees in Sweden are covered by the ITP plan via continuous payments to Collectum. In accordance with IFRS, this should be classified as a defined-benefit multi-employer plan. The majority of Probi's employees in the US are covered by a 401(k) plan, which is a defined-contribution plan. All pension plans are recognised as defined-contribution plans over the period during which the employees performed the service to which the contribution relates.

Severance payments

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

Bonus plans and variable remuneration

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

2.14 Acquisition and sale of treasury shares

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

2.15 Statement of cash flows

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

2.16 Parent Company's accounting policies

The Parent Company's financial statements have been prepared in accordance with the Swedish Annual Accounts Act (ÅRL) and "RFR 2, Accounting for legal entities – January 2016". This implies that the Parent Company's financial statements apply the IFRSs and IFRICs that have been adopted by the EU when this is possible within the framework of the Swedish Annual Accounts Act and with regard to the relationship between reporting and taxation.

Amended accounting policies

Of the amendments in RFR 2 "Reporting for legal entities" that have become effective and apply for the 2016 financial year, the Parent Company's financial statements are affected by amendments in IAS 1 Presentation of Financial Statements (Disclosure Initiative) and IAS 38 Intangible Assets. The amendments that recognition according to the

Swedish Annual Accounts Act (ÅRL) is no longer permitted to be done as "memorandum item" in conjunction with the balance sheet, and such items should be presented instead in a note to the financial statements.

Beginning on 1 January 2016, an amount corresponding to capitalisation of development expenses is to be transferred to a restricted reserve for development expenses in accordance with IAS 38. This will reduce the Parent Company's non-restricted equity, which could impact the capacity to pay a dividend. The assessment of executive management, based on the historical relationship between capitalised development expenses and the Parent Company's non-restricted equity, is that this change will not have a material impact on the capacity to pay a dividend assuming that other conditions in accordance with the company's dividend policy are in place.

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

The amendments to IAS 7 Statement of Cash Flows are part of the Disclosure Initiative. The amendments entail additional disclosure requirements to be able to understand changes in liabilities whose cash flow is recognised in financing activities. Information must be disclosed concerning:

- Changes involving cash flow from financing activities
- Non-cash changes, such as the effects of acquisitions, sales of subsidiaries and effects of unrealised exchange rate differences.
- Changes in financial assets; for example, if they hedge liabilities that derive from financing activities (provided that cash flow from these assets is/will be included in financing activities).

IFRS 15, which is applicable for the financial year that begins on 1 January 2018. Although IFRS 15 Revenue from Contracts with Customers is not expected to have any material impact on the Parent Company's recognition of revenue, the Parent Company will be affected by the expanded disclosure requirements.

Management's assessment is that other amendments of RFR 2, which have not come into effect, are not expected to have any material impact on the Parent Company's financial statements when they are applied for the first time.

Note 3 Financial risk factors

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

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

3.1 Market risks

Currency risks

The Probi Group is exposed to several financial risks that primarily arise from the purchase and sale of products in foreign currency, as well as the financing of the acquired business in the US. Exchange rates affect the Group's earnings and cash flow. Most of Probi's revenue, or 85%, was invoiced in USD (76%) or EUR (9%) in 2016. Due to the financing of the acquisition, the Parent Company has issued a loan to the US subsidiary in USD, and has taken out a loan from the bank in USD. However, significant currency exposure arose, amounting to USD 38,000,000 at year-end. The company's financial policy is established by the Board and contains guidelines for the management of various types of financial risk exposure. The objective is to minimise currency exposure, and thus the currency risk, to the greatest possible

extent. During 2016, the the Board resolved to hedge 75% of expected operating cash flows in USD twelve months ahead through the use of forward contracts, provided that the arrangement qualifies for hedge accounting. The Board also resolved to hedge the Parent Company's net financial exposure. The corporate finance function in the Group is responsible for identifying and effectively limiting the Group's financial risks. For more detailed information, refer to Note 28.

A sensitivity analysis shows that the effect on operating profit in 2016 of a 5% change in the USD/SEK exchange rate would have been MSEK \pm 10.5. In connection with changes in the EUR/SEK exchange rate, the corresponding change would have been MSEK \pm 1.5.

Interest-rate risk

The Probi Group is exposed to interest-rate risk through its net debt. The Group's interest-bearing liabilities carry variable interest with a maximum fixed-rate period of three months, according to financing agreements with the Group's lenders. A 1-percentage-point change in the interest rate would have affected net interest income/expense by MSEK 2.3 at the closing date rate of utilisation of the revolving credit facility. In the company's assessment, reasonable changes in interest rates would not affect the Group's earnings so materially that there would be a need to hedge interest rates through financial instruments. This assessment will be continually updated.

3.2 Credit risks

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

3.3 Liquidity risks

Cash-flow forecasts are established regularly to ensure that the Group has sufficient cash funds to satisfy requirements in operating activities. For cash and cash equivalents that are not required for operating activities, the surplus liquidity, a reduction of drawn credit facilities can be considered. In addition, alternative investments can be considered if these can be expected to lead to a better return on invested funds.

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 addressed below.

Impairment testing of capitalised development expenses

Probi carried out impairment tests in 2016 to determine the value of the projects that had been capitalised at 31 December 2016. The value in use, meaning the present value of the anticipated future cash flow from the products encompassed by the capitalised development costs, did not indicate any impairment requirement. Accordingly, with reasonable assurance, these costs will generate revenues for Probi in the years ahead.

Impairment testing of goodwill

Goodwill is impairment tested annually and is recognised at cost less accumulated impairments. Goodwill impairments are not reversed. Profit or losses on the sale of a unit include the residual carrying amount of the goodwill referring to the divested unit. Goodwill is allocated among the smallest cash-generating units in connection with impairment testing. Any acquired goodwill is allocated at the acquisition date to the cash-generating units that are expected to benefit from the synergies deriving from the business combination. Further information can be found in Note 18.

Note 5 Acquisitions

On 3 October, Probi acquired the Nutraceutix operations and relevant assets in the form of an asset acquisition. The purchase consideration was MUS\$ 105 on a debt-free basis, plus adjustments for working capital on the transfer date and other contractual adjustments. The consideration transferred was approximately MSEK 912, including preliminary adjustments, and paid in cash.

The acquisition confirms Probi's position as one of the four largest global, integrated probiotic operators. It creates a solid platform for further acquisitions, which can initially help to strengthen Probi's market presence and growth potential, while continuing to broaden the product offering. The combination of Probi's strong research focus and Nutraceutix' manufacturing experience will enable Probi to develop the combined customer portfolio with both knowledge and a broad product offering. Access to own production creates flexibility and in-depth knowledge of the entire value chain, which will strengthen Probi's competitiveness and cost structure.

The acquisition doubled the Probi Group's net sales.

Pace of innovation and new product offerings are key drivers of the probiotic supplement market in North America. The acquisition of Nutraceutix and the presence that Probi will gain in the US market will enable the company to act even faster there.

The information required for a complete determination of the purchase consideration allocation was not directly available on the publication date of this annual report. The acquisition analysis presented below is preliminary and a full determination of the allocation will be provided in the interim report for the second quarter of 2017.

The entire surplus value is currently recognised as goodwill and no other amortisation has been charged against profit. This may be amended when the definitive allocation has been established.

On a pro forma basis, the new Group's sales amounted to MSEK 686 in 2016, meaning assuming that the acquisition had been completed on 1 January 2016. Total operating profit for the two operations for full-year 2016 was approximately MSEK 190.

The Group's administrative expenses include acquisition costs of MSEK 16.2.

PRELIMINARY ACQUISITION COST ESTIMATE	
Tangible assets	36,896
Intangible assets	34,969
Inventories	56,589
Accounts receivable	43,922
Other current receivables	1,932
Current liabilities	-12,855
Goodwill	750,616
Net identifiable assets and liabilities	912,069
Consideration transferred	-912,069

Note 6 Management of capital

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

Financial objectives as of 2015:

Growth

To generate growth that outperforms the market. During 2016, Probi achieved growth of 106% (60), including acquired operations. Organic growth in existing operations was 71% (60). Organic growth was 67% (42), adjusted for currency effects.

Margin

Growth is to be combined with a profit margin (EBITDA) exceeding 20%. Probi's EBITDA margin for 2016 was 34% (32). Adjusted for currency effects, the EBITDA margin for 2016 was 34% (27).

Proposed allocation of profit in the Parent Company

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

Profit brought forward	97,444,122
Share premium reserve	579,064,772
Profit for the year	116,456,927
Total	792,965,821

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

that a dividend of SEK 1.00 per share be paid to shareholders	11,394,125
that the following amount be carried forward	781,571,696
Total	792,965,821

The proposed dividend has taken into consideration that the company has treasury shares that do not qualify for a dividend. The earnings brought forward by the Group totalled TSEK 175,127 according to the consolidated statement of financial position and other contributions received amount to TSEK 643,805.

The Board of Directors anticipates a continued positive trend in 2017. The Board's assessment is that the proposed dividend will not prevent Probi from fulfilling its commitments in the short or long term, or from implementing necessary investments.

Note 7 Segment information

Probi's business is organised in two business areas: Consumer Healthcare (CHC) and Functional Food (FF).

Consumer Healthcare

Consumer Healthcare develops, manufactures and markets Probi's probiotics. Its customers are pharmaceutical companies and other companies specialised in probiotics and self-care products. The regulatory status of the products is either food or consumer healthcare products, depending on the market. Revenue is derived from sales of goods in bulk or consumer packaging.

Functional Food

Functional Food develops food that contains Probi's probiotics. This development takes place in partnership with food companies, in order to commercialise and market products with high volume potential. Revenue is mainly derived from royalties from partner-generated sales.

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

OPERATING INCOME PER OPERATING SEGMENT			
Group 2016	CHC	FF	Total
Total operating revenue	415,824	35,383	451,207
Cost of goods sold	-170,762	-2,111	-172,873
Marketing and sales	-30,421	-16,710	-47,131
Administration	-42,352	-7,480	-49,832
Research and Development	-33,992	-13,938	-47,930
Other operating costs	-2,950	-142	-3,092
Operating profit	135,347	-4,998	130,349
Group 2015	CHC	FF	Total
Total operating revenue	182,215	38,469	220,684
Cost of goods sold	-66,850	-1,164	-68,014
Marketing and sales	-30,449	-7,876	-38,325
Administration	-13,745	-4,998	-18,743
Research and Development	-17,068	-13,546	-30,614
Other operating costs	-1,836	-84	-1,920
Operating profit	52,267	10,801	63,068

Probi has one customer that accounts for more than 10% of consolidated sales. The customer, with sales of MSEK 210.5 (93.8) is recognised in the Consumer Healthcare segment.

OPERATING REVENUE DISTRIBUTED BY GEOGRAPHIC AREAS		
The Group	2016	2015
Sweden	55,175	50,670
Rest of Europe	23,424	18,640
North America	342,644	132,128
Rest of world	29,964	19,246
Total	451,207	220,684

Note 8 Revenue distribution

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Goods	400,924	170,095	324,791	170,095
Royalties, licenses, etc.	42,551	45,616	43,066	45,616
Net sales	443,475	215,711	367,857	215,711
Exchange gains	7,512	4,703	7,532	4,703
Other revenue	220	270	2,433	270
Total revenue	451,207	220,684	377,822	220,684

Note 9 Cost distribution

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Product costs	-137,155	-63,120	-106,603	-63,120
Employee benefit expenses	-71,008	-41,251	-48,186	-41,251
Other external costs	-90,449	-47,069	-67,135	-47,142
Depreciation and dis-carding of fixed assets	-22,246	-6,176	-17,900	-6,176
Total	-320,858	-157,616	-239,824	-157,689

Note 10 Auditors' fees

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Deloitte				
Audit assignment	610	275	300	275
Audit-related services	865	63	865	63
Tax consultancy	117	47	21	47
Other services	1,782	28	-	28
Total	3,374	413	1,186	413

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

For 2016, the item Other services includes MSEK 1.7 attributable to the acquisition.

Note 11 Average number of employees, salaries, other remuneration and social security contributions

	AVERAGE NUMBER OF EMPLOYEES							
	THE GROUP		PARENT COMPANY SWEDEN		SUBSIDIARIES SINGAPORE		SUBSIDIARIES USA	
	2016	2015	2016	2015	2016	2015	2016	2015
Women	39	21	25	21	-	-	14	-
Men	35	11	11	10	1	1	23	-
Total	74	32	36	31	1	1	37	-

At year-end, Probi had 200 (37) employees, 87 (24) women and 113 (13) men.

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Board of Directors:				
Jörn Andreas	175	169	175	169
Benedicte Fossum	175	169	175	169
Mats Lidgard	-	38	-	38
Per Lundin	-	100	-	100
Declan MacFadden	-	38	-	38
Jan Nilsson	175	169	175	169
Jonny Olsson	175	131	175	131
Jean-Yves Parisot	300	225	300	225
Eva Redhe	175	169	175	169

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Chief Executive Officer				
Peter Nählstedt	2,638	2,188	2,638	2,188
Other members of management 4 (3)	6,779	5,115	6,779	5,115
Other employees	37,682	17,850	18,075	17,651
Total	48,274	26,361	28,667	26,162

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Social security contributions, total	17,561	12,877	15,589	12,862
Of which pension costs:				
Board Members	-	-	-	-
Chief Executive Officer				
Peter Nählstedt	688	538	688	538
Other members of management 4 (3)	1,620	1,263	1,620	1,263
Other employees	3,411	2,815	3,203	2,799

The CEO and an additional four senior executives are entitled to bonuses that may amount to a maximum of 50% of the fixed annual salary. The outcome is based on fulfillment of quantitative and qualitative goals established annually by the Board. The Remuneration Committee is entitled to deviate from the aforementioned guidelines if the Board finds specific reasons to motivate this in isolated cases. As a result of the company's exceptionally positive performance in 2016, the Board decided on 8 December 2016 that variable salary would be payable to the CEO at a rate of 80% of fixed annual salary for the 2016 financial year.

At 31 December 2016, TSEK 11,465 (6,903) including social security contributions, was reserved for bonuses to personnel. The amount will be paid in 2017 and distributed as follows: The CEO, TSEK 2,258 (1,299); senior executives (4) (3) TSEK 3,196 (2,334), and other employees, TSEK 6,011 (3,270).

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 varies between six and nine months if given by Probi, and between three and six 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 for senior executives are defined-benefit pensions. Executive management comprises three men and two women.

Note 12 Discarding and impairment of non-current assets

Discarding of tangible assets and intangible fixed assets was as shown below:

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Discarding	-	-106	-	-106
Impairment	-11,051	-	-11,051	-
Total	-11,051	-106	-11,051	-106

The largest trial ever conducted by Probi, with the objective of expanding on the knowledge and documentation of Probi Defendum (Probi Frisk®), was completed in the second half of 2016. The trial was conducted over three common-cold seasons, and included a total of 900 people. The aim of the trial was to demonstrate the efficacy of Probi Defendum on the occurrence and severity of common cold symptoms. The trial, which is still under analysis, showed that those given Probi Defendum suffered significantly fewer colds than those who were given a placebo. The results showed no significant reduction in the severity of cold symptoms, according to a predefined analysis method. Since this was the primary objective, the trial results are not likely to be used as documentation for a health claim application in Europe. It was for this trial that that an impairment of assets was effected. Discarding in 2015 is relating to a completed development project.

Note 13 Financial income and expenses

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Interest income	49	128	4,503	128
Exchange-rate gains	55,598	3,120	55,598	3,120
Exchange-rate losses	-45,227	-3,207	-45,215	-3,403
Interest expenses	-2,382	-19	-2,417	-19
Other financial expenses	-1,359	-	-1,359	-
Total	6,679	22	11,110	-174

Exchange gains and losses incurred in connection with the revaluation of the loan, or market valuation and realisation of forward contracts, is recognised gross in other financial income and expenses.

Note 14 Income tax

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Current tax for the year	-33,026	-14,031	-33,035	-14,031
Deferred tax	4,565	-20	-	-
Total	-28,461	-14,051	-33,035	-14,031
Income before tax	137,028	63,090	149,192	62,926
Nominal tax of 22.0% according to Parent Company tax rate	-30,146	-13,880	-32,822	-13,844
Tax effect of other non-taxable or tax deductible income	-213	-171	-213	-187
Tax effect of other tax rates in foreign subsidiaries	1,898	-	-	-
Total	-28,461	-14,051	-33,035	-14,031

Change in deferred tax asset

Deferred tax in capitalised tax loss carry-forward	4,554	-	-	-
Change in deferred tax asset	4,554	-	-	-

Change in deferred tax

Tax adjustments from previous years	11	-20	-	-
Change deferred tax	11	-20	-	-
Total change deferred tax	4,565	-20	-	-

Note 15 Operational leasing agreements

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

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Leasing costs for the year	5,626	3,524	3,608	3,524
Falls due for payment within one year	10,889	2,572	2,784	2,572
Falls due for payment after one but within five years	36,627	7,233	5,155	7,233
Falls due for payment after more than five years	17,407	-	-	-

Note 16 Capitalised costs for development activities

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Opening cost	39,287	24,160	39,287	24,160
New acquisitions	12,596	15,763	12,596	15,763
Discarding	-	-636	-	-636
Closing accumulated cost	40,832	39,287	40,832	39,287
Opening depreciation	-8,037	-5,820	-8,037	-5,820
Depreciation/amortisation for the year	-3,103	-2,747	-3,103	-2,747
Discarding	-	530	-	530
Closing accumulated amortisation	-11,140	-8,037	-11,140	-8,037
Opening impairment	-	-	-	-
Impairment for the year	-11,051	-	-11,051	-
Closing accumulated impairment	-11,051	-	-11,051	-
Closing residual value	29,692	31,250	29,692	31,250

For more information about discarding and impairment, refer to Note 12.

Note 17 Patents and licenses

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Opening cost	66,250	63,758	66,250	63,758
Asset purchase	68,038	-	-	-
New acquisitions	3,662	2,492	3,662	2,492
Translation differences	4,202	-	-	-
Closing accumulated cost	142,152	66,250	69,912	66,250
Opening depreciation	-56,680	-54,848	-56,680	-54,848
Asset purchase	-33,070	-	-	-
Depreciation/amortisation for the year	-4,047	-1,832	-2,242	-1,832
Translation differences	-2,043	-	-	-
Closing accumulated amortisation	-95,840	-56,680	-58,922	-56,680
Closing residual value	46,312	9,570	10,990	9,570

Closing residual value at 31 December 2016 pertains to patents, licenses and trademarks.

The licenses related to the European rights that were repurchased from Skånemejerier for MSEK 40 in 2001 were amortised on a straight-line basis from the year of acquisition until 2012 and are now fully amortised. During 2016, a license was acquired for MSEK 1.8 for two probiotic bacterial strains for food applications, primarily dairy products. The license applies globally, with the exception of Nordic countries. The agreement also includes the intellectual property rights for two thermostable bacterial strains.

Note 18 Goodwill

In accordance with IAS 36, goodwill is tested for impairment at least once per year. If events or changes in circumstances indicate that an impairment loss may need to be recognized, then tests are carried out more frequently.

For impairment tests, goodwill is to be allocated to the cash-generating unit within the Group that is intended to benefit from the synergies of the business combination. Every unit with goodwill allocated to it represents the lowest level within the Group at which goodwill is monitored for internal management purposes and is not larger than an operating segment as defined by IFRS 8.

As described in Note 5 the Purchase Price Allocation is preliminary and a full allocation of values will be done during the second quarter of 2017. Therefore all preliminary unallocated goodwill related to the business combination was designated to the segment Consumer Healthcare December 31, 2016. Probi normally intends to carry out its annual impairment test for goodwill on September 30. Due to the closing of the acquisition of the Nutraceutix operations on October 3, 2016, the impairment test for the cash-generating unit Consumer Healthcare was performed instead on December 31, 2016, for this year's annual financial statements. For the sake of simplicity and in view of materiality, no impairment test for the cash-generating unit Functional Food was performed. Insofar as no special events arise in the course of 2017, the annual impairment test for goodwill will be performed as on September 30 for next year's annual financial statement.

The recoverable amount is represented by the fair value less costs to sell and was determined as the present value of future cash flows. The future cash flows were derived from the Probi Group's business plan. The calculation of the present value of estimated future cash flows is mainly based on assumptions relating to future selling prices and/or sales volumes and costs while taking into account any changed economic circumstances. In applying value in use, the cash-generating unit is measured as currently used. Net cash inflows outside of the planning period are determined on the basis of long-term business expectations using individual growth rates derived from the respective market information.

The business plan is based on a detailed planning horizon for the fiscal years 2017 to 2020. A growth rate of 2.0 % was assumed for the measurement of perpetual annuity. The cash flows determined in this manner were discounted with a weighted average capital cost (WACC) factor after tax of 6.41 % for Consumer Healthcare. Cost of equity and borrowing costs were weighted with a capital structure based on a group of comparable companies. Capital market data and data from comparable companies were used in determining cost of equity and borrowing costs. There were no indications of impairment for the fiscal year.

In performing the impairment test, Probi carried out sensitivity analyses for reasonably possible changes to the WACC, terminal growth rate or projected sales growth. These variations in the measurement parameters also did not result in any required impairment of goodwill as it is currently recognized.

Note 19 Improvements to leased property

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Expenditure on leased property				
Opening cost	3,588	3,588	3,588	3,588
Asset purchase	4,474	–	–	–
Acquisitions	1,108	–	–	–
Translation differences	276	–	–	–
Closing accumulated cost	9,446	3,588	3,588	3,588
Opening depreciation	–1,889	–1,436	–1,889	–1,436
Asset purchase	–1,992	–	–	–
Depreciation/amortisation	–637	–453	–453	–453
Translation differences	–123	–	–	–
Closing accumulated amortisation	–4,641	–1,889	–2,342	–1,889
Closing residual value	4,805	1,699	1,246	1,699

The expense in the Parent Company is related to improvements in connection with the renovation and expansion of Probi's leased premises in Lund. The consolidated statements also include improvement expenses for leased premises in (WA) and Lafayette (CO), USA.

Note 20 Equipment and tools

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Inventories				
Opening cost	10,017	9,037	10,017	9,037
Asset purchase	62,637	–	–	–
Purchases	962	1,238	962	1,238
Sales	–291	–	–291	–
Discarding	–117	–258	–117	–258
Translation differences	3,868	–	–	–
Closing accumulated cost	77,076	10,017	10,571	10,017
Opening depreciation	–7,135	–6,325	–7,135	–6,325
Asset purchase	–28,223	–	–	–
Depreciation/amortisation for the year	–3,407	–1,037	–1,052	–1,037
Depreciation of disposed equipment	117	227	117	227
Translation differences	–1,743	–	–	–
Closing accumulated amortisation	–40,391	–7,135	–8,070	–7,135
Closing residual value	36,685	2,882	2,501	2,882

The asset purchase pertains primarily to production equipment in Redmond (WA) and Lafayette (CO), USA.

Note 21 Shares in Group companies

	2016	2015
Carrying amount	383,147	4,329

Specification of the Parent Company's shareholding in Group companies

	Share of equity	Share of votes	No. of shares	Carrying amount	Share holders' equity
Probi Asia-Pacific Pte. Ltd. 201537643C, Singapore	1	1	50,000	298	511
Probi Food AB 556354-1951, Lund	1	1	10,000	3,931	3,935
Probi Feed AB 556540-4364, Lund	1	1	1,000	100	100
Probi Inc, USA 81-2766100, Delaware	1	1	100	378,818	392,576

Note 22 Inventories

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Raw materials and consumables	31,348	–	–	–
Work-in-progress	21,150	–	–	–
Finished goods	20,254	4,468	8,564	4,468
Total	72,752	4,468	8,564	4,468

The inventory increase is due to the acquisition of Nutraceutix that was completed in Q4 2016. For inventory valuation principles refer to note 2.11.

Note 23 Accounts receivable

Carrying amount corresponds to the fair value of accounts receivable. No accounts receivable were impaired in 2016 or 2015.

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Maturity structure of accounts receivable				
Not fallen due	71,300	25,580	50,210	25,766
Fallen due 0–15 days	5,479	852	1,907	870
Fallen due 16–30 days	109	498	–	499
Fallen due 31–60 days	895	–	–	–
Fallen due 61–90 days	11	–	–	–
Fallen due 91–180 days	111	–	–	–
Fallen due 181–360 days	116	–	–	–
Fallen due > 360 days	18	–	–	–
Total	78,039	26,930	52,117	27,135

Note 24 Prepaid expenses and accrued income

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Prepaid rent	1,736	785	843	785
Accrued sales revenue	19,522	700	19,522	700
Insurance premiums	2,433	450	1,655	450
Returns and refunds compensation	1,429	1,429	1,429	1,429
Other items	1,102	462	629	451
Total	26,222	3,826	24,078	3,815

Note 25 Other long-term liabilities

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Liabilities to Group Companies, > five years	-	-	4,035	4,035
Total	-	-	4,035	4,035

Note 26 Owed to credit institutions

	CURRENCY	NOMINAL AMOUNT		NOMINAL AMOUNT	UTILISED AMOUNT	UNUTILISED AMOUNT	INTEREST RATE TERMS	MATURITY
		ORIGINAL CURRENCY						
Bank loans (revolving lines of credit)	USD		33,650	306,117	227,427	78,690	Libor + 1.4%	2019-07-27
Capitalised arrangement expenses	SEK				-1,710			
Recognised amount					225,717			
Overdraft facility	SEK		30,000	30,000	0	30,000	Libor + 1.4%	2019-07-27
Total				336,117	225,717	108,690		

Probi AB has a financing agreement with Handelsbanken that was signed on 27 July 2016 and runs until 27 July 2019, with the possibility to extend it for 1 year. The agreement includes a revolving credit facility in an original amount of TUSD 35,000 and an overdraft facility of TSEK 30,000. The scope of the revolving loan has been reduced by TUSD 1,350 per quarter, and at year-end it was TUSD 33,650 or TSEK 306,117. TUSD 25,000 of the facility, or TSEK 227,427, was utilised at 31 December 2016. The overdraft facility had not been

utilised at year-end. The use of the revolving credit facility is fixed for a period of three months at a time, which is why the loan is classified as short-term.

The financing agreement contains two financial conditions or key ratios/covenants, which must be fulfilled during the contractual term. According to these conditions, the KPIs net debts/EBITDA and interest coverage ratio must not deviate from agreed levels.

No amounts were owed to credit institutions at year-end 2015.

Note 27 Accrued expenses and deferred income

	THE GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Accrued holiday pay				
including social security contributions	3,714	1,145	2,122	1,145
Social security contributions	658	576	658	576
Accrued administration and selling expenses	4,441	2,035	2,439	2,018
Returns and refunds compensation	4,330	4,330	4,330	4,330
Accrued variable remuneration to employees	11,465	6,903	9,351	6,903
Unpaid portion of purchase consideration for acquisitions	2,108	-	-	-
Other items	2,103	562	1,619	563
Total	28,819	15,551	20,519	15,535

Unpaid portion of purchase consideration for acquisitions pertains to adjustments for working capital in connection with takeover and other contractual adjustments.

Note 28 Financial instruments

Forward contracts – hedge accounting

All derivatives pertain to currency forward contracts hedging the currency exposure resulting from customer disbursements in USD and are initially and subsequently measured at fair value in the balance sheet. When applying hedge accounting, the relationship between the hedging instrument and the hedged item is documented, as well as an assessment of hedge effectiveness, at both the inception of the transaction and on an ongoing basis. Effectiveness refers to the degree to which fair value and cash flow changes in the hedging instrument offset corresponding changes in the hedged item.

If the hedge accounting criteria are met, the effective portion of change in fair value when derivatives held for cash flow hedges are remeasured is recognised in other comprehensive income and accumulated in the hedging reserve in equity. The cumulative hedging gain or loss that was recognised in the hedging reserve is reversed to profit or loss in the same period as the hedged cash flow affects profit or loss. Any ineffective portion of the change in value is recognised immediately in profit or loss.

If the hedging relationship is interrupted but cash flow is still expected to occur, the cumulative change in value is recognised in the hedging reserve until the underlying cash flow for the hedging transaction is no longer expected to occur, and the cumulative change in value recognised in the hedging reserve is immediately transferred to profit or loss.

Probi applies hedge accounting for derivatives in order to hedge operating flows in USD. Hedge accounting is not applied for derivatives whose purpose is to hedge financial receivables and liabilities.

Anticipated operating cash flows – hedge accounting

	IN ORIGINAL CURRENCY USD 000S	AMOUNT TO RECEIVE (+) OR PAY (-) SEK 000S	RECOGNISED AMOUNT SEK 000S
Amount to be sold	1,750	15,967	-97
Amount to be sold	1,750	15,943	-99
Amount to be sold	1,750	15,921	-104
Amount to be purchased	-375	-3,421	21
Amount to be purchased	-375	-3,416	21
Amount to be purchased	-375	-3,412	22
	4,125	37,582	-236

Financial currency exposure on net borrowing – no hedge accounting

	IN ORIGINAL CURRENCY USD 000S	AMOUNT TO RECEIVE (+) OR PAY (-) SEK 000S	RECOGNISED AMOUNT SEK 000S
Amount to be sold	38,000	348,859	5,740

Note 29 Pledged assets and contingent liabilities

	THE GROUP PARENT COMPANY			
	2016	2015	2016	2015
Chattel mortgages	800	800	800	800
Bank guarantee, Swedish Customs	165	165	165	165
Total pledged assets	965	965	965	965

The company has no contingent liabilities.

Note 30 Related-party transactions

Transactions with related parties recognised in statement of comprehensive income:

	THE GROUP PARENT COMPANY			
	2016	2015	2016	2015
Symrise AG (largest shareholder)	283	-	283	-
Symrise AG (largest shareholder)	-16	-29	-16	-29
Atherioco AB, in attendance:				
Jan Nilsson (Board member and Chairman of Probi Scientific Advisory Board)	-60	-60	-60	-60

The transactions above relate to consulting fees for Probi Scientific Advisory Board and for laboratory material. At 31 December 2016, Probi had a liability of SEK 16,000 (-) to Symrise AG, which was recognised in the statement of financial position.

In addition to these transactions, the following Board fees were invoiced from own companies: Jonny Olsson (Board member) from Jonny Olsson Consulting, and Eva Redhe (Board member) from Redhe Financial Communications AB. The amounts are recognised in Note 11 "Average number of employees, salaries, other remuneration and social security contributions."

Note 31 Events after the balance-sheet date

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

Signatures for the annual report

The Annual Report and consolidated financial statements were approved for issuance by the Board on 15 March 2017. The consolidated statement of comprehensive income and the statement of financial position, as well as the Parent Company's income statement and balance sheet will be presented to the Annual General Meeting on 4 May 2017 for adoption.

The Board of Directors and CEO affirm that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and that they provide a true and fair view of the Group's financial

position and earnings. The Annual Report has been prepared in accordance with generally accepted accounting standards and provides a true and fair view of the Parent Company's financial position and earnings.

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

Lund, 15 March 2017

Jean-Yves Parisot
Chairman

Benedicte Fossum

Jan Nilsson

Jonny Nilsson

Eva Redhe

Peter Nählstedt
CEO

Our auditor's report was submitted on 22 March 2017
Deloitte AB

Per-Arne Pettersson
Authorised Public Accountant

Auditors' Report

To the general meeting of the shareholders of Probi AB (publ) corporate identity number 556417-7540.

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Probi AB (publ) for the financial year 2016-01-01–2016-12-31. The annual accounts and consolidated accounts of the company are included on pages 44-70 in this document. In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Valuation of capitalised development expenditure

Description of the risk

- Probi AB (publ) reported in the balance sheet of 31 December 2016 capitalised development expenditure of 30 MSEK (31).
- The value of the assets is contingent on future returns on products related to development expenditures. The company makes impairment testing per product group.
- Incorrect assessments and assumptions can produce an effect on the Group's results and financial position.

For further information please refer to the Group's accounting principles on page 59, note 4 of important accounting estimates on page 62 and note 16 on intangible assets on page 66 of the report.

Our audit procedure

- We have audited the company's design and implementation of internal control to detect indications of impairment and that the impairment is made in the correct period.
- We have audited the company's assumptions and methods in the impairment test to ensure that assumptions are reasonable and that the procedures are applied with consistency and integrity.
- We have examined the design and implementation of the company's internal controls in order to identify the company's breakdown of the research- and development phase.

Valuation of goodwill

Description of the risk

- Probi AB (publ) reported in the balance sheet of 31 December 2016 a goodwill amounting to 800 MSEK (3). This has been raised in connection with acquisitions.
- The value of the reported goodwill is contingent on future performance and profitability in the cash generating unit for goodwill. This should be considered at least annually. Impairment testing is based on a number of assumptions such as the estimated future cash flows, gross margin, discount rate and growth.
- Incorrect assessments and assumptions can produce a significant impact on the Group's results and financial position.

For further information please refer to the Group's accounting principles on page 59, note 4 of important accounting estimates on page 62 and note 18 on goodwill on page 66 of the report.

Our audit procedures

- We have reviewed and assessed Probi AB (publ)'s routines for the impairment testing of goodwill to ensure that assumptions are reasonable, that the procedures are applied consistently and with integrity. We have also tested the arithmetical accuracy of the model.
- We have reviewed the accuracy and completeness of relevant notes to the financial statements.
- Our valuation experts have participated in the implementation of the auditing measures.

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 4-43, 74-78. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

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

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an

audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained

up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Direc-

tor of Probi AB (publ) for the financial year 2016-01-01–2016-12-31 and the proposed appropriations of the company's profit or loss.

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

A separate list of loans and collateral has been prepared in accordance with the provisions of the Companies Act.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director

shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are

material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 50-52 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Malmö March 22, 2017
Deloitte AB

Signature on Swedish original

Per-Arne Pettersson
Authorized accountant

Board of Directors



Jean-Yves Parisot

Chairman of the Board, born 1964.

Education: MBA and DVM (Doctor in Veterinary Medicine)

History: Chairman of the Board since 2015. CEO of Diana, a division of the Symrise Group. Formerly held executive positions at Air Liquide, Danisco, Rhodia, Rhône-Poulenc, Merial and Pfizer.

Other Board assignments: Chairman of the Board, VetAgroSup

Shares in the company: –

Independent in relation to the company: Yes.

Independent in relation to major shareholders: No.



Benedicte Fossum

Board member, born 1962

Education: Veterinarian, Norway School of Veterinary Science.

History: Board member since 2011. Independent consulting company. Former Director of Strategic Development at PHARMAQ AS and various executive positions at Alpharma AS and the Norwegian Medicines Agency, among other positions.

Other Board assignments: Smartfish AS, Patogen AS, Sea Lice Research Centre, Foinco AS and Mittas AS.

Shares in the company: –

Independent in relation to the company: Yes.

Independent in relation to major shareholders: Yes.



Eva Redhe

Board member, born 1962.

Education: Holds a Master of Business Administration degree, Stockholm School of Economics.

History: Board member since 2011. Formerly Executive Chairman and CEO of Erik Penser Fondkommission AB, founder and President of Mercurius Financial Communications AB, as well as corporate finance and IR positions within Investor AB. Experience from some 20 Board assignments in listed and private companies.

Other Board assignments: Chairman of the Board of Spago Nanomedical AB (publ) and Ftrack AB, Board member of Starbreeze AB, Axel Christiernsson International AB, Temaplan Asset Management Holding AB, D Carnegie AB and the First Swedish Pension Insurance Fund.

Shares in the company: 5,000 shares.

Independent in relation to the company: Yes.

Independent in relation to major shareholders: Yes.



Jan Nilsson

Board member, born 1953.

Education: Medical programme and Doctor of Medicine, Karolinska Institute.

History: Board member since 2010. Professor of Experimental Cardiovascular Research at Lund University. Formerly held such positions as Dean of the Faculty of Medicine at Lund University, 2000–2005, and Assistant Head Secretary for the Medical Research Council, 1995–1999.

Other Board assignments: Atherioco AB, MedScienta AB, PetaJoule AB, Cardiovox and the Swedish Research Council.

Shares in the company: –

Independent in relation to the company: Yes.

Independent in relation to major shareholders: Yes.



Jonny Olsson

Board member, born 1964.

Education: Master of Business Administration degree

History: Board member since 2015. Owner and CEO of Jonny Olsson Consulting AB. Previously held executive positions in Tetra Pak, Oriflame and Ericsson.

Other Board assignments: The Incredible Journey AB, Ortelius Management, NGI Denmark, Liquid Consulting Inc & AB.

Shares in the company: 1,284 shares.

Independent in relation to the company: Yes.

Independent in relation to major shareholders: Yes.

Management



Peter Nählstedt

CEO, born 1974.

Education: Master of Science in Chemical Engineering and BSc in Economics from Lund University.

History: Peter Nählstedt assumed the position of CEO of Probi in January 2014. Peter Nählstedt has extensive experience in the international Life Science industry from his various executive positions in the US and Sweden within strategy, marketing and sales at GE Healthcare Life Science. Peter Nählstedt was previously employed at Trelleborg Marine Systems, where he was responsible for the operations in Europe, South America and North Africa.

Shares in the company: 4,600 shares.



Gun-Britt Fransson

Vice President of Research and Development, born 1953.

Education: PhD in Nutrition from Uppsala University.

History: Gun-Britt Fransson was employed in February 2012 and was given responsibility for the company's Research and Development Department. Gun-Britt Fransson has extensive experience from senior positions in the food, pharmaceutical and biotechnology industry and served for more than 10 years as Director of Research at Procordia Food AB and Orkla Foods AS. She joined Probi from a position as CEO of Alligator Bioscience AB in Lund, a position she had held for six years.

Shares in the company: 2,625 shares.



Niklas Brandt

CIO as of 1 March 2017, born in 1959.

Education: Business Administration degree from Lund University.

History: Niklas Brandt was employed as CFO in 2008. 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: 1,250 shares.



Niklas Bjärum

Vice President of Marketing and Sales, born 1963.

Education: Degree in International Business Administration from Lund University.

History: Niklas Bjärum was employed in 2001 and was given responsibility for the company's Marketing and Sales Department. After receiving his degree in 1988, Niklas held 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: 5,187 shares.



Linda Neckmar

Vice President of Operations, born 1973.

Education: Master of Science in Chemical Engineering from Lund University.

History: Linda Neckmar assumed the position as Vice President of Operations at Probi in January 2016. Linda Neckmar has extensive experience from the biotechnology industry, in pharmaceutical development and international business development, marketing and sales. Linda was employed at Probi in 2011 with responsibility for Marketing and Sales Consumer Healthcare. Prior to this, she worked at Biolnvent International AB and OxiGene Inc.

Shares in the company: 1,250 shares.



Jörn Andreas

CFO as of 1 March 2017, born in 1980.

Education: PhD in finance, Karlsruhe Institute of Technology (KIT), Karlsruhe, Germany.

History: Board member since 2014. Chief Integration Officer and Vice President Finance, Symrise Aroma Molecules Division, Jacksonville, USA. Previously worked at The Boston Consulting Group, Hamburg, Germany and Bayer AG, Leverkusen, Germany.

Shares in the company: –

Annual General Meeting

The Annual General Meeting will be held on Thursday 4 May 2017 at 3:00 p.m. at Elite Hotel, Ideon Gateway, Scheelevägen 27, Lund.

Right to participate

To be entitled to participate in the Annual General Meeting, shareholders must be registered in the shareholders' register maintained by Euroclear Sweden AB as of Thursday 27 April 2017 and shall have notified the company of their intention to participate not later than Thursday 27 April 2017.

Shareholders whose shares are registered with a trustee must temporarily re-register their shares in their own name with Euroclear Sweden AB in order to participate in the

Meeting. Such registration must be completed not later than Thursday 27 April 2017. This means that shareholders must notify the trustee of their intention to temporarily re-register these shares in ample time before this date.

Notification of participation

Notification of participation in the Meeting can be made:

- in writing under address Annual General Meeting, Probi AB, Ideon Gamma 1, SE-223 70 Lund
- by e-mail to: probi@probi.se
- by calling +46 (0)46 286 89 70

The notification should include the following:

- name
- civic registration number or corporate registration number
- number of shares
- daytime telephone number
- where applicable, the number of advisors (max. two) intending to participate in the Meeting.

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

Financial calendar for 2017

Interim report Q1, 2017

4 May 2017

Annual General Meeting 2016

4 May 2017

Interim report Q2, 2017

19 July 2017

Interim report Q3, 2017

25 October 2017

Year-end report 2017

25 January 2018

Definitions of key ratios

The company presents certain financial key ratios in the annual report that are not defined according to IFRS. The company believes that these key ratios provide valuable supplementary information to investors and company management. Since companies do not all calculate financial key ratios in the same way, these ratios are not always comparable to ratios used by other companies. Accordingly, these financial key ratios are not to be considered to replace key ratios as defined according to IFRS.

Definitions of key ratios

1 EBITDA margin: EBITDA as a percentage of net sales. EBITDA margin is a key ratio that the company considers relevant to investors who wish to evaluate the company's prospects of reaching a sectoral level of profitability and if the company's financial target of an EBITDA margin that exceeds 20% is met.

2 Operating margin: Operating income as a percentage of net sales. Operating margin is a key ratio that the company considers relevant to investors who wish to evaluate the company's prospects of reaching a sector level of profitability.

3 Equity/assets ratio: Equity as a percentage of total equity and liabilities. The equity/assets ratio shows the share of the balance-sheet total that comprises equity and has been included so that investors can gather their own opinion of the company's capital structure.

4 Debt/equity ratio: Interest-bearing liabilities as a percentage of shareholders' equity. Since 2016, Probi had taken out bank loans which is why the company considers it relevant for investors who wish to evaluate the capital structure of the company.

5 Return on equity: Profit before tax as a percentage of average shareholders' equity. Return on equity is a key ratio that the company considers relevant to investors who wish to evaluate the company's prospects of reaching a sector level of expected return on equity that has been made available by the owners.

6 Liquid ratio: Total current assets excluding inventories as a percentage of non interest-bearing current liabilities.

7 R&D expenses as part of operating income: Accumulated R&D expenses as a percentage of operating revenue. R&D expenses as part of operating income is a key ratio that the company considers relevant to investors who wish to evaluate the company's ability to develop new products and maintain its competitiveness.

RECONCILIATION OF KEY RATIOS

	2016	2015
1 EBITDA		
Total operating revenue	451,207	220,684
Cost of goods sold	-172,873	-68,014
Sales costs	-47,131	-38,323
Administration costs	-49,832	-18,743
Research and development costs	-47,930	-30,616
Other operating expenses	-3,092	-1,920
Operating profit	130,349	63,068
Depreciation/amortisation	22,219	6,176
EBITDA	152,568	69,244
4 Debt/equity ratio		
Interest-bearing liabilities	225,717	-
5 Return on equity, %		
Average equity	545,992	166,596
7 Accumulated R&D expenses as a percentage of operating revenue		
R&D expenses	47,930	30,616
Operating revenue	451,207	220,684
	11%	14%



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