
Into the West

ANNUAL REPORT 2014



Growing where the growth is greatest

The US market for probiotics is showing double-digit growth every year. The supply of products is considerable and the competition is much tougher than in other markets.

In just a few years, we have established a position in the American market. During 2014, Probi noted major successes there. We also entered into long-term agreements with strategic partners in both production and distribution, which have already contributed to increased sales. Being visible on the shelves of US supermarkets and health food stores is one of the principal factors for success in this market.

This is an effort that we will continue to develop. Because we are intent on growing where the market is growing most.

Read more about our successes in the US on page 14.



Newborns begin life as sterile, but bacteria immediately starts to colonise and multiply on the skin, mouth and intestines. During our entire lives, we accommodate a variety of microorganisms. Bacteria account for more than one kilo of a person's total weight.

Probiotics beneficial to human life

For many years, one of the principal goals for scientists was to understand, prevent and treat the diseases caused by bacteria. Although the enthusiasm for penicillin and other antibiotics discovered in the 1900s was great, the research of recent years has shown that relatively few of the bacteria we carry can be considered harmful.

The vast majority are “good” for the body, and we couldn't live without them. In fact, a clear correlation can be seen between intestinal microbiota and good health.

In a healthy intestine, bacteria live in coexistence with the body. The bacteria feed on the fibres we eat and convert them into useful substances for the body. The body's immune system is also stimulated by the presence of bacteria. Half of the cells that make up the immune system are located in the intestinal tract.

Natural intake of probiotic bacteria has declined

Probiotics are defined as “live microorganisms, which when administered in adequate amounts confer a health benefit on the host” (FAO/WHO, 2001).

People have eaten probiotic-rich fermented foods, such as yoghurt, sauerkraut, sausage, pickled herring and cheese, for thousands of years. Fermentation was a method used for preserving food. However, with the advent of the fridge and new methods of preservation, food no longer needed to be fermented. As a result, we now consume fewer probiotics. One way to increase uptake is to eat food with added probiotics or dietary supplements that contain probiotics.

Probi was created

In the early 1980s, a number of researchers in Lund were exploring the high mortality rate among intensive-care patients. They concluded that this was probably due to a damaged intestinal lining, which resulted in harmful bacteria leaking from the intestine into the body. The researchers conceived the idea that the intestinal lining could possibly be sealed with the help of bacteria and the search for a good bacterium began. The foundation was laid for Probi.

The researchers began by characterising the bacterial strains that are prevalent in healthy mucosa. These strain were given to healthy research subjects to determine which strain was best able to attach to, col-



The composition of microbial flora in the gastrointestinal tract is very important for our health. An imbalance between “good” and “bad” bacteria could lead to illness. The photo shows *Lactobacillus plantarum* 299v (DSM 9843).

onise and multiply in the intestinal mucosa. The challenge facing the researchers was to find the bacteria that could survive the journey through the entire body, all the way down to the rectum.

Lactobacillus plantarum 299v (DSM 9843) was the bacterial strain that achieved the best results. This strain occurs naturally on the surface of berries and fruit, where it breaks down fibres and builds substances that prevent mould growth. The choice fell on fermenting oatmeal with the selected bacterial strain and then adding this to a fruit drink. The end result was ProViva.

Identifying the right bacterial strains was an arduous process

Finding the right bacterial strains in the vast flora of the intestine is an extremely laborious task. *Lactobacillus* is a large family. Many factors had to be taken into account. The bacteria

had to generate positive health effects, while also being cultivatable, producible and finally show the necessary stability in the form of a product.

There are many different types of probiotic bacteria. To identify a bacterium with a specific effect, it was not enough to, for example, focus on a lactobacillus, not even a specific species; it was necessary to study the lowest level, the strain level. Different strains have different effects despite very small differences in their genetic structure.

The composition of microbial flora in the gastrointestinal tract is very important for health. An imbalance between “good” and “bad” bacteria could lead to illness. Probiotics help to balance intestinal flora, leading to a healthier digestive system and boosting immunity.

Probiotics have been used in attempts to improve human health in a range of areas,

from relieving cold symptoms and reducing diarrhoea, constipation and flatulence to preventing allergies and eczema. Probiotics have also shown the ability to reduce the side-effects of radiation and chemotherapy, and have beneficial effects on oral and vaginal health. Considerable research has recently focused on studying the significance of bacteria to the emergence of lifestyle-related illnesses such as obesity, diabetes and cardiovascular diseases.

New research into microbiota

New technology and major international research initiatives are beginning to explain the role of human microflora, or “microbiota.” This research has shown a correlation between low microbial diversity and the risk of developing various diseases. This has generated growing interest in how probiotics can influence and increase this diversity.

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This is a translation of the Swedish version of the Annual Report.
In case of discrepancies, the Swedish wording prevails.



Probi's business is focused on the health and well-being of people. Integrating efforts for a better environment with sustainable development are a natural part of the daily operations. Probi's environmental management system has been certified according to ISO 14001:2004 since 2012, with the SP Technical Research Institute of Sweden as the external certification body. All Probi AB operations are encompassed by this environmental management system, which comprises an environmental manual, an environmental policy and a list of environmental aspects.

For more information, see www.probi.se.

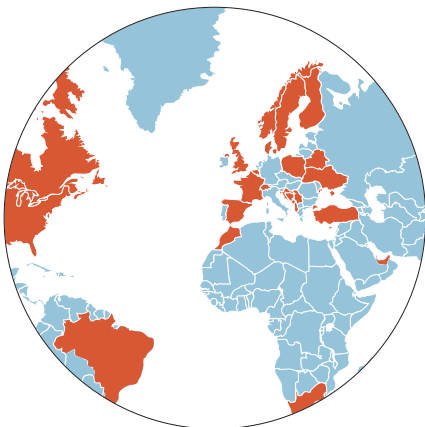
Research and Development is one important part of Probi. Marketing and Sales is another. The key to Probi's success is that both of these parts work continuously together, side by side. This is the core of Probi's commercial research.

This is Probi

SALES TREND (KSEK)				
2010	2011	2012	2013	2014
80,381	94,379	99,562	102,210	135,242

NET MARGIN (%)				
2010	2011	2012	2013	2014
23	21	18	19	21

OPERATING PROFIT (KSEK)				
2010	2011	2012	2013	2014
18,097	17,797	17,209	18,143	27,049



Sales in key growth markets

Probi's products are currently sold or being launched in more than 30 countries, and the geographic spread is gradually being expanded.

Probi showed favourable growth in 2014, mainly because of a highly positive trend in the US, but also positive development in South Korea.

[Read more on pages 10–11.](#)



Success through research and development

Probi conducts extensive and well-structured research and development, comprising both product development and long-term clinical research projects.

All R&D activities are driven by customer needs.

In 2014, several trials presented results that are important for Probi's future development, in both the long and the short term.

[Read more on pages 26–29.](#)



Health products with probiotics in a global market

Probi develops and manufactures effective and well-documented quality ingredients for probiotic products.

In the company's two business areas, Consumer Healthcare and Functional Food, and in partnership with leading food and pharmaceutical companies, Probi develops, market and sells probiotics in the form of capsules, tablets and fruit juice drinks.

[Read more on pages 30–33.](#)

Significant events 2014

135.2

MSEK

Net sales

Net sales rose to MSEK 135.2 (102.2).

21

%

Net margin

The net margin increased to 21% (19).

27.0

MSEK

Operating profit

Operating profit increased to MSEK 27.0 (18.1).

27

employees

Number of employees

At the end of 2014, Probi had 27 employees (26).

First quarter New launches in key markets

JAN 7 Peter Nählstedt assumes position as new CEO.

MAR 21 Probi secures a major, strategic order valued at MSEK 3.6 from US self-care company Pharmavite. The order pertained to Probi Digestis®.

MAR 31 Probi signs distribution agreement with Dongkook Pharmaceuticals, in Seoul, South Korea, for the distribution of Probi Mage®.

Second quarter Highest-ever net sales for a single quarter

APR 11 A new trial shows that the intake of Probi's bacterial strains reduces the risk of bone loss in mice, which can lead to reduced risk of osteoporosis and fractures.

APR 15 Probi signs a distribution agreement with Sanofi Consumer Healthcare for the launch of Probi Digestis® in South Korea.

MAY 6 Probi signs a distribution agreement with Impexia in Turkey for the launch of Probi Digestis® in the Turkish market.

JUN 10 A new meal study shows that the intake of one of Probi's bacterial strains can increase iron absorption in women of child-bearing age, which can lead to reduced risk of iron deficiency.

Third quarter Net sales rose 54%

JUL 17 Another trial confirms that Probi's probiotics can increase iron absorption in women of child-bearing age.

SEP 24 Probi and Pharmavite sign a new long-term agreement covering the distribution and marketing of Probi's probiotic products. Under the new agreement, Pharmavite will broaden its distribution and expand its Nature Made® range with more probiotic products from Probi. Pharmavite also intends to launch probiotic products internationally, including the Middle East.

Fourth quarter 32% growth and elevated operating margin for full-year 2014.

OCT 14 Probi signs a distribution agreement with Laboratório Daudt for the launch of Probi Digestis® in Brazil.

OCT 24 Probi appoints Glenn Gibson, Maria Rescigno and Henrik Vestergaard as new members of its Scientific Advisory Board.

NOV 28 Probi seeks new employees for sales and marketing, including a Business Development Manager, Key Account Manager EMEA, Product Marketing Manager, Regional Director Americas and Regional Director Asia.

“Sales successes in the US are accelerating growth”



In 2014, Probi reached new heights in several areas. In particular, we increased our sales at a pace not seen for several years. At the same time, we continued to build our future platform with successful trials for launching a product that increases the body's ability to absorb iron, as well as other, more long-term indications.

In 2014, total sales increased 32%, mainly because of our successes in the US and South Korea. Our assessment is that global demand for probiotic products will continue to rise in 2015. Probi is well-positioned to be involved in, and win, some of that growth. We occupy a strong position in many markets and have signed new and promising agreements, while our partners in the US have announced their intention to increase investment in the marketing of our joint products.

The foundation for Probi's success in the US lies in our consistent focus on developing effective products, backed up by well-designed clinical trials. This has attracted such partners as Pharmavite and NBTY, which have leading positions and significant resources for marketing in the US market. This has given us a solid foundation and, in 2015, our partners will launch additional products containing our probiotics.

Sharp growth in the US

The US market continues to grow rapidly. In 2014, estimated growth in the market for dietary supplements containing probiotics was between 25-30% and it is now worth some USD 1.5 billion.

In Asia, we were particularly successful in South Korea during the year. I also see potential for further favourable growth there. We are poised to commence marketing initiatives in large countries such as China and Japan. In addition, a growing middle class in many countries throughout Southeast Asia provides interesting potential.

In South Korea, we have partnered with Sanofi, one of world's largest pharmaceutical

companies, and Dongkook, the leading OTC company in South Korea. Both have chosen Probi because of our solid documentation. This is exactly the type of business partners we are looking for; leading companies that can drive powerful marketing campaigns. We also see long-term potential for Functional Food in South Korea and other Asian markets.

Commercially driven research

At Probi, Research and Development and Sales and Marketing are closely intertwined. In combination, they are crucial to the company's success, both now and in the future.

Our research is always based on consumer needs and they provide the agenda for our activities. We conduct market-focused and commercially driven research.

In the short term, we are preparing to broaden our offering with an "iron product." A second clinical trial was completed in 2014, confirming previous findings that Probi's probiotics can increase iron absorption in women of child-bearing age. Probi believes there is a great need for a product with bio-available iron that is gentle on the stomach.

In 2014, we also expanded the distribution of our immune product with launches in the US, Australia and Switzerland. With these launches, we are building a foundation for continued growth in the immune system area.

To be able to market our products on a broader front in Europe, we plan to apply to have the health claims for our products approved by the European Food Safety Authority. For this reason, we are conducting clinical trials to supplement the already strong portfolio that Probi has built up over the years.

Since metabolic abnormalities account for a large proportion of public health problems globally, interest in health-enhancing products in this field will increase. According to our assessment, we can launch a product within five to seven years.

Probi continues to attract reputable business partners from the world's researchers. Our partners often say how much they appreciate working with us, due to our competent and flexible organisation and our experience that spans all the way from concept to finished product.

Reinforcements in 2015

Due to our successes in the US and Asia, and our increased focus on solid research documentation, we intend to strengthen our organisation in early 2015. Most of the recruitments will take place in sales and marketing. In the long-term, increasing the tempo in Functional Food will be vital, while we continue to meet growing demand in Consumer Healthcare in the US and Asia.

With sales growth of 32% in 2014, Probi has shown that we are a high-growth company. There are good prospects that this trend will continue in 2015. Our commercially driven and systematic research will ensure the continuous development of new products with well-documented effects and excellent market potential.

Lund, March 2015



Peter Nählstedt, CEO

Probi operates in the global health-products market. The company offers high-grade probiotics to food, health and pharmaceutical companies. In turn, these companies offer their customers probiotics in the form of tablets or capsules under their own brands, including Nature's Bounty, Sundown Naturals, Bion Transit and Nature Made, or as Functional Food under such brands as ProViva and GoodBelly. Probi also offers its proprietary brands, Probi Mage® and Probi Frisk®, in the Nordic market.

Objectives, visions and strategies

Vision

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

Mission

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

Business concept

To provide probiotics with clinically documented, beneficial health effects to leading food and dietary supplement companies.

Business areas

Probi's operations are organised in two business areas, Consumer Healthcare and Functional Food:

Consumer Healthcare

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

food or consumer healthcare products, depending on the market.

Functional Food

Functional Food develops food that provides beneficial health effects. Development takes place in partnership with leading food companies, with the aim of commercialising and marketing products with high-volume potential.

Probi's brands and product platforms

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

Probi Digestis

Clinical documentation for colon irritable/IBS (irritable bowel syndrome), based on *Lactobacillus plantarum* 299v (DSM 9843).

Probi Defendum

Clinical documentation for the prevention and relief of colds and other upper respiratory infections based on a combination of the bacterial strains *Lactobacillus plantarum* HEAL 9 (DSM 15312) and *Lactobacillus paracasei* 8700:2 (DSM 13434).

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.

The financial objectives for the 2014 financial year were:

- 10% average organic growth.
- A net margin¹ exceeding 20%.

Financial objectives as of 2015

Probi's Board of Directors has established the following financial objective, which applies as of 2015:

- Probi's financial objective is to generate growth that exceeds the market average, combined with a profit margin (EBITDA)² exceeding 20%.

Strategy

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

Outcome of financial objectives	
OBJECTIVE	TARGET FULFILMENT IN 2014
10% average growth	In 2014, organic growth was 32% (3). Over the past five years, organic growth has averaged 11% annually.
Net margin exceeding 20%	In 2014, the net margin was 21% (19).

New markets

The potential for continued international growth is considerable. Markets where Probi sees significant growth potential include Asia, North America and South America. In the North American market, efforts to expand the number of sales channels continue.

New product platforms

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

New product formats

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

Business models

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

Licensing model

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

Product model

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

Consumer model

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

¹ Net margin = profit before tax as a percentage of net sales.

² EBITDA = Earnings before interest, taxes, depreciation/ amortisation and impairment losses.

BUSINESS MODEL	REVENUE	RISK	REVENUE LEVEL	CUSTOMERS/PARTNERS	MARKET	PRODUCTS
Licensing model	Royalties based on partner-generated sales	Low	Low	Danone, NextFoods	Nordic region, US	ProViva, GoodBelly
Product model	Sales of goods in bulk or consumer packaging	Low/medium	Medium/high	Camox, Sanum Polska, Proton Systems, Health World, Pharmavite, NBTY, etc.	South Africa, Poland, Serbia, Australia, US	Based on Probi's product platforms under each distributor's brand
Consumer model	Sales of goods in consumer packaging	Medium	High	Bringwell, Vifor	Nordic region, Switzerland	Probi Mage, Probi Frisk, Probi Intestis, Probi Immun

The global market for probiotics and probiotic food continues to grow. Assessments show that the market will be worth about 45 billion USD¹ in 2018. In 2014, the market grew 7% to USD 35.4 billion (33.0).

Global trends lead to continued growth in the probiotic market

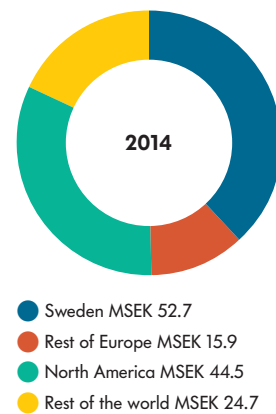
Asia is the largest overall market. Due to strong population growth combined with increased prosperity, demand is expected to grow most in Asia in coming years, led by China and India.

In percentage terms, the US market continues to grow rapidly (read more about the US market on pages 14–25). Other major markets with favourable growth are Brazil and Poland.

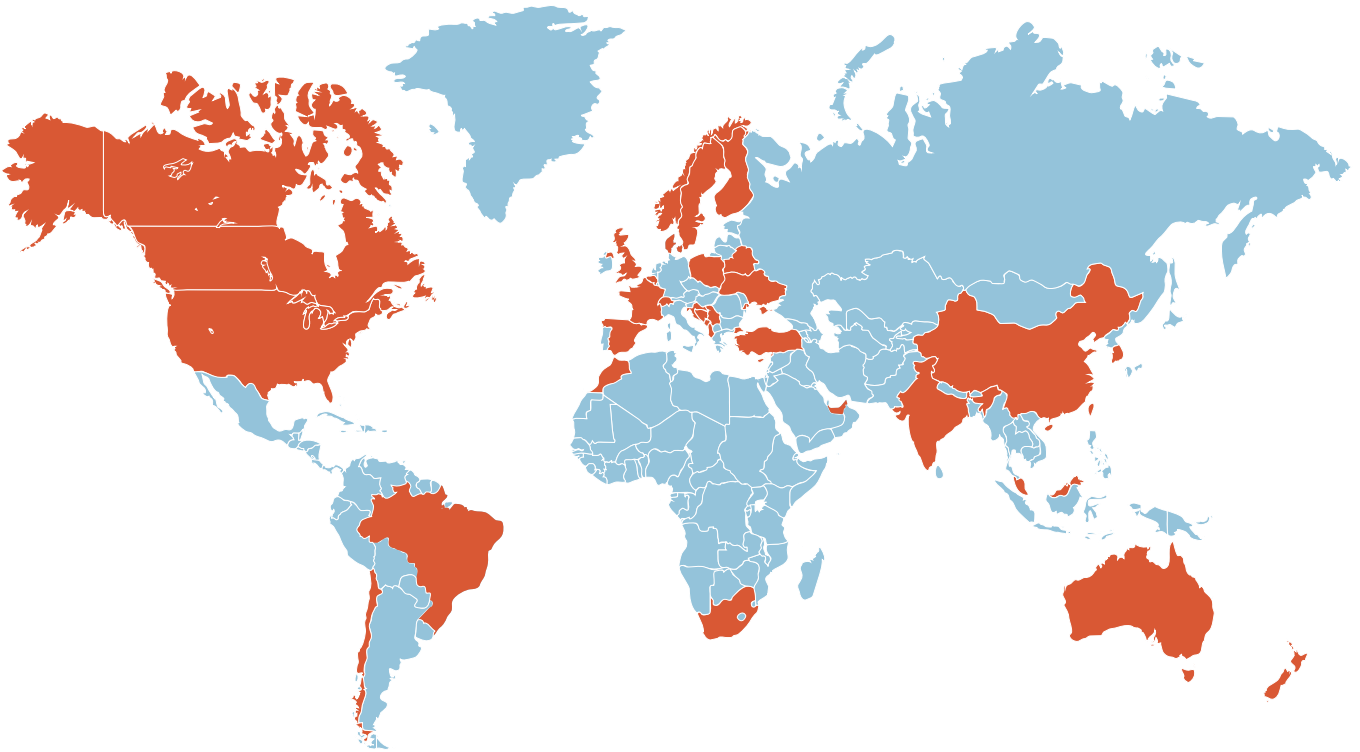
Due to continued restrictions on the use of health claims in the EU, many players are hesitant toward marketing initiatives in the EU.

Food products such as yoghurt and beverages dominate the probiotics market. The global market for probiotic dietary supplements represents approximately 10% of the food market and, just like probiotic food, is expected to show favourable growth in coming years. In general, growth for probiotic dietary supplements is considered higher than for probiotic food products.

Geographic distribution of revenue (MSEK)



¹ Transparency Market Research titled "Probiotics Market (Dietary Supplements, Animal Feed, Foods & Beverages)."



Lifestyle-related diseases pose greatest threat

Lifestyle-related diseases are rising sharply all over the world and pose one of the greatest threats to human health and development. These include cardiovascular diseases, cancer, chronic respiratory diseases and diabetes, which are responsible for 35 million deaths annually, or nearly $\frac{2}{3}$ of all deaths globally.

One of the primary contributors to this development is an unhealthy diet. The World Health Organization (WHO) claims that a large proportion of cardiovascular diseases, stroke and type 2 diabetes could be prevented with a healthier diet, which favours sales of probiotic food and drinks.

The global health trend is strong and the awareness of health factors associated with unhealthy diet is rising. Another strong driver is the rising average income, primarily in Asia and South America.

Two business areas with varying market conditions

Probi markets its products in two business areas: Consumer Healthcare and Functional Food. While the market mechanisms differ, Probi's basic technical platform is a shared condition.

Consumer Healthcare

The Consumer Healthcare market has a variety of sales channels. Consumers can buy the products in many different ways: at pharmacies, in health-food stores and supermarkets, or have the products prescribed by a physician. In several markets, the products can also be purchased online or by mail order. The products are registered in various ways, ranging from traditional dietary supplements to registered products with a distinct health claim.

Functional Food

Functional Food can be described as a "business-to-business" market, in which Probi licenses the company's probiotics and technology. Probi has a strong position and offers a complete and difficult-to-copy concept, particularly in terms of scientific evidence and formulation knowledge.

Probi is growing fast in the US

The Nordic region is Probi's largest market, and accounted for 38% (57) of revenue in 2014. The major sales growth in recent years, particularly in 2014, was attributable to the US, where sales more than doubled in 2014 to MSEK 44 (18), and to South Korea, with sales of MSEK 16 (0). Australia, Poland and

France are also significant markets. In Functional Food, revenue from the Nordic region dominates in the form of royalties on ProViva sales.

Competitors

A number of other companies in the market, such as BioGaia and Valio, apply the same business models as Probi, based on licensing solutions with distributors and sales of ready-made consumer products. A number of players, such as Chr. Hansen and Danisco/DuPont, produce and sell bacteria cultures and ready-made products to other industry players. The market also includes major food companies, such as Danone and Yakult, which conduct their own probiotic research as well as some production.

The foundation for Probi’s market success is proprietary products, solutions and concepts, based on original ideas and cutting-edge research. The focus is always on commercially viable products that meet end customer needs. The interaction between research and marketing ensures success.

Customer-centric research

Customer-centric research is based on mutual respect and understanding of the products Probi develops and that they must be commercially viable. The marketing department is also well aware that Probi’s own research and development provides the basis for the development and success of the products.

The process from concept to finished product is relatively long. Many steps are performed in an integrated process between various functions. Long-term research provides the foundation, followed by work in the borderland between product development and marketing when, for example, a range of applications are studied. Although the emphasis varies, all phases are conducted jointly. Research is the most important factor in some stages, while marketing or other issues are more important in others.

The Product Council coordinates development

The Product Council coordinates all phases of the development process. The Council is a joint forum, in which all company functions are represented. The Council reviews pro-

jects and advises executive management, which then decides whether to commence or terminate a project.

This means that Marketing and Sales literally sits next to Research and Development in the Product Council during the concept stage. If the Council considers the potential too low, Probi does not pursue the research concept, no matter how brilliant it seems. There must be a commercial application and an adequate market for the products under development by Research and Development.

In the Product Council, Probi applies a system whereby projects are carefully monitored. Effective research and development requires a systematic approach and structure. But they must not inhibit creativity – the systematic approach is merely an aid for Probi’s creative development process.

Everyone in the company must be informed

It is vital that projects are documented, and that this process is performed simply and clearly. All employees must know what criteria is applicable when Probi evaluates a project and what is required for a project to proceed.



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Side Story



In recent years, the US probiotics market has grown by more than 20% annually. Probi has been present in the US market since the early 2000s and solid documentation has enabled it to take advantage of this rapid growth. In 2014, Probi's sales in the US totalled MSEK 44, more than double the figure for 2013. The outlook remains very bright. In addition, Probi's partners in the US have expressed a desire to increase their collaboration with Probi, while upping their marketing initiatives for Probi's products.

The market of freedom

In the US, freedom of choice goes unchallenged. American consumers are accustomed to choosing between a myriad of different products. This means that companies usually sell their products in a range of varieties. Although the differences are minor, the varieties must exist so that customers can make their own, almost personal, choice. This also offers opportunities for exposure on store shelves.

Brands are king in the US. As a result, choosing the right partners has been vital for Probi – partners that are already established in various channels, and that invest resources in sales and marketing.

The US is the world's largest market for dietary supplements, a type of product that is firmly established.

When probiotics were first introduced in the US, they were mainly in the form of dietary supplements. A few years ago, Danone decided to conduct an aggressive launch of its Activia product with commercials featuring Jamie Lee Curtis. The initiative was successful, and food products containing probiotics underwent rapid expansion.

The category exploded in food, while dietary supplements only grew by a moderate 10–15% annually, mainly due to the low level of activity. A few years ago, pronounced probiotic products in food received competition from the next health trend, Greek yoghurt.

But by then, probiotics had become an established concept in the US and dietary supplements have since experienced a fantastic trend. The secret is high growth figures and a high level of activity. For a number of years, probiotics has been the fastest-growing category in dietary supplements.

The major event in 2014, and the main factor underlying Probi's volumes, is the breakthrough in supermarkets. Probi's partner Pharmavite has grown substantially and prioritises products containing probiotics. The same applies to Probi's partner NBTY which, like Pharmavite, will launch several products jointly with Probi in 2015.

In addition, the market success has generated followers. When companies in the US see that an ingredient is becoming popular and used by established brands, then it obviously must be good. They want to add it to their own product as fast as possible.



“We collaborate with partners who value our genuine research and documentation.”

While Probi's overall success is due to market growth, it has also acted intelligently and aggressively and grown considerably more than the total market.

Niklas Bjärum is the Vice President of Marketing and Sales at Probi. How have you made your strategic choices for finding the right partners?

“We have partnered with a company called Viva 5, which operates in, and has good insight into, the probiotics market in the US. We have worked together to develop various collaborations, whereby a local presence has been important. The

strategy has been that we at Probi can manage some companies ourselves, while others are accustomed to, and want, local support.

“Probi made a strategic decision at an early stage to say No to companies that are not wholeheartedly committed. We set a number of standards for the companies we work with. The products must always contain a guaranteed amount of bacteria, for example. We collaborate with partners who value our genuine research and documentation. To date, we have said No to private-label products, despite the potential for very high volumes in the short term.”

There is a lot of talk about how products must be available in a range of varieties to succeed in the US. What do these different varieties look like?

“It depends. The most common variation is different sizes, such as packs of 30, 40 or 60. They can also be different formulations, either capsules or tablets. Or different strengths. It's about adapting to the American consumer's demands for freedom of choice.”

How is Probi's end product produced for the US market?

“Our regular producers usually manufacture and deliver the products. Or our producer might manufacture the raw material – the freeze-dried probiotics, which are then sent on for further processing, such as being combined with fibre, other bacteria or enzymes.

“Sometimes there may be reasons – depending on the practicalities, or for small series – when we decide to use third-party producers, or when end distributors prefer to use their own producers rather than manufacturing the raw material themselves.

“Probi inspects end products containing our ingredients before they reach the market. In cases where Probi is associated with the product in any way, we want to have control over the quality.”





The moment of truth

This is the moment of truth. This is where the America consumer is about to choose a probiotic product for the very first time, or ask "Should I buy the same product as last time – or try something new?"

Establishing their products with the right exposure, on the right shelves, in the right category is a tough and strategically important battle.

Probi has learnt how the US market works by collaborating with partners in the US who understand the US market and have developed clever sales tactics in stores, whether health-food stores, supermarkets, pharmacies or other channels.

OF \$100 OR MORE

VITAMIN C

VITAMIN D

SPROUTS

HEART HEALTH

EYE/EAR DROPS









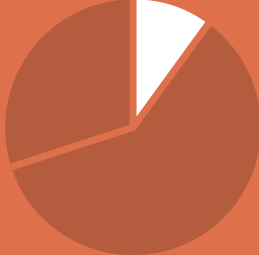
COQ10

The strategy for US stores and shelves is different from anywhere else in the world. Every brand should be available in a range of categories, such as Men/Women/Boys/Girls/Senior/Junior or packs of 20, 30, 50, and so forth. Simply to satisfy the American consumer's demands for freedom of choice, or the right to choose between a range of different products.

In 2015, there will thus be considerably more products and categories with "Probi inside" on US shelves than ever before.

All good things come in threes

American consumers can buy products containing dietary supplements through three comprehensively different channels. Probi is essentially active in all of these channels today.

	Market share ¹	Growth 2014 ¹	Share of Probi's sales in the US
1 Specialty stores	 1/3	 10-15%	 30%
2 Supermarkets	 1/3	 30-40%	 60%
3 Direct to consumer	 1/3	 30-40%	 10%

Structure

- **Health-food stores** The stores are well-organised, with a wide range of expensive organic food. There is a multitude of health-food stores, with Wholefoods as the largest player.
- **Practitioners** Physicians, homeopaths, chiropractors and others, with their own practices, who augment their income by selling complementary products. The products are usually exclusive to the channel and perceived as “expert” products. Includes a number of major companies, of which Metagenics is one of the largest.
- **VMS (Vitamins, Minerals and Supplements)** A major channel that only sells dietary supplements. Includes such chains as GNC, Vitamin World and The Vitamin Shoppe.

- **Traditional food stores and supermarkets** Large-sized food stores with a wide variety. The largest stores are Walmart and Target.
- **Warehouse clubs** Membership warehouse stores where members purchase large quantities at a lower price. Warehouse clubs are now such an important channel that manufacturers develop special products that are only available there. The largest is Costco.
- **Pharmacies** There are two types: pharmacies and drugstores. Pharmacies sell pharmaceutical products, and supplements to a certain extent. Drugstores sell a wider variety of products, including nappies and chewing gum. The largest are Walgreens and CVS. There are many stores and many different products. Pharmacies are usually part of a larger store, such as Walmart which has its own pharmacies.

- **Multi-level marketing** A major business in the US, the same concept as Herbalife, for example, meaning many distributors, individuals, who sell the products in homes. The largest is Amway, with its own brand Nutrilite.
- **Internet** Online sales are growing, ranging from sales via portals, such as Amazon, through which anyone may operate. Brand personality is strong in the US and many physicians sell their own products.

Probi's strategy

- **Health-food stores** The channel is characterised by a wide range of offerings, brands and products, while each store is relatively small. Products must be included in several brands in order to grow. Probi thus operates with several brands, including IBS – Ideal Bowel Support (Jarrow), Source Natural (Treshold) and Probiata (Wakunaga).
- **Practitioners** Probi collaborates with the largest player, Metagenics.
- **VMS** Sales are conducted through NBTY, NBTY's chain name Vitaminworld, as well as proprietary brands.

- **Traditional food stores and supermarkets** Probi is active here through Nature Made (Pharmavite), the largest individual VMS brands (Vitamins, Minerals and Supplements) and NBTY (the largest VMS player), with brands including Nature's Bounty and Sundown.
- **Warehouse clubs** Probi has not had any product here to date, but a launch is planned for 2015.
- **Pharmacies** Basically the same companies are active in pharmacies and drugstores as in supermarkets, i.e. Pharmavite and NBTY, as well as OTC products for Probi.

- **Multi-level marketing** Probi has no products here to date.
- **Internet** One example is Healthydirections, a website that sells Dr Sinatra brand products. Dr Sinatra is a well-known cardiologist. NBTY sells products via Puritan's Pride, also a well-known website.

“Probi will become a key supplier for us”

NBTY is the largest nutritional supplement manufacturer and distributor in the United States and one of Probi’s most important partners in the American market.

We are continuously looking for ways to strengthen our product offerings and are excited to be upgrading our Probiotic 10 offering by adding more, well-documented bacterial strains. Probi’s high-quality strains are a perfect fit for us, and the company will now become a key supplier of probiotics for digestive and immune health,” says Kimberly Vigilante, SVP of Marketing at NBTY.

How long have you worked with probiotic products and how has that developed over the years?

“NBTY has worked with probiotics for years, Chris O’Connor Senior Director Nature’s Bounty, says. We are now focusing even more on clinically studied probiotic strains that target specific health benefits.”

What is your view on the US probiotic market?

“The U.S. probiotic market has seen tremendous growth over the last several years, Chris O’Connor says. For this reason we have made it an area of focus as we see the probiotic market as a great growth opportunity. We expect to see continued growth as the science evolves and probiotics become even more main stream.

What is driving the growth of the US probiotic market right now?

“I think that mainly a better consumer understanding of the multiple benefits of pro-

biotics will drive the market, Chris O’Connor says. The future growth will come from all mainstream channels.”

Towards the end of 2012, Probi signed an agreement with Viva5, which was assigned as Probi’s extended arm for its business development in the North America. Collaboration has been highly successful and Viva5 continues to be a key partner for Probi in the US.

How do you view the US market for probiotics?

“In the US, the market for probiotics as a supplement has continued to show robust growth, with double-digit annual percentage growth rates in recent years,” says Brian Baer, CEO at Viva5. “The strong trend in the probiotics category has gained additional fuel from the increase in per capita expenses in the US for digestion and immunity products. Probiotics is one of the largest categories in food supplements in the US.”

What trends do you note in the probiotics market?

“We see major companies with strong products shifting towards high-quality, well-documented probiotic strains that are stable and support health advantages in digestion and immunity. Since the probiotic market continues to expand impressively, it

will be subject to more stringent review from the authorities. In turn, this offers greater competitive advantages for Viva5, thanks to our collaboration with Probi, as we can use their probiotics strains, which are very well documented through extensive clinical research.”

Why have you opted for partnership with Probi?

“Probi’s experience in research, development and manufacturing of probiotics has assisted us in manufacturing some of the market’s most effective probiotic products offering digestive and immunity effects.”

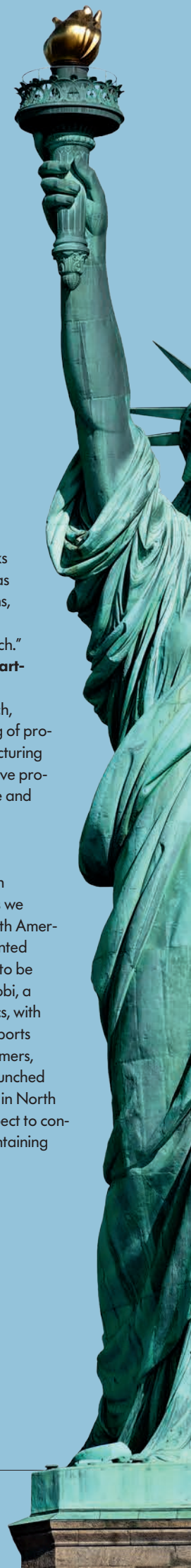
What are your plans for the future?

“We expect continued growth via our partnership with Probi as we expand our market share in North America by using Probi’s well-documented probiotic strains. We’re pleased to be able to continue to work with Probi, a pioneering company in probiotics, with skilled personnel, and which supports our growth. Several Viva5 customers, such as Nature’s Bounty, have launched Probi-based probiotics products in North America in recent years. We expect to continue to launch new products containing Probi’s probiotic strains.”

“We see considerable potential for growth in the US probiotics market and have therefore made it a focus area.”



Chris O’Connor,
Senior Director, Brand
Marketing, NBTY



“The US market for probiotics will continue to grow for several years”

Pharmavite is one of Probi's key partners in the US market. A leader in the wellness industry for more than 40 years, Pharmavite's Nature Made brand has been the #1 selling national vitamin and supplement brand in traditional retail scanning outlets since 2006. Pharmavite has production, sales and marketing capabilities.



H

How long have you been working with probiotics?

“About four years,” replies

Jennifer Murasky, Director of

Indirect Sourcing and Shared Services at Pharmavite. Most recently we have had two different products on the market, one of which was Probi Digestis. During 2015, we plan to expand considerably in probiotics, with the launch of eight new products. Since Probi Digestis will be in five of these products, it's a highly significant part of our launch.

“We take a dual approach to store placement. The first approach is in the VMS aisle, which attracts people who tend to take a more proactive approach to their health. They take probiotics for preventive purposes. This aisle is where we've sold our Probi products to date, and it represents the majority of our new products from Probi during 2015.

“OTC, or Over The Counter, which includes cold medicines, is the other aisle. This is where people most frequently go when they need a solution. Our experience indicates that many retailers place the same product on both the VMS and OTC shelves, which is why it is important to have our items placed in both aisles.”

How do you view the trend on the US probiotics market?

“In general, we can see tremendous interest in probiotics in the US, with sharp



Jennifer Murasky,
Director of Indirect
Sourcing and Shared
Services at Pharma-
vite.

“During 2015, we're planning for real expansion in probiotics.”

increases noted in recent years. Probiotics have been ranked number one or two in surveys of the fastest growing VMS categories. We believe this growth trend will continue for many more years.”

Why is the American probiotics market growing at this particular time?

“Many Americans are seeking new solutions to maintain good health. They're looking for natural products. The other major factor is the sheer volume of clinical research and documentation which support the benefits of probiotics. This is a huge reason why we are so excited to partner with Probi.”



“30 per cent annual increase for beverages with probiotics”

For the past four years, Alan Murray has been CEO of NextFoods, a company active in the functional food segment of the US market. NextFoods markets the GoodBelly brand of juices and shots containing probiotics with a range of tastes and flavour combinations.

The products are showing excellent growth,” says Alan Murray. “The market for traditional juices such as orange and apple have declined in recent years while, our probiotic juices have risen by some 30 percent annually, both in the Natural Foods channel and in conventional grocery stores.”

What are the driving forces in the market?

“The driving force for functional foods is that Americans are increasingly adopting a proactive approach to their health. This is for two reasons: the first is obviously wishing to stay healthy and lead a better life; the sec-

ond is that the cost of reparative medical care has shot up. And if by using probiotics you can support your immune defence, then it’s obvious that this can be part of a better solution.”

“An increasing number of people are seeking this path to improved health, eating their way to a healthier lifestyle, rather than popping pills for every ailment.

“With an aging population we see an increased interest in digestive health products. And although we appeal to this group, the authenticity of the GoodBelly brand also appeals to the 25–35 year old group. With a range of highly efficacious products that are

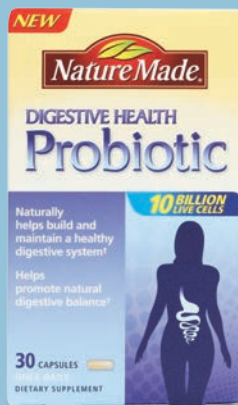
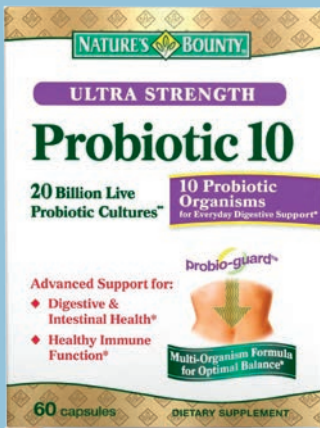
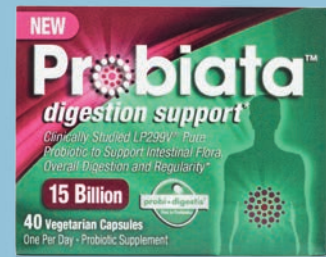
primarily made from organic ingredients, we feel we are able to address both of these large and important consumer groups.

How do you view the future for Functional Food in the US?

“The trends are certainly in our favour. We’re very encouraged by Probi raising its presence in the US and that their brands are gaining a market profile, which will have a positive impact on GoodBelly. When I see how many new stores are asking to stock the brand, I can only conclude that growth will accelerate.”



Examples of products based on Probi's probiotics in the North American market



Five clinical trials were concluded in 2014. The trials were conducted in the current product areas – immune and digestive health – as well as totally new areas of clinical development.

Favourable results in several clinical trials

Probi's commercial success is based on research and development into its own probiotic bacterial strains, and the effects of these on health. It usually takes about three to five years from concept to the development of a finished product, and a large part of this time is used to conduct clinical trials in order to document the bacteria's ability to produce the desired health effects. To increase understanding of existing bacterial strains and existing products, today's research includes both renewed clinical trials and in-depth mechanistic studies related to current indications, such as clinical trials in completely new areas. Probi also conducts more basic research in collaboration with academic partners to screen novel bacterial strains with completely new or improved health benefits.

Clinical trials concluded during the year include two showing that Probi's probiotics can increase iron absorption in women of child-bearing age. Based on these positive findings, Probi is preparing to launch an iron product in 2015.

The findings of one study were also published, and show that ingesting a combination of three bacterial strains from Probi reduces bone loss in mice which, in turn, can lead to reduced risk of osteoporosis and

fractures. In addition to these studies in "new" areas of health, trials in immune and digestive health continued during the year. Two of these trials, which were carried out on children and are now concluded, show that Probi's bacterial strains for both immune and digestive health are well-tolerated and are completely safe to give to children from the age of one.

Exciting results for increased iron absorption

In 2014, Probi concluded two clinical trials showing that Probi's probiotics can increase iron absorption in women of child-bearing age. The trials were conducted by a research team at the University of Gothenburg, led by Lena Hulthén, Professor of Clinical Nutrition. Women of child-bearing age ate meals with a capsule containing iron that did, or did not, also contain freeze-dried *Lactobacillus plantarum* DSM 9843. Iron absorption from the meals was measured using two radioactive isotopes of iron. The findings show that iron absorption from the meals with a capsule containing *Lactobacillus Plantarum* DSM 9843 was about 25% higher than absorption from the meals with the capsule that did not contain the probiotic bacteria.

Iron deficiency and low iron status are mainly prevalent in women of child-bearing

age, in both the Western World and developing countries. Iron deficiency can lead to iron deficiency anaemia, leading to increased fatigue, lethargy, impaired cognition and a weaker immune response. Menstruating women need extra iron and often do not get enough iron and/or eat food with a low uptake of iron. Iron deficiency can cause the body to increase its iron intake, but not usually enough to keep pace with the body's demands. One alternative for people with iron deficiency is to take supplements with high amounts of iron. However, these often have side effects such as gastrointestinal discomfort.

Results of a mouse study show potential to reduce risk of osteoporosis

Another trial concluded in 2014 shows that intake of Probi's bacterial strains – *Lactobacillus paracasei* DSM 13434, *Lactobacillus plantarum* DSM 15312 and *Lactobacillus plantarum* DSM 15313 – reduces bone loss in mice, which could lead to reduced risk of osteoporosis and fractures. The same results were achieved in mice treated exclusively with the *Lactobacillus paracasei* DSM 13434 bacterium. The groups that received probiotics also had lower urinary loss of calcium and showed lower levels of inflammatory markers.

The study, published in PLOS ONE (DOI: 10.1371/journal.pone.0092368), was conducted by a research team in Gothenburg and led by Docent Klara Sjögren and Professor Claes Ohlsson. It examined the preventive effect of probiotics on induced bone loss in mice, similar to that which occurs after menopause. The mice were treated with either a single strain, *Lactobacillus paracasei* DSM 13434, or a mixture of three strains, *Lactobacillus paracasei* DSM 13434, *Lactobacillus plantarum* DSM 15312 and *Lactobacillus plantarum* DSM 15313 (Probi AB). The controls comprised one group of mice with induced bone loss that were not probiotic-treated, and one group of mice that were completely untreated. The mice in the study were treated with probiotics for a total period of six weeks – two weeks before, and four weeks after, induced bone loss.

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 may be linked to osteoporosis. An estimated 25% of women over the age of 65 have already sustained one fracture. 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, which is supported by the results of this trial.

Studies of Probi's immune and digestive health products for children

ProbiMage Junior launched

During the year, a trial involving more than 400 children was concluded in Poland, where probiotics were given in conjunction with antibiotic therapy. The results shows that Probi's probiotics are well-tolerated and are safe to use for children from the age of one. However, no significant difference in the frequency of diarrhoea was observed between the active group and the placebo group. The probiotic formula used in the trial was specially adapted for children and will be launched in early 2015 as ProbiMage Junior for children and adolescents.

ProbiFrisk shows a promising trend

In 2013, a study of common colds in children also commenced, based on Probi's immune product, Probi Defendum® (ProbiFrisk). In 2014, the research company contracted to carry out the trial went bankrupt and the trial could not be completed. When the trial was cancelled, one-third (about 100) of the estimated number of children (about 300) had been included in the study. The results for the group of children that participated showed positive trends regarding the effects of Probi Defendum on upper respiratory infections in children from the age of one. As with the trial for Probi Mage® in children, the results showed that Probi Defendum is well-tolerated and safe for use by children from the age of one. In light of the positive trends shown by the trial, Probi is now evaluating various designs for further clinical trials in this field.

Probi's R&D organisation

Probi's research and development is organised into three sections: one that conducts clinical, applied research, one that works with product applications and product development, and a discovery unit that works to define the long-term research that will lead to future product development in new fields.

In the applied research, the clinical project managers study and clinically document the effect of bacteria on health. All important analyses are performed in Probi's laboratory, which monitors international research in the field, ensure that work practices comply with the latest recommendations and that the most recent methods of analysis are applied. The actual product is developed in the appli-

cation and production development section. Different formulations are required for different products and product-planning matrices, such as drinks, tablets and capsules. Being able to guarantee the product's stability in a range of storage conditions is essential. Climate also influences the choice of packaging and packaging material since the end-product must be active when it reaches the consumer.

The Discovery unit looks far ahead into the research horizon to identify new and interesting development opportunities, and secure the company's future competitiveness through collaboration with internationally renowned academic research groups.

Important to monitor research into the next generation of probiotics

Since Probi believes that probiotic research is undergoing a major shift, it is vital that this research is closely followed. At the same time, continuing to build knowledge about the bacterial strains that are used today is also important, in order to better understand and document their effects. In combination, this provides opportunities for developing next-generation products with greater health benefits, as well as products in new fields of health.

Metabolic diseases constitute an exciting new area of probiotic research. Metabolic diseases are increasing as other cultures embrace Western lifestyle patterns and have evolved into a global epidemic. For example, some 300 million people worldwide now have type 2-diabetes, which was previously known as adult-onset diabetes. This largely results from bad eating habits and too little exercise. Lifestyle changes are the only option that is currently available to limit the development of these diseases.

Studies now show differences between the human microbiome in healthy people, and those with metabolic diseases. Experiments have also shown that if 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 indicates that it is possible to influence these diseases with probiotic products, provided the right bacteria can be found.

Probi's Discovery unit produces completely new strains of bacteria to develop new products. It is important to understand the mechanisms of the strains. The identification of a candidate strain is followed by clinical trials to document the health effects.

In order to keep up with current global research, Probi engages in continuous discussions with researchers worldwide to keep abreast of their findings and ideas. In early 2015, Probi initiated a joint research project with, among others, Professor Michiel Kleerebezem from Wageningen in the Netherlands.

Patents

Probi has strong patent protection for both single probiotic strains and various applications in food and dietary supplements. This means that Probi can license the use of these strains to other companies. Probi’s current patent portfolio comprises 18 patent families (351 cases). It includes 308 approved patents, of which 103 protect the probiotic strains and 205 protect use of the individual probiotic strains.

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 management in research-related mat-

ters based on Probi’s current research portfolio, and to provide recommendations for Probi’s future research and product development.

In 2014, Probi renewed its Scientific Advisory Board by appointing three new members: Glenn Gibson, Maria Rescigno and Henrik Vestergaard. The aim is to further strengthen the operations through increased understanding of the human microbiome and its impact on human health.

GLENN GIBSON is Professor of Food Microbiology and Head of Food Microbial Sciences at the University of Reading in the UK. His current research includes acute and chronic gut disease, autism, obesity, novel prebiotics and the effect of gut flora on metabolites found in the body. His other fields of expertise include probiotics, gastroenteritis in sportspersons, metabolic syndrome and gut flora development with age.

MARIA RESCIGNO is a professor and head of the unit for Immunobiology of Dendritic Cells and Immunotherapy at the European Institute of Oncology in Milano, Italy. Her main area of interest is mucosal immunology,

particularly antigen-presenting dendritic cells and host-microbe interactions in the gut mucosa.

HENRIK VESTERGAARD is Associate Professor at the Novo Nordisk Foundation Center for Basic Metabolic Research in Copenhagen, Denmark. As a specialist in internal medicine and endocrinology, Vestergaard has clinical experience and expertise of metabolic diseases. His current research includes the role of genomics in cardiovascular disease, glycemic control, pre-diabetes and type 2-diabetes.

The other members of Probi’s Scientific Advisory Board are:

JAN NILSSON (Chairman), Professor of Experimental Cardiovascular Research at Lund University, Sweden.

HANS WIGZELL, Professor Emeritus in Immunology, Karolinska University Hospital, Stockholm.

LARS GATENBECK, PhD doctor, Chairman and Director of several Life Science companies and organisations.



* Unable to attend the photography session.

Professor Michiel Kleerebezem, Wageningen UR, the Netherlands

“Important to define the mechanisms of action of probiotics”

Probi understands how important it is to define and clarify the probiotic products' mechanisms of action. That view was the main reason that we started to discuss a collaboration. This is the view of Michiel Kleerebezem, professor at Wageningen University & Research Centre in the Netherlands.

In my research group, we have studied the effect of lactobacilli on immune response in host mucosal cells. Since Probi markets different strains of lactobacilli, it was interested in knowing more about the studies that we have performed, in order to better understand the mechanism of action of these strains.

The intestine is not only being exposed to our diet, but also to bacteria, viruses and parasites that can cause disease. The mucosa of the intestine provides part of the defense against these foreign agents and has to react quickly to threats, because it is a vulnerable and sensitive tissue. Certain bacterial strains

seem to be able to increase the protective properties of the intestinal mucosa. This is of interest to people who have compromised mucosal defense functions. For example, many people suffer from mild inflammation of their intestines, which can be related to a variety of other health problems such as obesity and diabetes. The defense activating response that these bacterial strains elicit may prove to have positive health effects in such individuals.

Probiotic research has changed gear during the past few years. One of the reasons is that we can now readily investigate the complete genetic repertoire of probiotic strains to identify the molecules that are involved in their interaction with the consumer. In addition, new and effective methods to examine the microbiome have been developed that allow us to investigate the intestinal flora, which also contributes to our understanding of probiotic activity.



Published articles

In 2014, seven research studies based on Probi's probiotic strains were published in scientific journals. These studies demonstrate the following:

- that intake of *Lactobacillus paracasei* DSM 13434, *Lactobacillus plantarum* DSM 15312 and *Lactobacillus plantarum* DSM 15313, reduces the risk of bone loss in mice, which could lead to reduced risk of osteoporosis and fractures.
- that intake of blueberries fermented with *Lactobacillus plantarum* DSM 15313 lowers blood pressure and changes the intestinal microbiota of rats.

Articles

- 1 Probiotics protect mice from ovariectomy-induced cortical bone loss.** Ohlsson C, Engdahl C, Fåk F, Andersson A, Windahl SH, Farman HH, Movérare-Skrtic S, Islander U, Sjögren K. *PLoS One*. 2014 Mar 17;9(3):e92368. doi: 10.1371/journal.pone.0092368. eCollection 2014.
- 2 Probiotic screening and safety evaluation of *Lactobacillus* strains from plants, artisanal goat cheese, human stools, and breast milk.** Gotteland M, Cires MJ, Carvallo C, Vega N, Ramirez MA, Morales P, Rivas P, Astudillo F, Navarrete P, Dubos C, Figueroa A, Troncoso M, Ulloa C, Mizgier ML, Carrasco-Pozo C, Speisky H, Brunser O, Figueroa G. *J Med Food*. 2014 Apr;17(4):487-95. doi: 10.1089/cp.2013.0030. Epub 2014 Jan 16.
- 3 Antihypertensive activity of blueberries fermented by *Lactobacillus plantarum* DSM 15313 and effects on the gut microbiota in healthy rats.** Ahrén IL, Xu J, Önning G, Olsson C, Ahrné S, Molin G. *Clin Nutr*. 2014 Aug 23. pii: S0261-5614(14)00215-5. doi: 10.1016/j.clnu.2014.08.009. [Epub ahead of print]
- 4 Probiotic and synbiotic effects on rats fed malted barley with selected bacteria strains.** Zhong Y, Nyman M. *Food Nutr Res*. 2014 Oct 6;58. doi: 10.3402/fnr.v58.24848. eCollection 2014.
- 5 Effects of probiotic intake and gender on nontyphoid salmonella infection.** Lönnermark E, Lappas G, Friman V, Wold AE, Backhaus E, Adlerberth I. *J Clin Gastroenterol*. 2015 Feb;49(2):116-23. doi: 10.1097/MCG.0000000000000120.
- 6 Randomized clinical trial: effect of *Lactobacillus plantarum* 299 v on symptoms of irritable bowel syndrome.** Stevenson C, Blaauw R, Fredericks E, Visser J, Roux S. *Nutrition*. 2014 Oct;30(10):1151-7. doi: 10.1016/j.nut.2014.02.010. Epub 2014 Feb 27.
- 7 Immunomodulation of Monocytes by Probiotic and Selected Lactic Acid Bacteria.** Jensen H, Drømtorp SM, Axelsson L, Grimmer S. *Probiotics Antimicrob Proteins*. 2014 Oct 22. [Epub ahead of print].

Consumer Healthcare has shown strong growth in recent years, growth that continued in 2014. Net sales rose 63% to MSEK 99.1 (60.9). The rapidly growing US market accounted for the largest increase. Probi's sales in the US totalled MSEK 44, which is more than double the figure for 2013. Read more about probiotics and Probi in the US on pages 14–25.

Consumer Healthcare

Huge sales success in the US and South Korea

The US is a key market for Consumer Healthcare. In late 2012, an agreement was signed with Viva 5 entailing that Viva 5 would serve as Probi's extended arm in relation to business development in the US. In 2013 and 2014, Probi focused on establishment in various channels and on the development of new product varieties to meet the demands of the US market. The market is differentiated and products are sold in a wide array of channels and formats.

In 2014, activities in this business area were marked by breakthroughs in two key growth markets – in South Korea, as well as the US. In the US, Probi's partners NBTY and Pharmavite conducted several launches of Probi's probiotic products. In South Korea, Sanofi and Dongkook launched Probi's products. These launches were successful and led to sharp growth.

Pharmavite and Probi have collaborated since 2011. In 2013, Pharmavite accounted for a large part of Probi's growth in the US and, in 2014, the company signed a new long-term agreement for the distribution and marketing of Probi's products. Pharmavite is now broadening its distribution to include more sales channels in the US market. In addition, the product range under Nature

Made® will be expanded to include more products containing Probi's probiotics. Pharmavite will also launch Probi Digestis® in markets outside the US, where Pharmavite currently sells products under the Nature Made brand. The first international launch took place in the United Arab Emirates (UAE) in late 2014.

NBTY is the largest US player in the VMS (Vitamins, Minerals and Supplements) segment. During the year, NBTY also launched products based on Probi Digestis in the retail market under the Nature's Bounty and Sundown Naturals brands. Earlier in 2014, NBTY launched products in the Health Food channel through its subsidiary Solgar.

Two launches of Probi's immune product, Probi Defendum®, were conducted in the second half of 2014. Vifor launched the product under Probi Immun® in pharmacies and health food stores in the Swiss market. Probi has collaborated with Vifor since 2012, and Vifor also markets Probi's gut health capsules under the brand Probi Intestis® in Switzerland.

In late 2014, Probi Defendum was launched in the North American market for the first time. Probi has partnered with Metagenics since 2007, which has since marketed Probi Digestis gut health capsules directly to medical practitioners in the US. Metagenics

has now initiated the launch of Probi Defendum to physicians and the prescribing chain in the same market.

2015 started well for the business area. In January 2015, Probi announced that the company had secured its largest-ever order from NBTY, through its US business partner Viva 5. The order value was MSEK 17 and pertained to bacterial strains to be included in a product under the existing Nature's Bounty brand, one of the six largest probiotic products in the US. Deliveries from Probi are scheduled for early 2015.

Several new agreements for launches of Probi Digestis

In 2014, Probi signed several new agreements for launches of Probi Digestis in key growth markets including South Korea, Turkey and Brazil. Agreements were signed with Sanofi and Dongkook for South Korea. In the Turkish market, agreements were signed with Impexia. In Brazil, agreements were signed with Laboratório Daudt. The Brazilian probiotics market is growing and sales exceed MUSD 60.



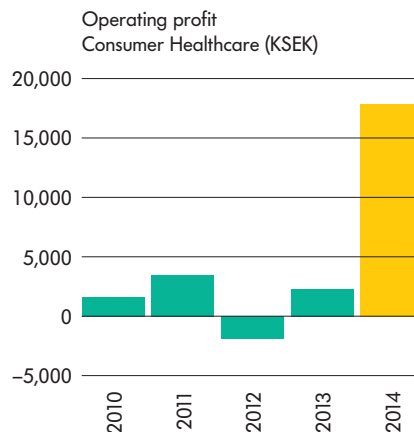
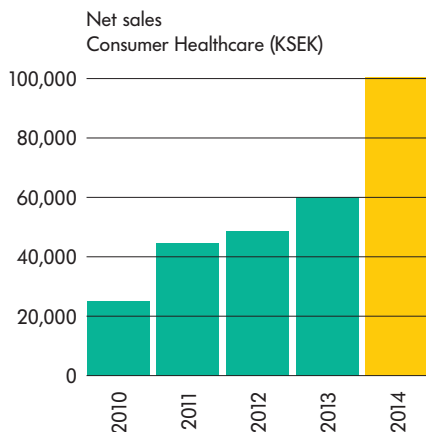
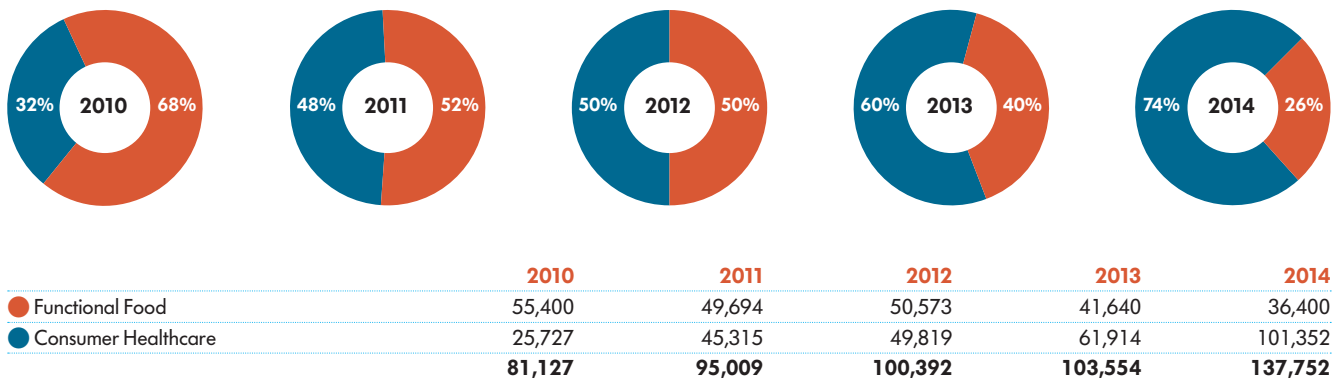
Consumer Healthcare business area

The Consumer Healthcare business area develops, markets and sells Probi probiotics in partnership with pharmaceutical companies and other companies specialised in probiotics and self-care products, under Probi's proprietary brand or those of its partners.

The products are mainly sold as capsules, chewable tablets or dose sachets, with a regulatory status as either food or consumer pharmaceuticals depending on the market. Probi has agreements in some 35 markets and predicts keen international interest in premium probiotic products.

Probi applies two business models in Consumer Healthcare – the Product Model and the Consumer Model. Customers in Consumer Healthcare include NBTY and Pharmavite in the US, Sanofi and Dongkook in South Korea, Institut Rosell in France/Canada, Bringwell in the Nordic region, Sanum Polska in Poland, Metagenics/Health World in Australia/US, Vifor in Switzerland, Camox Pharmaceuticals in South Africa, Bio-Life in Malaysia, Laboratório Daudt in Brazil, and Impexia in Turkey.

Share of Group revenue (% and KSEK)



In 2014, net sales totalled MSEK 36.1 (41.3). Royalty revenue from ProViva amounted to MSEK 33.5 (38.3). ProViva's sales volumes decreased in line with the overall market decline for chilled juices and fruit juice drinks in Sweden. The revenue decline was partly due to a gradual reduction of the royalty rate under the agreements signed with Danone in 2010.

Functional Food Partnership with Symrise could present new market opportunities

Probi has initiated a partnership with Symrise to examine possibilities for identifying new market opportunities for food applications using Probi's probiotics, primarily in various Asian markets. The aim is to eventually re-generate growth in the Functional Food business area.

In 2014, ProViva AB/Danone, which markets ProViva in Sweden and Finland, increased its market penetration by introducing ProViva into Denmark. A number of vegetable-based flavour varieties were also added to the range.

Probi has collaborated with NextFoods in the North American market since 2007, a partnership that has been strengthened in recent years. A new agreement was negotiated with NextFoods in 2013. The agreement will remain valid until 2020, with a renewal option. For Probi, the agreement entails higher royalty rates from mid-2014, and clear exposure of Probi's brand on packaging and in advertising in the North American market.

NextFoods' sales of the Good Belly range in the North American market continued to show a positive trend. Sales revenue in local currency rose by more than 20% year-on-year.

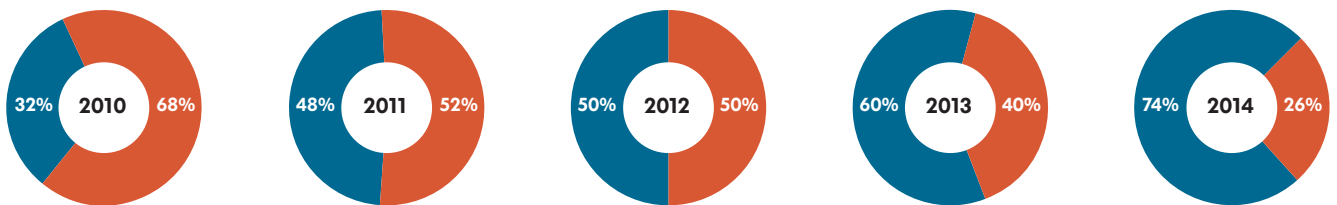
Functional Food business area

The Functional Food business area develops food that provides beneficial health effects. Development is conducted in partnership with leading food companies in order to commercialise and market products with a high volume potential.

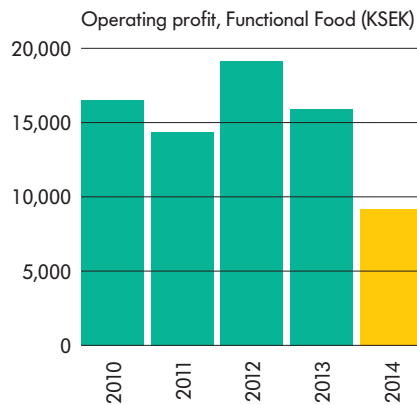
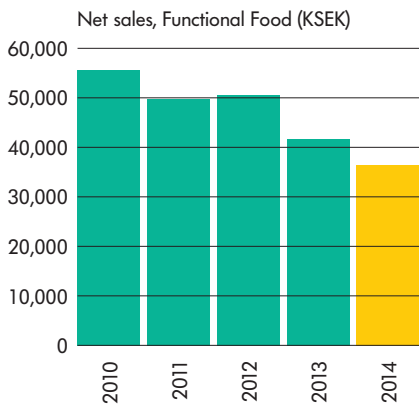
In Functional Food, Probi works with the licensing model and receives royalty revenue. Probiotics have a strong tradition in dairy products. Through ProViva, Probi has demonstrated that probiotics are also well-suited to fruit juice drinks and juices. Customers that use Probi's probiotics in their products are Danone (ProViva AB) in Sweden, Finland and Denmark, and NextFoods in the US.



Share of Group revenue (% and KSEK)



	2010	2011	2012	2013	2014
Functional Food	55,400	49,694	50,573	41,640	36,400
Consumer Healthcare	25,727	45,315	49,819	61,914	101,352
Total	81,127	95,009	100,392	103,554	137,752



Medical Marketing is a key component of Probi's marketing process. It comprises information about Probi's products for physicians, nurses, dieticians, pharmacists and other healthcare personnel. In 2014, the intense level of activity continued and Probi can now offer a well-prepared and structured information package, in both printed and digital format. During the year, Probi also followed up prior year launch trips with a successful visit to Dubai.

Structured information material enables efficient marketing

In some markets, Probi's products are prescribed by physicians. Their knowledge of the product is highly significant for sales results. In markets where the products are registered as dietary supplements, healthcare and pharmacy staff are key ambassadors. Marketing designed for healthcare personnel is more scientific in nature and called Medical Marketing.

Improved information material

Probi has developed an extensive compilation of resource material for its Medical Marketing, including the company's various probiotic product platforms – Probi Digestis® and Probi Defendum – and documentation based on research findings. All material is distributed to Probi's customers and also published on the partner company's website.

Alongside of this initiative, Probi invests in supporting some launches on site. In 2012, Probi travelled to India to train a large number of sales personnel in conjunction with the launch of Probi Digestis. In 2013, Probi travelled to Malaysia for a major launch in partnership with Malaysian company Bio-Life. In

2014, a similar activity took place in the UAE in collaboration with the American brand Pharmavite, which has conducted successful sales of Probi Digestis in the US and is now conducting a launch in the Middle East.

Another aim of Medical Marketing is to enhance knowledge of Probi's products in the scientific community. This involves identifying new opinion leaders, research collaboration and dialogue with Probi's Scientific Advisory Board. According to Probi, Medical Marketing activities have been highly successful and effective, and the number of visitors to Probi's various websites, for example, has increased significantly.

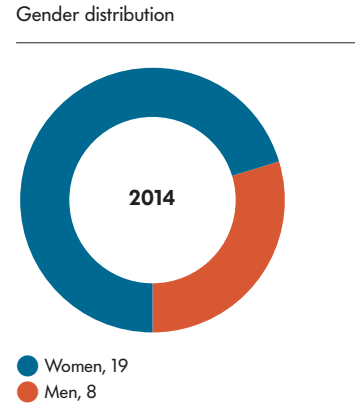
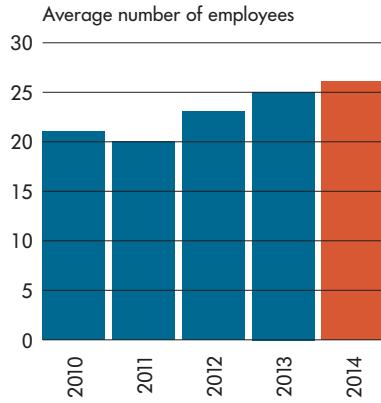
Probi's second partner conference a success

In 2014, Probi organised a two-day international partner conference for the second consecutive year. Most of Probi's existing partners, and a number of potential customers, attended the conference. The programme focused on experience sharing, whereby partners from various markets made presentations of how they market and sell Probi's products.

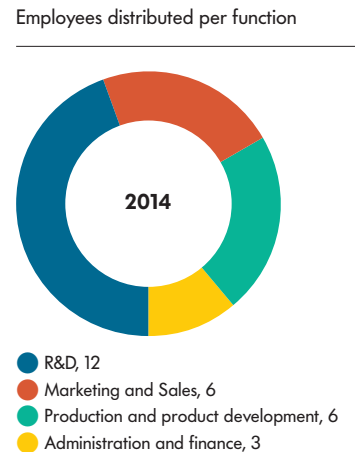
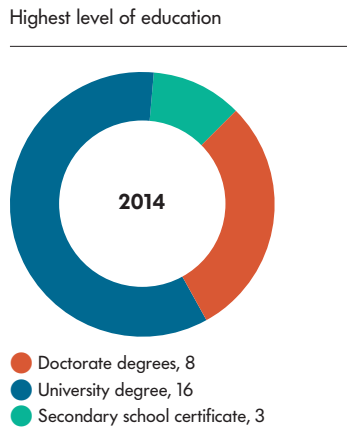
Natural Products Expo West/Engredea ►
in Anaheim, CA, USA, 6–8 March 2015.



At the end of 2014, Probi had 27 employees (26). The average number of employees in 2014 was 26 (25). At year-end, the proportion of women was 70% (69).



Employees



Probi's personnel policy

Probi endeavours to provide a dynamic environment for its employees, where individuals can assume a large degree of responsibility and are offered substantial development opportunities. Probi's business and personnel policy are based on the following 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.



“They’re all dedicated, highly knowledgeable and ambitious”

“All pull in the same direction, want to achieve the same goals”

“

used to work in a haulage company that was Probi’s main forwarding agent, which is how I got to know the company and its products pretty well. After that, when Probi was looking to strengthen its supply organisation,

I did not hesitate to apply for the job.

I was employed in July 2014 and I love it here. Everyone is so dedicated, knowledgeable and ambitious. There is a down-to-earth approach that I had never experienced before. We support and inspire each other – everyone pulls in the same direction, and the commitment here is fantastic.

I am convinced that the products we manufacture help to give us job satisfaction – it’s so incredibly motivational working with products that benefit the well-being of people.”

—Jessica Andersson, Assistant Supply Chain Manager

”S

ince I wrote about probiotic strains in my doctoral thesis, it was natural to apply for a job at Probi and it felt really exciting. I immediately felt that the position as Technical Product Manager was perfect for me.

I was employed in August 2014 and my current duties involve contact with customers and suppliers and technical documentation of our products.

There’s a wealth of expertise in the company – and all of the employees really believe in Probi and our products. We all pull in the same direction, want to achieve the same goals.

I love the open attitude in the company, and we all continuously receive information – it makes you feel that you’re always up-to-date and are thus involved.”

—Emma Årsköld Lind, Technical Product Manager

The share

Listing

Probi has been listed on Nasdaq Stockholm since 2004, and is traded under the PROB ticker. Probi belongs to the Small Cap segment, which consists of small companies with a market capitalisation of up to MEUR 150. Probi is listed under the Health Care and Pharmaceuticals & Biotechnology sectors.

Share capital

In 2014, Probi's share capital remained unchanged at SEK 46,826,500 (46,826,500), represented by 9,365,300 shares. Each share carries the right to one vote and the same rights to a share in the company's assets and profit. The quotient value of the share is SEK 5.

Ownership

At 31 December 2014, the number of registered shareholders was 3,332, compared with 4,188 at 31 December 2013. Of the total number of shares, institutional ownership accounted for about 78.9% (68.7), private owners 21.1% (31.3) and foreign owners 59.3% (40.2). The largest proportion of shares held by foreign owners is in Europe, corresponding to 59.2% (39.8) of the total number of shares. At year-end, Probi's principal owner, Symrise AG, owned 47.7% of the capital and 49.0% of the votes. 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, or 2.7% of the total number of shares, with a quotient value of SEK 5 per

share. These shares were acquired in 2011 for MSEK 11.8. In 2014, no Probi shares were bought back.

Share performance

In 2014, Probi's share price rose 56% and was listed at a closing price of SEK 61.50 (39.50) at year-end. OMX Stockholm PI rose 12% during the year. The highest and lowest prices in 2014 were SEK 62.00 (44.30) and SEK 37.20 (32.40), respectively. On 31 December 2014, Probi's market capitalisation was MSEK 561 (370). During 2014, 1,878,269 (2,703,049) Probi shares were traded on Nasdaq Stockholm, corresponding to 20% (29) of the total number of shares outstanding. The average turnover of shares per trading day was 7,543 (10,812).

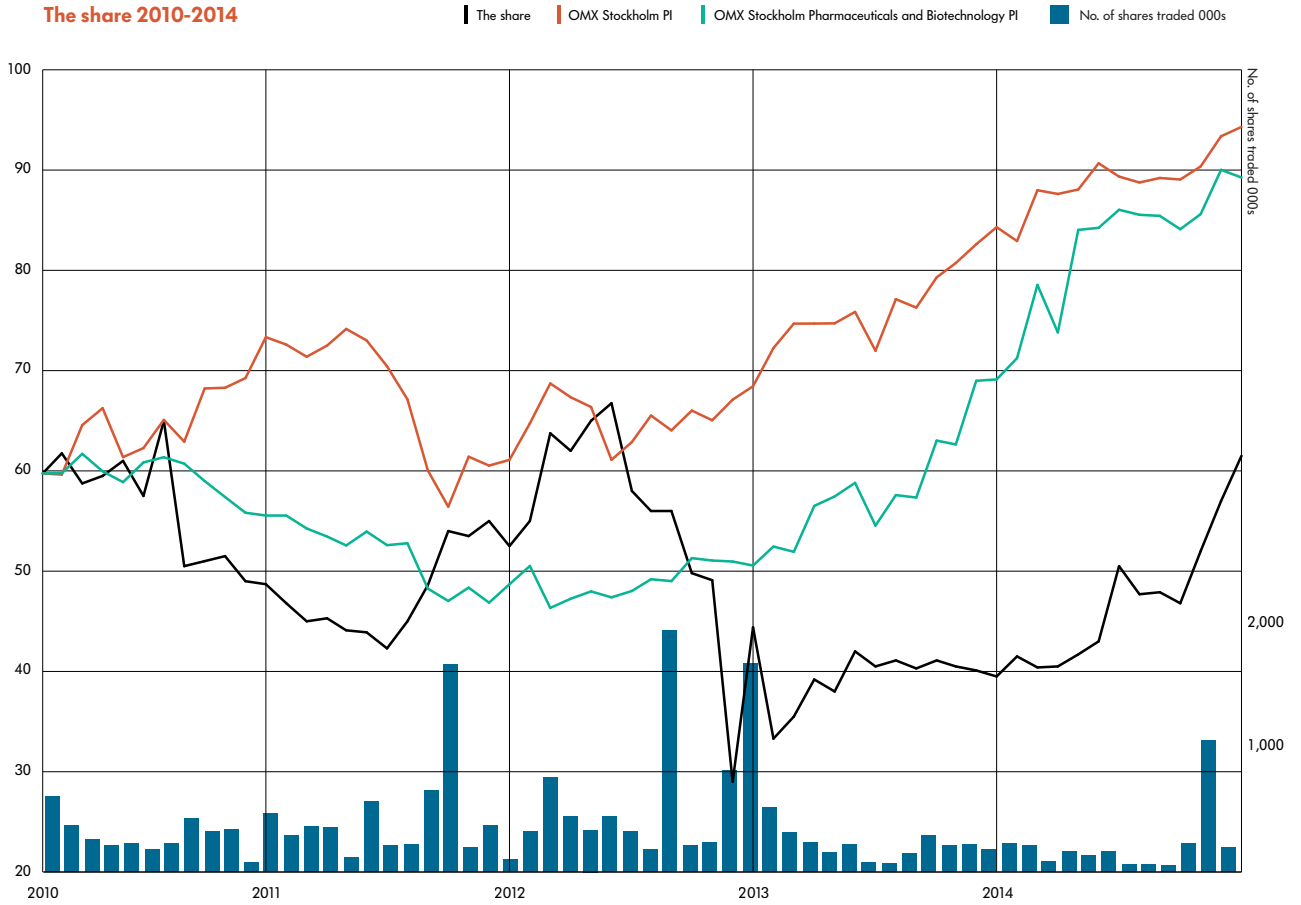
Dividend policy

Assuming that Probi is able to maintain a suitable capital structure in the future, and that it is deemed possible to maintain the company's financial objectives, Probi's goal is to pay a dividend of 30-50% of profit after tax. The Board of Directors and the CEO propose to the 2015 Annual General Meeting that the company pay a dividend of SEK 0.85 per share (0.75). This entails a total dividend of MSEK 7.7 (6.8), and that the Parent Company's remaining retained earnings of MSEK 67.1 be carried forward. The dividend proposed by the Board of Directors comprises 36% of consolidated profit after tax for 2014.

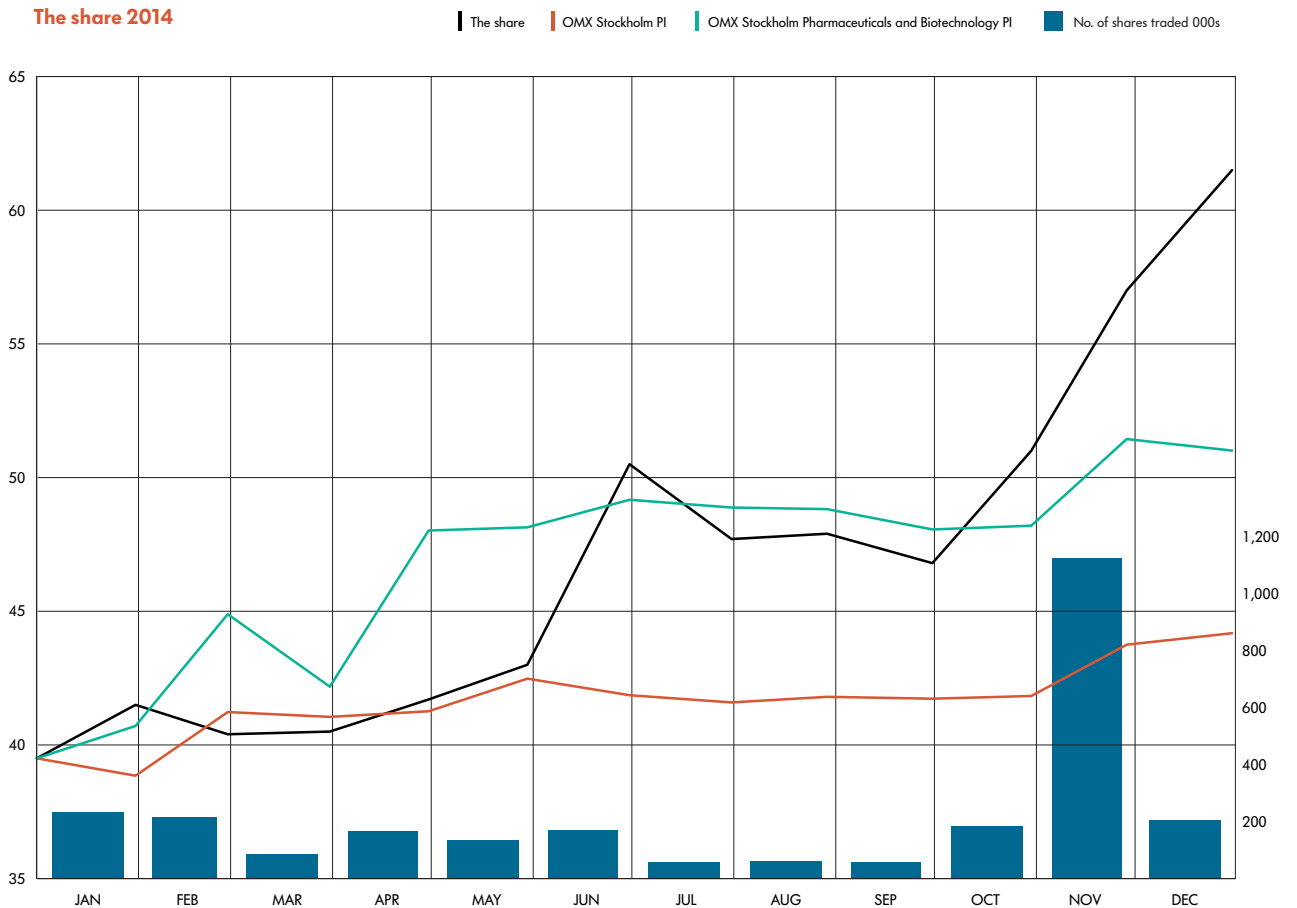
Options programme

Probi has no outstanding convertible loans or any outstanding warrants.

The share 2010-2014



The share 2014



Share capital development

Event	Year	Issue price	Increase in no. of shares	Total no. of shares	Par value of share	Increase in share capital	Share capital
Establishment	1991		500	500	100	50,000	50,000
Bonus issue 1:1	1997		500	1,000	100	50,000	100,000
Targeted issue 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

¹ Issue targeted to the founders and senior executives.

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

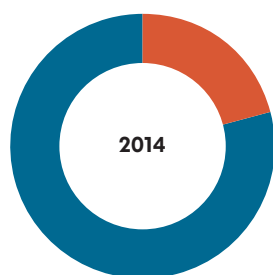
³ Issue targeted to shareholders in Skånemejerier, employees of Probi and Skånemejerier and certain other related parties.

Shareholders

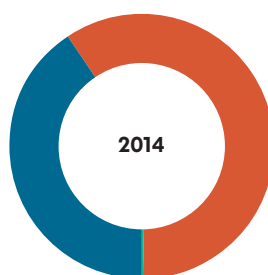
	No. of Series A shares	Share of capital (%)	Proportion of votes (%)
Symrise AG	4,468,249	47.7	49.0
Fourth Swedish National Pension Fund	391,548	4.2	4.3
Swedbank Robur fonder	365,077	3.9	4.0
Home capital AS	250,000	2.7	2.7
Probi AB	250,000	2.7	0.0
Handelsbanken Fonder AB RE JPMEL	246,064	2.6	2.7
Avanza pension	230,553	2.5	2.5
Nordea Investment Funds	190,046	2.0	2.1
Göran Molin with companies	119,412	1.3	1.3
JPM Chase NA	106,500	1.1	1.2
Other	2,747,851	29.3	30.2
Total	9,365,300	100.0	100.0

Holding per shareholder

Share distribution	No. of shareholders	No. of shares	Proportion of shares (%)
1 – 500	2,548	413,980	4.4
501 – 1,000	393	310,018	3.3
1,001 – 5,000	305	676,697	7.2
5,001 – 10,000	42	316,828	3.4
10,001 – 15,000	10	116,984	1.3
15,001 – 20,000	7	130,596	1.4
20,001 –	27	7,400,197	79.0
Total	3,332	9,365,300	100.0

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

● Legal entities, 78.9%
● Physical persons, 21.1%

Distribution Swedish–foreign shareholders
(no. of shares)

● Sweden, 40.74%
● Rest of Europe, 59.24%
● Rest of the world, 0.02%

Five-year summary

Per-share data					
	2010	2011	2012	2013	2014
No. of shares on 31 Dec., 000s	9,365	9,365	9,365	9,365	9,365
Earnings per share, SEK	1.46	1.54	1.48	1.65	2.39
Shareholders' equity per share, SEK	13.13	12.74	13.47	14.37	16.01
Cash flow per share, SEK	1.93	-1.49	1.22	0.44	1.85
Share price on 31 Dec. (closing price, SEK)	48.70	52.50	44.40	39.50	61.5
Price/Equity ratio per share, multiple	3.71	4.10	3.30	2.75	3.84
P/E ratio, multiple	33.36	34.09	30.00	23.94	25.73
Dividend, SEK/share	1.00	0.75	0.75	0.75	0.85 ¹
Market capitalisation on 31 Dec., KSEK	456,090	491,678	404,719	360,054	560,591

¹ The Board's proposal to the Annual General Meeting on 23 April 2015

Income statement in summary					
	2010	2011	2012	2013	2014
Total operating revenue	81,127	95,009	100,392	103,554	137,752
Total operating expenses	-63,030	-77,212	-83,183	-85,411	-110,703
Operating profit	18,097	17,797	17,209	18,143	27,049
Income after financial items	18,709	19,505	18,322	19,491	28,090
Profit for the year	13,661	14,193	13,505	15,045	21,765
Shareholders' equity	122,985	116,149	122,816	131,025	145,953
Cash and cash equivalents	89,762	76,202	87,285	91,301	108,181

Key ratios						
	Definition	2010	2011	2012	2013	2014
Equity/assets ratio, %	1	91.0	89.7	89.8	87.5	82.9
Debt/equity ratio, %	2	0.0	0.0	0.0	0.0	0.0
Return on capital employed, %	3	16.0	16.7	16.1	15.6	20.4
Return on equity, %	4	15.8	16.3	15.3	15.4	20.3
Acid-test ratio, %	5	865	778	933	628	460
R&D expenses as part of operating revenue, %		19	18	18	19	16
Average no. of employees		21	20	23	25	26

1 Equity as a percentage of the balance-sheet total.

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

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

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

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

**Probi AB (publ)
Annual Report and
consolidated financial
statements for the
2014 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 2014. Address: Ideon Gamma 1, SE-223 70 Lund, Sweden.

Probi's shares are listed on the NASDAQ OMX Stockholm.

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

Significant events

- Probi's US partner, NBTY/Solgar, launched products based on Probi Digestis® in the US retail market and in the UK market.
- Probi och Pharmavite signed a new long-term agreement concerning expanded cooperation in US and international markets. Distribution will be expanded to additional sales channels and the product range broadened.
- Sales of Probi's immune product Probi Defendum® started in three new markets through launches by Health World in Australia, Vifor in Switzerland and Metagenics in USA.
- Distribution agreements for the launch of Probi's digestive health capsules, Probi Digestis®, were signed with four new part-

ners: Dongkook Pharmaceuticals, South Korea, Sanofi Consumer Healthcare, South Korea, Impexia, Turkey, and Laboratório Daudt, Brazil.

- Two clinical trials showed that Probi's probiotics increase iron absorption in women of child-bearing age. Against the background of these positive findings, Probi is preparing to launch an iron product in 2015.
- A published study showed that the intake of Probi's bacterial strains reduces bone loss in mice, which could reduce the risk of osteoporosis and fractures.
- A study of common colds had to be terminated due to the bankruptcy of the contracted research company. As a result, capitalised development expenditure of MSEK 3.7 was discarded in the fourth quarter. The results for those children who had participated in the study showed positive trends regarding the efficacy of Probi Defendum® on upper respiratory infections in children from the age of one.
- A study of the efficacy of probiotics on children being treated with antibiotics was completed during the year. Although the children showed great tolerance to Probi probiotics, no significant difference in the frequency of diarrhoea was observed between the active group and the placebo group.
- Peter Nählstedt, with extensive experience of the international life science industry, assumed the position of CEO of Probi on 7 January 2014. Gun-Britt Fransson, who had been Acting CEO since June 2013, resumed her role as Head of Research and Development and member of Probi's management group.

- Symrise of Germany increased its holding in Probi to 46.6% of the share capital in conjunction with a mandatory offer that was published on 6 February 2014. At 31 December 2014, Symrise's holding had increased to 47.7% of the share capital.

Net sales and results

In 2014, Probi's net sales amounted to MSEK 135.2 (102.2), up MSEK 33.0 or 32%.

Net sales in the Consumer Healthcare business area rose MSEK 38.2, or 63%, to MSEK 99.1 (60.9). This sharp growth is attributable to the launches conducted in the US and South Korea. Vifor also showed a positive trend in the Swiss market.

Net sales in the Functional Food business area amounted to MSEK 36.1 (41.3). Royalty revenue from ProViva declined year-on-year, due to a combination of lower sales volumes and changes to the royalty rate under agreements signed with Danone in 2010. The volume change for ProViva was in line with the total market decline for chilled juices and fruit drinks.

Operating expenses rose MSEK 25.3 to MSEK 110.7 (85.4). Most of this increase, MSEK 15.9, was due to higher product costs resulting from increased supplies. Personnel costs rose MSEK 4.3. The number of employees increased, and allocation of variable remuneration to personnel was higher year-on-year. In addition, capitalised development expenditure of MSEK 3.7 was discarded because of the bankruptcy of the company commissioned by Probi to implement its study of common colds in children.

Operating profit for 2014 rose MSEK 8.9 to MSEK 27.0 (18.1) and the operating margin increased to 20.0% (17.8).

Tax expense amounted to MSEK 6.3 (4.4), of which MSEK 6.4 (5.5) was current tax. Deferred tax on appropriations accounts for the difference between recognized tax expense and current tax.

Profit for the year was MSEK 21.8 (15.0), corresponding to earnings per share of SEK 2.39 (1.65) before and after full dilution.

Cash flow and financial position

Cash and cash equivalents rose MSEK 16.9 (4.0) during the year and amounted to MSEK 108.2 (91.3) at year-end.

Cash flow from operating activities increased MSEK 12.5 compared with 2013 to MSEK 37.2 (24.7). Other operating liabilities increased MSEK 5.6 to MSEK 10.1 (4.5), mainly due to accounts payable to suppliers.

During the year, investments in intangible fixed assets amounted to MSEK 9.8 (13.4), of

which MSEK 1.9 (2.5) pertained to patents and MSEK 7.9 (10.9) to capitalised development expenditure. Capitalised development expenditure for the year includes MSEK 1.6, which is encompassed by the amount discarded in the fourth quarter. Capitalised development expenditure mainly pertains to clinical trials in the immune and gastrointestinal health area.

Investments in tangible fixed assets were MSEK 3.8 (0.5), relating mainly to improvements in connection with the expansion and renovation of Probi's leased premises on Sölvegatan 41 in Lund.

During 2014, Probi paid dividends of MSEK 6.8 (6.8) to shareholders.

Segment information

General information

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

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

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

No business transactions are conducted between the two segments.

Functional Food

Net sales in the Functional Food business area amounted to MSEK 36.1 (41.3). Probi's current revenue in this business area mainly comprises royalty revenue from ProViva, which declined compared with the preceding year to MSEK 33.5 (38.3) and had an adverse impact on the business area's operating profit.

In addition, costs for developing the business area increased slightly, which resulted in operating profit declining by MSEK 6.7 to MSEK 9.2 (15.9).

The reduction in royalty revenue from ProViva was a combined result of slightly lower sales volumes and changes to the royalty rate under agreements signed with Danone in 2010. The volume change for ProViva was in line with the total market decline for chilled juices and fruit drinks. In 2014, a launch in Denmark increased

ProViva's market penetration. A number of vegetable-based flavour varieties were also added to the range.

Probi has been collaborating with NextFoods in the North American market since 2007. NextFoods markets a range of probiotic fruit juice drinks based on Probi's *Lactobacillus plantarum* 299v (DSM 9843), and the company's sales revenue in local currency rose by more than 20% during 2014.

In the Functional Food business area during 2014, Probi entered into a marketing collaboration with Symrise of Germany, which is Probi's largest owner. This led to ongoing discussions with a number of potential customers, primarily in Asia, pertaining to business development in Functional Food.

Consumer Healthcare

Net sales in the Consumer Healthcare business area rose MSEK 38.2, or 63%, to MSEK 99.1 (60.9). Probi's sales in the North American market accounted for a large part of this growth, rising by MSEK 26.2 to MSEK 44.5 (18.3). The remainder of the increase derived from Sanofi Consumer Healthcare of South Korea, as well as positive performance by Vifor of Switzerland. As a result of this growth, the business area's operating profit increased by MSEK 15.6 to MSEK 17.9 (2.3).

In 2014, a number of Probi's products experienced highly successful launches in two key Consumer Healthcare growth markets, the US and South Korea. In recent years, the growth of probiotic dietary supplements in these markets has been between 15 and 20%. In the US, NBTY and Pharmavite conducted several launches of Probi's probiotic products in various sales channels. In South Korea, Sanofi launched Probi's digestive health capsules in the second quarter.

NBTY, the largest US player in the VMS (Vitamins, Minerals and Supplements) segment, conducted launches in the Health Food channel in early 2014 through its subsidiary Solgar. During the third quarter, products based on Probi Digestis® were also launched in the retail market under the Nature's Bounty and Sundown Naturals brands. During the year, Solgar also launched Probi's digestive health capsules in the UK market.

In January 2015, Probi announced that the company had secured its largest-ever order from NBTY, through its US business partner Viva 5. The order is valued at MSEK 17, and Probi's digestive and immune health products are scheduled for delivery in early 2015. Probi's bacterial strains will be included in a product that is already sold through retailers in the US under the Nature's Bounty

brand, and is one of the six largest probiotic products in that market.

Probi's partnership with Pharmavite in the US commenced in 2011, and the company accounted for a large part of Probi's growth in the US in 2013. During the third quarter of 2014, this partnership was deepened through a new long-term agreement for the distribution and marketing of Probi's products. Pharmavite is broadening its distribution to include more sales channels in the US market. The Nature Made® range will also be expanded and comprise more probiotic products from Probi. Moreover, Pharmavite will launch Probi Digestis® in markets outside the US, in which products are currently sold under the Nature Made brand. The first international launch in the United Arab Emirates was conducted in the fourth quarter of 2014.

In 2014, Probi signed four new agreements to launch Probi Digestis® in growth markets such as South Korea, Turkey and Brazil. Agreements were signed with Sanofi and Dongkook for South Korea. Sanofi Consumer Healthcare conducted a comprehensive launch of Probi Digestis® in the second quarter. Prior to 2015, Dongkook placed significant orders for deliveries of Probi's digestive health product, which is expected to lead to further growth for Probi in the South Korean market. An agreement was signed with Impexia for the Turkish market and in the fourth quarter, a distribution agreement was signed with Laboratório Daudt for the launch of Probi Digestis in Brazil. Launches for Turkey and Brazil are planned during 2015.

In 2014, three launches of Probi's immunity booster product Probi Defendum® were also conducted. In the first quarter, Health World conducted a launch in Australia. Health World was Probi's first partner in Consumer Healthcare and it has successfully sold and marketed Probi Digestis over the past nine years in Australia. In the third quarter, Vifor was launched under the Probi Immun® brand through pharmacies and health food stores in the Swiss market. Probi has partnered with Vifor, which also markets Probi's digestive health capsules under the Probi Intestis® brand in Switzerland, since 2012. In late 2014, Probi Defendum was launched in the North American market for the first time. Probi's business partner, Metagenics, has launched Probi's immune product to the market for physicians and the prescribing chain. Since Probi initiated a partnership with Metagenics in 2007, the US company has been marketing Probi Digestis digestive health capsules directly to medical practitioners.

Bringwell has been marketing Probi Mage® and Probi Frisk® in the Nordic market since 2010. After a short time, the products established a market-leading position and have consolidated their market share of about 50%. The range has been extended with additional pack sizes since the first launch and Probi Mage Junior will be launched for children and adolescents in early 2015. Probi's revenue from the Bringwell partnership matched the year-earlier level.

Research and development

In 2014, Probi conducted more clinical trials than ever before. A number of larger studies are in progress, focused on further strengthening the clinical documentation for Probi Digestis® and Probi Defendum®. These studies will continue in 2015.

The clinical trials completed in 2014 demonstrated the health benefits of Probi's probiotics. Two studies show that Probi probiotics increase iron absorption in women of child-bearing age. The findings of another study have also been published, and show that the intake of Probi's bacterial strains reduces bone loss in mice, which could reduce the risk of osteoporosis and fractures. Both osteoporosis and iron deficiency are considered areas with considerable market potential. In collaboration with its distributors, Probi is preparing for the launch of an iron product in 2015.

A study of the effects of probiotics in children treated with antibiotics was conducted in Poland during the year. The findings show that Probi's probiotics were well tolerated by all children in the study. However, no significant difference in the frequency of diarrhoea was observed between the active group and the placebo group.

In 2013, a study of common colds in children commenced, based on Probi's immune product, Probi Defendum®. In 2014, the research company contracted to carry out the trial went bankrupt and, due to this, the trial could not be completed. Probi therefore discarded capitalised development expenditure of MSEK 3.7 in the fourth quarter. When the study was cancelled, about one-third of the estimated number of children had been included. The findings from this group showed positive trends regarding the effects of Probi Defendum on upper respiratory infections in children from one year of age. The findings also showed that Probi Defendum is well tolerated by children. In light of this, Probi is evaluating further clinical trials in this area.

Iron deficiency

Iron deficiency and low iron status are common in children, adolescents and women of child-bearing age, both in the Western World and in developing countries. This can lead to iron deficiency anaemia, with cognition impairment, increased tiredness and a resulting weaker immune response. Menstruating women need extra iron and often do not get enough iron and/or eat food with a low uptake of iron. Iron deficiency can cause the body to increase its iron intake, but not usually enough to remedy the deficiency. One alternative for people with iron deficiency is to take supplements with high amounts of iron. However, these often have side effects such as gastrointestinal discomfort.

In 2014, Probi concluded two clinical trials showing that Probi's probiotics can increase iron absorption in women of child-bearing age. The studies were conducted by a research group led by Lena Hulthén, Professor of clinical nutrition at the University of Gothenburg. Women of child-bearing age were given meals with a capsule that did, or did not, contain freeze-dried *Lactobacillus plantarum* DSM 9843. Iron absorption from the meals was measured using two different radioactive isotopes of iron. The findings show that iron absorption from the meals with a capsule containing *Lactobacillus Plantarum* DSM 9843 was significantly higher than absorption from the meals with capsules that did not contain the probiotic bacteria.

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. About 25% of women over the age of 65 have already sustained one fracture. These women have a significantly higher risk of subsequent fractures later in life. Studies have shown that age-related bone loss is largely due to environmental factors, such as diet, physical activity and inflammatory status. 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.

A study published in the second quarter of 2014 shows that the intake of Probi's bacterial strains – *Lactobacillus paracasei* DSM 13434, *Lactobacillus plantarum* DSM 15312 and *Lactobacillus plantarum* DSM 15313 – reduces bone loss in mice, which could

reduce the risk of osteoporosis and fractures. The findings showed that the intake of probiotics significantly reduced bone loss, compared with a control group that was given a placebo. The group that was given probiotics also had lower urinary loss of calcium and showed lower levels of inflammatory markers. The study, published in PLOS ONE (DOI: 10.1371/journal.pone.0092368), was conducted by a research team in Gothenburg and led by Docent Klara Sjögren and Professor Claes Ohlsson. The study examined the preventive effect of probiotics on induced bone loss in mice, similar to that which occurs after menopause. The mice were treated with either a single strain, *Lactobacillus paracasei* DSM 13434, or a mixture of three strains, *Lactobacillus paracasei* DSM 13434, *Lactobacillus plantarum* DSM 15312 and *Lactobacillus plantarum* DSM 15313 (Probi AB). The controls comprised one group of mice with induced bone loss that were not probiotic-treated, and one group of mice that were completely untreated.

For further information, please refer to:

Probiotics protect mice from ovariectomy-induced cortical bone loss. Ohlsson C, Engdahl C, Fåk F, Andersson A, Windahl SH, Farman HH, Movérare-Skrtic S, Islander U, Sjögren K. PLoS One. 2014 Mar 17;9(3):e92368. doi: 10.1371/journal.pone.0092368.

Scientific Advisory Board

In 2014, Probi appointed Glenn Gibson, Maria Rescigno and Henrik Vestergaard as new members of its Scientific Advisory Board. The aim is to further strengthen Probi's business through increased understanding of the human microbiome and its impact on human health.

- Glenn Gibson, Professor of Food Microbiology at the University of Reading in the UK.
- Maria Rescigno, Professor of the unit for Dendritic Cell Biology 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.

The other members of Probi's Scientific Advisory Board are:

- Hans Wigzell, Professor Emeritus in Immunology, Karolinska University Hospital, Stockholm.

- Lars Gatenbeck – PhD (Doctor), Chairman of the Swecare Foundation and CellaVision, Board member and representative in several Life Science companies and organisations.
- Jan Nilsson, Professor of Experimental Cardiovascular Research at Lund University, Sweden

Employees

At year-end, Probi had 27 (26) employees, 19 (18) women and eight (8) men. The average number of employees was 26 (25).

Peter Nählstedt assumed the position of CEO on 7 January 2014. Peter Nählstedt has extensive experience of the international Life Science industry from his various executive positions within strategy, marketing and sales at GE Healthcare Life Science. Peter Nählstedt was previously employed at Trelleborg Marine Systems, where he was responsible for operations in Europe, South America and North Africa. Gun-Britt Fransson, who had been Acting CEO since June 2013, has resumed her role as Head of Research and Development and member of Probi's management group.

During the year, Probi's organisation was strengthened through recruitments in areas such as supply and product development.

Events after the balance-sheet date

In January 2015, Probi announced that the company had secured its largest-ever order from NBTY, through its US business partner Viva 5. The order is valued at MSEK 17, and Probi's digestive and immune health products are scheduled for delivery in early 2015. Probi's bacterial strains will be included in a product that is already sold through retailers in the US under the Nature's Bounty brand, and is one of the six largest probiotic products in that market.

Risks and uncertainties

The company pursues continuous efforts to identify and evaluate the various types of risks to which its operations are exposed. This has resulted in a Risk Management Policy that is revised at least once 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.

Agreements with strategically selected partners

Probi has agreements with a number of partners in various countries, which market Pro-

bi's products and technology or plan to do so. Should one or more of these partnerships be discontinued or not lead to launches, this would have a negative impact on Probi's revenue, earnings and financial position. Probi's agreements with Danone and Bringwell, for example, contain provisions whereby each party may be entitled to terminate the agreement should control over Probi be changed.

Competition

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

Regulatory risks

Requirements and regulations regarding the use of health claims are constantly being made more stringent. Since 1 July 2007, nutritional and health claims have been regulated by an EU directive (1924/2006) that applies in all EU countries. This means that all applications for new health claims must be approved by the EFSA (European Food Safety Authority). The EFSA has thus far adopted a very restrictive position in regard to the approval of health claims. This applies to a large number of food-grade health products. Until the end of 2014, no applications for probiotics had been approved, which has entailed a great deal of uncertainty for Probi and other leading players in the global market. Probi's continued expansion presumes product launches in a greater number of geographic markets, also outside of Europe. Regulatory processes in various markets could entail risks for delayed launches and subsequent costs for Probi.

Patents and intellectual property rights

Probi's development is largely dependent on continued successful research and the ability to protect future revenue streams with extensive patent protection. 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. Probi works continuously to strengthen the intellectual property and commercial protection of its products. In addition to new patents for existing and new products, this also includes:

- Development of know-how in relation to technology and products.

- Regulatory protection in the form of government approval pertaining to health claims and sales of products.
- Legal protection for Probi's brands and determined efforts to raise brand awareness.
- Long-term commercial agreements with Probi's key customers.

Supply of goods

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

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

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

Future capital requirements

Probi's strategy entails that the company will continue to invest considerable resources in research and development, and in the marketing and sales of its products. The cost of these initiatives is currently covered by cash flow from operating activities and Probi has a solid financial position. Should opportunities for faster growth arise, through strategic acquisitions for example, Probi may need to

acquire additional capital, such as by issuing shares or borrowing.

Financial risks

Probi's business entails various types of financial risks.

These risks and how they are managed are described in Note 3 Financial risk factors.

Future development

Probi's business model is based on conducting research and development, obtaining patents for and documenting probiotic bacteria and developing ready-made probiotic consumer products. Probi's strategy is based on complementary business models for the two business areas Functional Food and Consumer Healthcare. 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. Since Probi assesses that the prospects for continued growth are favourable during 2015, it anticipates and that both earnings and cash flow from operating activities will be positive during the financial year ahead.

Environment and quality

Probi's environmental management system has been certified according to ISO 14001:2004 since 2012, with the SP Technical Research Institute of Sweden as the external certification body. The environmental management system comprises all operations at Probi and includes an environmental manual, environmental policy and a list of environmental aspects.

The significant environmental aspects of Probi's business are:

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

Environmental initiatives in 2014 included a continued survey of the environmental performance of major suppliers and inspections of the various packaging materials that are used for the products manufactured by Probi. As a feature of these efforts, information leaflets have been removed from packaging in a number of markets. Action has also been taken to reduce the use of disposable materials in laboratory operations.

Since Probi's business is international, business travel by air is unavoidable. Probi climate compensates for the carbon emissions arising in connection with all business travel by air. For 2014, Probi's climate compensation corresponded to 207 tonnes (160) of carbon equivalents in the Trees of Hope forestry project in Malawi, in partnership with the ZeroMission in accordance with the PlanVivo standard.

Probi's operations do not require permits under the Swedish Environmental Code.

Since 1998, Probi's laboratory operations 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.

Subsidiaries

Probi AB has two wholly owned subsidiaries, Probi Food AB and Probi Feed AB.

Both companies are dormant.

Proposed allocation of profit in the Parent Company

The following profits in the Parent Company are at the disposal of the Annual General Meeting (SEK 000s):

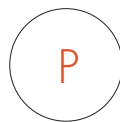
Profit brought forward	52,988,117
Profit for the year	21,867,875
Total	74,855,992

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

that a dividend of SEK 0.85 per share outstanding be paid to shareholders	7,748,005
that the following amount be carried forward	67,107,987
Total	74,855,992

The proposed dividend has taken into consideration that the company has treasury shares that are not entitled to a dividend. The earnings brought forward by the Group totalled KSEK 34,386 according to the consolidated statement of financial position and other contributions received amount to KSEK 64,740. The Board of Directors anticipates a continued positive trend in 2015. 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 the necessary investments.

Corporate governance report



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

Probi's Corporate Governance is based on applicable legislation, resolutions by the Annual General Meeting (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, please refer to: www.bolagsstyrningskollegiet.se.

This Corporate Governance Report pertains to the 2014 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 "Investors."

Application of the code

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

Ownership structure and share capital

At 31 December 2014, Probi had 3,332 (4,188) 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 49.0% of the votes.

At year-end, the company's share capital amounted to SEK 46,826,500 represented by 9,365,300 shares with a quotient value of SEK 5.00. All shares are of the same type and entitle their holder to one vote and equal rights to the company's assets and earnings. The Articles of Association include no limitations related to share assignability. At year-end, Probi held 250,000 treasury shares, corresponding to 2.7% of the total number of shares, with a quotient value of SEK 5 per share. These shares carry no voting rights and do not qualify for dividends.

General Meeting of Shareholders

Shareholders exercise their influence over the company at 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 AGM is sent not earlier than six weeks and not later than four weeks prior to the AGM. All shareholders listed in the shareholder registry and who have registered their interest are entitled to participate in the AGM and vote. Each share carries one vote.

The 2014 AGM was held in Lund on 29 April 2014. 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.

Remuneration of senior executives

The 2014 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 of executive management is to comprise a fixed salary, variable salary, pension and other remuneration. Combined, these comprise components of the employee's total remuneration package. 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 on market terms and contribute to facilitating the senior executive's ability to complete his/her work duties. Executive management's employment agreements include stipulations concerning periods of notice.

Under these agreements, termination initiated by the employee entails a notice period of three to six months, and 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. Ahead of the 2015 AGM, the Board proposes that the Meeting resolve that these guidelines remain the same.

The 2011 AGM also resolved to introduce a share-price-related incentive programme for executive management to apply during the 2011 and 2012 financial years. The outcome is based on the company's share-price trend during the years 2011–2014. The CEO and other senior executives participated in

the incentive programme during the years 2011 and 2012, when the profitability and sales targets that had been established at the beginning of each year were achieved. Both of these programmes were concluded without entitlement to any bonus payments.

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 for the AGM to elect Board members and the Chairman of the Board and their remuneration
- prepare proposals for the AGM to elect auditors and their remuneration

On 29 April 2014, the AGM resolved that the Nomination Committee should consist of three owner representatives. Heinz-Jürgen Bertram (CEO Symrise AG) (convenor), Bengt Jeppsson (Professor at the Department of Surgery at Lund University) and Jimmy Bengtsson (Skandia Liv) were re-elected.

On 18 November 2014, Skandia Liv divested most of its holding of Probi shares. Accordingly, Jimmy Bengtsson stepped down from the Nomination Committee and was replaced by Jannis Kitsakis, of the Fourth AP Fund, pursuant to the policy procedures for changes in the ownership structure that were established at the AGM on 29 April 2014.

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 29 April 2014 resolved to elect a Board consisting of seven Members with no deputies as follows:

(Figures in parentheses pertain to attendance at Board meetings in 2014)

Per Lundin, Chairman (re-elected) (13 of 13)
Mats Lidgard (re-elected) (13 of 13)
Jan Nilsson (re-elected) (13 of 13)
Benedicte Fossum (re-elected) (11 of 13)
Eva Redhe Ridderstad (re-elected) (13 of 13)

Declan MacFadden (re-elected) (9 of 13)
Jörn Andreas (newly elected) (6 of 7)

All Board Members are independent in relation to the company and senior executives. A presentation of the Board Members is available on the company's www.probi.se website and in the printed version of the 2014 Annual Report on pages 68–69.

The AGM resolves on principles and monetary limits for Board fees. For 2014, the Board's fees were fixed at KSEK 1,200, 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 10 and 26.

CEO

A presentation of the CEO is available on the company's www.probi.se website and in the printed version of the 2014 Annual Report on pages 70.

Auditors

The 2014 AGM elected the registered accounting firm Deloitte AB with Authorised Public Accountant Per-Arne Pettersson as auditor-in-charge for the period up to the 2015 AGM.

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. The Board annually evaluates the CEO's performance against the established long and short-term objectives. In conjunction with this, the CEO's objectives for the coming financial year are set. No representative of company management participated in this evaluation.

Each year, the Board prepares procedures that regulate 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 with guidelines for the ongoing administration, accounting and asset management and internal control of the company. These instructions also cover the CEO's authorisations and disclosure requirements towards the Board.

The Board is to convene no fewer than four times distributed equally during the year and hold one statutory meeting. In addition to regular items, the scheduled Board meetings in 2014 focused primarily on strategic and structural issues involving Probi's long-term development. The Board also held eight telephone meetings in 2014. These meetings addressed matters such as the mandatory offer announced by Symrise of Germany on 6 February 2014, as well as commercial issues connected to agreement negotiations.

Audit Committee

Probi's Audit Committee comprises the Board in its entirety. The Board maintains continuous contact with the auditors, who personally report their findings and observations at least twice annually. The auditors also provide information 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 2014, the Audit Committee held two meetings. All members attended both 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 2014, the Remuneration Committee held two meetings. One member was absent at one of these meetings. For information regarding salaries and remuneration of the CEO and other senior executives, see Note 10.

The Board's internal control report

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

Authorisation and responsibility is documented and recognised in internal guidelines and instructions. 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:

- Marketing and sales development, and the status of R&D projects.
- Balance sheets, profit 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. A key element of this work is 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 conduct a review of all quarterly reports in accordance with the Board's decision. Considering the size of the company, it has not been deemed reasonable to establish a specific internal audit function. Each year, the question of establishing a specific internal audit function is to be addressed by the Board.

**Financial
statements**

Statement of comprehensive income

Currency: SEK 000s	Note	GROUP		PARENT COMPANY	
		2014	2013	2014	2013
Operating revenue					
Net sales	7	135,242	102,210	135,242	102,210
Other revenue		2,510	1,344	2,510	1,344
Total operating revenue	6	137,752	103,554	137,752	103,554
Operating expenses					
Goods for resale		-41,677	-25,792	-41,677	-25,792
Employee benefit expenses	10	-31,937	-27,639	-31,937	-27,639
Other external costs	8, 9, 14, 15	-27,930	-27,046	-27,930	-27,046
Depreciation of non-current assets	16, 18, 19	-5,419	-4,934	-5,419	-4,934
Disposal of non-current assets	11	-3,740	-	-3,740	-
Total operating expenses	6, 25	-110,703	-85,411	-110,703	-85,411
Operating profit		27,049	18,143	27,049	18,143
Financial income	12	1,021	1,417	1,021	1,417
Changes in value of currencies	12	20	-69	215	-69
Result from financial income and expenses		1,041	1,348	1,236	1,348
Allocation to tax accrual reserve		-	-	-	4,570
Difference between book depreciation and depreciation according to plan		-	-	-62	25
Profit before tax		28,090	19,491	28,223	24,086
Tax for the period	13	-6,325	-4,446	-6,355	-5,457
Profit for the year		21,765	15,045	21,868	18,629
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		21,765	15,045	21,868	18,629
Number of shares at end of reporting period		9,115,300	9,115,300		
Average number of shares outstanding		9,115,300	9,115,300		
Earnings per share based on profit for the year, SEK		2.39	1.65		

Profit for the year and comprehensive income are attributable in their entirety to the Parent Company's shareholders. Since the company has no outstanding convertible loans or warrants, no dilution effect arises.

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

Consolidated statement of financial position

Assets			
	Note	2014	2013
Currency: SEK 000s			
Fixed assets			
Capitalised development expenses	15	18,340	16,611
Patents and licenses	16	8,910	8,818
Goodwill	17	2,762	2,762
Equipment, tools and fixtures	18, 19	4,864	2,359
Deferred tax assets		43	–
Total fixed assets		34,919	30,550
Current assets			
Inventories		3,561	2,679
Accounts receivable	21	25,323	22,943
Other current receivables		1,936	754
Prepaid expenses and accrued income	22	2,069	1,488
Cash and cash equivalents		108,181	91,301
Total current assets		141,070	119,165
Total assets		175,989	149,715

Shareholders' equity and liabilities			
	Note	2014	2013
Currency: SEK 000s			
Shareholders' equity			
Share capital		46,827	46,827
Other contributions received		64,740	64,740
Profit brought forward, including profit for the year		34,386	19,458
Total equity		145,953	131,025
Long-term liabilities			
Deferred tax		145	132
Total long-term liabilities		145	132
Current liabilities			
Accounts payable		17,344	10,678
Tax liabilities		2,528	1,318
Other current liabilities		2,342	1,941
Prepaid expenses and accrued income	24	7,677	4,621
Total current liabilities		29,891	18,558
Total equity and liabilities		175,989	149,715

For pledged assets and contingent liabilities, refer to Note 25.

Parent Company's balance sheet

Assets			
	Note	2014	2013
Currency: SEK 000s			
Fixed assets			
Capitalised development expenses	15	18,340	16,611
Patents and licenses	16	8,910	8,818
Equipment, tools and fixtures	18, 19	4,864	2,359
Participations in Group companies	20	4,031	4,031
Total fixed assets		36,145	31,819
Current assets			
Inventories		3,561	2,679
Accounts receivable	21	25,323	22,943
Other current receivables		1,797	754
Prepaid expenses and accrued income	22	2,069	1,488
Cash and cash equivalents		108,181	91,301
Total current assets		140,931	119,165
Total assets		177,076	150 984

Shareholders' equity and liabilities			
	Note	2014	2013
Currency: SEK 000s			
Shareholders' equity			
Restricted equity			
Share capital		46,827	46,827
Statutory reserve		21,140	21,140
Total restricted equity		67,967	67,967
Non-restricted equity			
Profit brought forward		52,988	41,196
Profit for the year		21,868	18,629
Total non-restricted equity		74,856	59,825
Total equity		142,823	127,792
Long-term liabilities			
Liabilities to Group companies		4,035	4,035
Total long-term liabilities	23	4,035	4,035
Untaxed reserves			
Accumulated accelerated depreciation/amortisation		660	599
Total untaxed reserves		660	599
Current liabilities			
Accounts payable		17,344	10,678
Tax liabilities		2,528	1,318
Other current liabilities		2,009	1,941
Prepaid expenses and accrued income	24	7,677	4,621
Total current liabilities		29,558	18,558
Total equity and liabilities		177,076	150,984

For pledged assets and contingent liabilities, refer to Note 25.

Consolidated statement of changes in shareholders' equity

Currency: SEK 000s	Share capital	Other contributions received	Profit brought forward	Total equity
Opening balance, 1 Jan. 2013	46,827	64,740	11,249	122,816
Profit for the year	–	–	15,045	15,045
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	15,045	15,045
Dividends for 2012	–	–	–6,836	–6,836
Total transactions with shareholders	–	–	–6,836	–6,836
Opening balance	46,827	64,740	19,458	131,025
Profit for the year	–	–	21,765	21,765
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	21,765	21,765
Dividend for 2013	–	–	–6,837	–6,837
Total transactions with shareholders	–	–	–6,837	–6,837
Closing balance	46,827	64,740	34,386	145,953

Profit 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	Non-restricted equity	Total equity
Opening balance, 1 Jan. 2013	46,827	21,140	48,032	115,999
Profit for the year	–	–	18,629	18,629
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	18,629	18,629
Dividends for 2012	–	–	–6,836	–6,836
Total transactions with shareholders	–	–	–6,836	–6,836
Opening balance, 1 Jan. 2014	46,827	21,140	59,825	127,792
Profit for the year	–	–	21,868	21,868
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	21,868	21,868
Dividend for 2013	–	–	–6,837	–6,837
Total transactions with shareholders	–	–	–6,837	–6,837
Closing balance, 31 Dec 2014	46,827	21,140	74,856	142,823

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

Statement of cash flows

Currency: SEK 000s	Note	GROUP		PARENT COMPANY	
		2014	2013	2014	2013
Operating activities					
Profit before tax		28,090	19,491	28,090	19,491
Depreciation/amortisation and disposal		9,159	4,934	9,159	4,934
Capital gains/losses from divestment of tangible fixed assets		30	-	30	-
Income tax paid		-5,147	-4,151	-5,147	-4,151
Cash flow from operating activities before changes in working capital		32,132	20,274	32,132	20,274
Change in inventories		-882	-213	-882	-213
Change in operating receivables		-4,143	152	-4,143	152
Change in operating liabilities		10,126	4,483	10,126	4,483
Cash flow from operating activities		37,233	24,696	37,233	24,696
Investing activities					
Acquisition of intangible fixed assets		-9,824	-13,373	-9,824	-13,373
Acquisition of tangible fixed assets		-3,823	-471	-3,823	-471
Divestment of tangible fixed assets		131	-	131	-
Cash flow from investing activities		-13,516	-13,844	-13,516	-13,844
Financing activities					
Dividend		-6,837	-6,836	-6,837	-6,836
Cash flow from financing activities		-6,837	-6,836	-6,837	-6,836
Change in cash and cash equivalents		16,880	4,016	16,880	4,016
Cash and cash equivalents at the beginning of the year		91,301	87,285	91,301	87,285
Cash and cash equivalents at the end of the period		108,181	91,301	108,181	91,301
		2014	2013	2014	2013
Interest received		1,219	1,196	1,219	1,196
Interest paid		-	-	-	-

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

The Group comprises the Parent Company, Probi AB, and two dormant subsidiaries, Probi Food AB and Probi Feed AB. 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 2014" 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 and interpretations have come into force and apply for the 2014 financial year. However, none of these have or will have any material impact on the company's financial statements in 2014.

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

The International Accounting Standards Board (IASB) has issued a number of new or amended standards that have not yet come into force.

The IFRS Interpretations Committee has published new or amended interpretations that have not yet come into force. The new and amended standards and interpretations that have been issued but that did not come into effect until after 1 January 2014 have not yet been applied by the Group. The new and amended standards and interpretations that are expected to impact the consolidated financial statements are described below in the period in which they are first applied.

IFRS 15 Revenue from Contracts with Customers will come into effect no earlier than the financial year beginning on 1 January 2017. The manner in which this will affect the Group has yet to be studied.

Management is of the opinion that application of IFRS 9, which will become effective in 2018, or later, could have an impact on carrying amounts in the financial statements in respect of the Group's financial assets and liabilities. Executive management has yet to conduct a detailed analysis of the effects resulting from its application.

Management's assessment is that other new and amended standards and interpretations that have not come into effect will not have any material impact on the consolidated financial statements when they are applied for the first time.

2.1 Basis of preparation of the consolidated financial statements

The Parent Company's functional currency is the Swedish krona (SEK), 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 (KSEK), 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 2014". 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 operational 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 in respect of 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 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.
- **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 cri-

teria 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, 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 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 and installations 3–10 years
- Improvements to leased buildings is recognised during the remaining term of 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, as well as derivative instruments used for currency hedges.

- **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.
- **Derivative instruments:** The Group's derivative instruments hedge the currency exposure to which the Group is exposed. The instruments are measured at fair value on each financial report occasion. The changes in value are recognised in profit and loss as financial income and expense. However, hedge accounting according to IAS 39 is not applied because the conditions for this have not been met.
- **Receivables and liabilities in foreign currencies:** To hedge accounts receivable or accounts payable against exchange-rate risks, currency forward contracts are used. 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.

- **Management of currency risks in forecast sales in foreign currency:** When hedging probable forecast sales in foreign currency, currency forward contracts are used. Changes in their value are recognised in operating profit as financial income or expense. This means that the profit/loss for each period is charged/credited with changes in the value of currency forward contracts, even if the hedged transactions have not yet occurred.

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 Probi employees 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. Since there is insufficient information to recognise these as defined-benefit plans, they are recognised as defined-contribution plans covering the period during which the employees performed the service to which the contribution relates.
- **Severance payments:** Severance payments are made when an employment contract is terminated by Probi prior to pensionable age or when an employee accepts voluntary redundancy in exchange for such payment. A severance payment is recognised when there is an obligation that employees be made redundant in accordance with set rules, without the option of re-employment, or when there is an obligation to provide remuneration upon termination of employment based on an offer made to encourage the individual to take voluntary redundancy.
- **Bonus plans and variable remuneration:** Probi recognises a liability and a cost for bonus plans when there is a legal obligation to do so according to the employment agreement 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 2014". 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.

Since IAS 39 is not applied, derivative instruments are not recognised in the balance sheet.

All lease agreements, irrespective of whether they are operational or financial, are recognised in the Parent Company as rental agreements (operational leasing agreements). Otherwise, no differences have been identified between the financial statements of the Parent Company and the Group.

Amended accounting policies

The amendments in RFR 2 "Reporting for legal entities" that affect the company and that have become effective and apply for the 2014 financial year pertain to IFRS 10, IFRS 11, IAS 37 and IAS 40. The amendments have had no impact on the Parent Company's financial statements for 2014.

Amendments to RFR 2 that have not yet come into effect

The amendments to RFR 2 "Reporting for legal entities" that have become effective and apply for the 2015 financial year pertain to IAS 19 and IFRS 14. The assessment of executive management is that none of these new or amended standards will have a material impact on the Parent Company's financial statements.

Note 3 Financial risk factors

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

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

3.1 Market risks

Currency risks

Probi is active internationally and thus has revenue and costs in various currencies. Slightly more than one third of Probi's revenue comprises SEK-denominated revenue based on agreements with ProViva AB and Bringwell. USD and EUR account for most other sales.

Probi's Financial Policy describes the manner in which the company is to manage currency risks in relation to SEK. The objective, wherever possible, is to minimise currency exposure, and thus the currency risk, by matching sales and purchases in each currency. Probi could also hedge currencies if this matching does not reduce the currency exposure to a sufficient extent. When delivery contracts have longer terms, Probi includes a renegotiation clause in the contract that is triggered when currency fluctuations exceed agreed levels.

A sensitivity analysis shows that the effect on operating profit in 2014 of a 5% change in the USD/SEK exchange rate would have been MSEK ± 2.1 (0.9).

In connection with changes in the EUR/SEK exchange rate, the corresponding change would have been MSEK ± 0.8 (0.7).

Interest-rate risk

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

3.2 Credit risks

Credit risk is related to the counterparties' creditworthiness and requires 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. Cash and cash equivalents are invested in interest-bearing accounts with special terms for deposits.

For surplus liquidity – meaning the portion of cash and cash equivalents that exceeds MSEK 20.0 – alternative investment types may be considered if a higher return is expected. According to Probi's Financial Policy, investments may be made in Nordic banks or Swedish government bonds. The fixed period must be between three and 12 months and investments may only be made after approval by Probi's Chairman. Surplus liquidity is currently deposited in accounts in various Nordic banks.

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 2014 to determine the value of the projects that had been capitalised at 31 December 2014. 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.

Note 5 Management of capital

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

The managed capital, defined as the total of the Group's net liabilities (interest-bearing liabilities less interest-bearing assets and cash and cash equivalents) and shareholders' equity, amounted to MSEK 37.8 (39.7) at year-end 2014. On that date, Probi had cash and cash equivalents of MSEK 108.2 (91.3) and no interest-bearing liabilities. Nor is Probi subject to any externally imposed capital requirements. Accordingly, the company's financial position is solid and planned research and marketing initiatives are expected to be covered by liquid funds that have or will be generated from operating activities. If the opportunity for faster growth were to arise, through strategic acquisitions, for example, additional financing through a share issue or external borrowing may be considered.

Note 6 Segment information

Probi's business operations are organised in two operating segments:

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

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

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

OPERATING INCOME PER OPERATING SEGMENT

Group 2014	FF	CHC	Total
Total operating revenue	36,400	101,352	137,752
Goods for resale	-860	-40,817	-41,677
Salaries and other external costs	-22,601	-37,266	-59,867
Depreciation/amortisation and disposal	-3,762	-5,397	-9,159
Operating profit	9,177	17,872	27,049

Group 2013	FF	CHC	Total
Total operating revenue	41,640	61,914	103,554
Goods for resale	-688	-25,104	-25,792
Salaries and other external costs	-22,466	-32,219	-54,685
Depreciation/amortisation	-2,628	-2,306	-4,934
Operating profit	15,858	2,285	18,143

Probi has four customers who each account for more than 10% of the company's sales.

The largest customer, with sales of KSEK 33,559 (38,283), is recognised in the Functional Food segment and the next three largest, with sales of KSEK 32,738 (11,277), KSEK 19,840 (20,296) and KSEK 15,273 (-) are recognised in the Consumer Healthcare segment.

OPERATING REVENUE DISTRIBUTED BY GEOGRAPHIC AREAS

Operating revenue	2014	2013
Sweden	52,685	59,073
Rest of Europe	15,854	14,585
North America	44,455	18,250
Rest of the world	24,758	11,646
Total	137,752	103,554

Note 7 Distribution of net sales

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Goods	91,718	53,446	91,718	53,446
Royalties, licenses, etc.	43,524	48,764	43,524	48,764
Total	135,242	102,210	135,242	102,210

Note 8 Auditors' fees

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Deloitte				
Audit assignments	250	260	250	260
Audit-related services	64	63	64	63
Tax consultancy	119	63	119	63
Other services	11	15	11	15
Total	444	401	444	401

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

Note 9 Research and development

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Expensed research and development expenses	21,717	19,484	21,717	19,484

Note 10 Average number of employees, salaries, other remuneration and social security contributions

AVERAGE NO. OF EMPLOYEES	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Women	17	16	17	16
Men	9	9	9	9
Total	26	25	26	25

SALARIES AND REMUNERATION

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Board Members				
Jörn Andreas	113	-	113	-
Benedicte Fossum	150	150	150	150
Mats Lidgard	150	150	150	150
Per Lundin	300	300	300	300
Declan MacFadden	150	113	150	113
Jan Nilsson	150	150	150	150
Eva Redhe Ridderstad	150	150	150	150
CEO				
Peter Nählstedt	1,441	-	1,441	-
Former CEO				
Michael Oredsson	-	1,503	-	1,503
Interim CEO				
Gun-Britt Fransson	-	941	-	941
Other management (3)	4,601	3,119	4,601	3,119
Other employees	13,057	11,582	13,057	11,582
Total	20,149	18,158	20,149	18,158

Social security contributions, total	9,785	8,834	9,785	8,834
Of which pension costs	3,013	2,922	3,013	2,922
Board Members	–	–	–	–
CEO				
Peter Nählstedt	286	–	286	–
Former CEO				
Michael Oredsson	–	415	–	415
Interim CEO				
Gun-Britt Fransson	–	186	–	186
Other management (3)	1,135	772	1,135	772
Other employees	1,592	1,549	1,592	1,549

Gun-Britt Fransson served as Interim CEO during the period June–December 2013. For the period January–May 2013, her costs are included in Other management.

The CEO and an additional three senior executives are entitled to bonuses that may amount to a maximum of 50% of the fixed annual salary. The outcome is based on fulfilment of quantitative and qualitative goals established annually by the Board.

At 31 December 2014, KSEK 5,065 (2,391) including social security contributions, was reserved for bonuses to personnel. The amount will be paid in 2015 and distributed as follows: The CEO, KSEK 646 (387); 3 (2) senior executives KSEK 1,686 (648), and other employees, KSEK 2,733 (1,356).

The 2011 AGM adopted a share-price-based incentive plan for executive management. The results of the programme depend on a comparison between the company's share price and a general index on NASDAQ Stockholm in 2014 compared with 2011. The programme concluded without entitling any bonus payments.

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 are defined-benefit pensions. Executive management comprises three men and one woman.

Note 11 Disposal of fixed assets

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Disposal	–3,740	–	–3,740	–
Total	–3,740	–	–3,740	–

In 2013, a study of common colds in children commenced, based on Probi's immune product, Probi Defendum®. In 2014, the research company contracted to carry out the trial went bankrupt and, due to this, the trial could not be completed. Probi therefore discarded capitalised development expenditure of MSEK 3.7 in the fourth quarter.

Note 12 Financial income and expenses

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Interest income	1,021	1,417	1,021	1,417
Exchange-rate gains	627	228	627	228
Exchange-rate losses	–607	–297	–412	–297
Interest expenses	–	–	–	–
Total	1,041	1,348	1,236	1,348

Note 13 Income tax

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Current tax for the year	–6,355	–5,457	–6,355	–5,457
Deferred tax	30	1,011	–	–
Total	–6,325	–4,446	–6,355	–5,457
Profit before tax	28,090	19,491	28,223	24,086
Nominal tax rate 22.0%	–6,179	–4,288	–6,209	–5,299
Tax effect on other non-taxable or tax deductible income	–146	–158	–146	–158
Total	–6,325	–4,446	–6,355	–5,457

Note 14 Operational leasing agreements

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

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Leasing costs for the year	3,086	3,165	3,086	3,165
Falls due for payment within one year	2,398	2,596	2,398	2,596
Falls due for payment after one, but within five years	9,219	328	9,219	328
Falls due for payment after more than five years	–	–	–	–

Note 15 Capitalised development expenses

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Opening cost	20,030	9,198	20,030	9,198
New acquisitions	7,870	10,832	7,870	10,832
Disposal	–3,740	–	–3,740	–
Closing accumulated cost	24,160	20,030	24,160	20,030
Opening amortisation	–3,419	–1,229	–3,419	–1,229
Amortisation for the year	–2,401	–2,190	–2,401	–2,190
Closing accumulated amortisation	–5,820	–3,419	–5,820	–3,419
Closing residual value	18,340	16,611	18,340	16,611

Note 16 Patents and licenses

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Opening cost	61,882	59,340	61,882	59,340
New acquisitions	1,876	2,542	1,876	2,542
Closing accumulated cost	63,758	61,882	63,758	61,882
Opening amortisation	-53,064	-51,452	-53,064	-51,452
Amortisation for the year	-1,784	-1,612	-1,784	-1,612
Closing accumulated amortisation	-54,848	-53,064	-54,848	-53,064
Closing residual value	8,910	8,818	8,910	8,818

Closing residual value at 31 December 2014 pertain entirely to patents. The licenses related to the European rights that were repurchased from Skånemejerier for MSEK 40 in 2001 were amortised on a straight-line basis from the year of acquisition until 2012 and are now fully amortised.

Note 17 Goodwill

	GROUP	
	2014	2013
Opening cost	2,762	2,762
Closing residual value	2,762	2,762

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

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

Probi carried out impairment tests to determine the goodwill value at 31 December 2014. These tests did not indicate that any impairment requirements exist. No goodwill was recognised in the Parent Company.

Note 18 Improvements to leased property

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Expenditure on leased property	2014	2013	2014	2013
Opening cost	1,398	1,398	1,398	1,398
Acquisitions	2,225	-	2,225	-
Disposals	-35	-	-35	-
Closing accumulated cost	3,588	1,398	3,588	1,398
Opening amortisation	-1,082	-703	-1,082	-703
Amortisation	-389	-379	-389	-379
Amortisation of disposed acquisitions	35	-	35	-
Closing accumulated amortisation	-1,436	-1,082	-1,436	-1,082
Closing residual value	2,152	316	2,152	316

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

Note 19 Equipment and tools

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Opening cost	7,828	7,784	7,828	7,784
Purchases	1,598	471	1,598	471
Sales	-146	-	-146	-
Disposals	-243	-427	-243	-427
Closing accumulated cost	9,037	7,828	9,037	7,828
Opening depreciation	-5,785	-5,459	-5,785	-5,459
Depreciation for the year	-767	-753	-767	-753
Depreciation of disposed equipment	227	427	227	427
Closing accumulated depreciation	-6,325	-5,785	-6,325	-5,785
Closing residual value	2,712	2,043	2,712	2,043

Note 20 Participations in Group companies

	2014	2013
Carrying amount	4,031	4,031

Specification of the Parent Company's shareholding in Group companies

	Share of equity	Share of votes	No. of shares	Carrying amount	Shareholders' equity
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

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

Note 21 Accounts receivable

Carrying amount corresponds to the fair value of accounts receivable. Probi's accounts receivable primarily refer to a few major licensing partners. The company does not consider these partners to constitute a significant credit risk. No accounts receivable were impaired in 2014 or 2013.

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Maturity structure of accounts receivable				
Not fallen due	23,177	17,603	23,177	17,603
Fallen due 0–45 days	2,146	5,224	2,146	5,224
Fallen due >45 days	–	116	–	116
Total	25,323	22,943	25,323	22,943

Note 22 Prepaid expenses and accrued income

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Prepaid rent	763	643	763	643
Accrued interest income	–	222	–	222
Accrued sales revenue	910	–	910	–
Other items	396	623	396	623
Total	2,069	1,488	2,069	1,488

Note 23 Other long-term liabilities

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Liabilities to Group Companies, > five years	–	–	4,035	4,035
Total	–	–	4,035	4,035

Note 24 Accrued expenses and deferred income

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Accrued holiday pay including social security contributions	941	956	941	956
Social security contributions	486	427	486	427
Accrued administration and selling expenses	728	102	728	102
Accrued variable remuneration to employees	5,065	2,391	5,065	2,391
Other items	457	745	457	745
Total	7,677	4,621	7,677	4,621

Note 25 Pledged assets and contingent liabilities

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
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 26 Related-party transactions

Transactions with related parties recognised in statement of comprehensive income:

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Lavindia AB, related party: Mats Lidgard (Board member)	–13	–39	–13	–39
Atherioco AB, related party: Jan Nilsson (Board member and Chairman of Probi Scientific Advisory Board)	–60	–90	–60	–90
Total costs	–73	–129	–73	–129

The transactions above relate to consulting fees for Probi Scientific Advisory Board and legal issues. At 31 December 2014, Probi had a liability of KSEK 38 (30) to Atherioco AB, which was recognised in the statement of financial position.

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

Note 27 Events after the balance-sheet date

In January 2015, Probi announced that the company had secured its biggest-ever order from NBTY, through its US business partner Viva 5. The order is valued at MSEK 17, and Probi's digestive and immune health products are scheduled for delivery in early 2015. Probi's bacterial strains will be included in a product that is already sold through retailers in the US under the Nature's Bounty brand, and is one of the six largest probiotic products in that market.

Signatures for the annual report

The Annual Report and consolidated financial statements were approved by the Board on 13 March 2015.

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 23 April 2015 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, 13 March 2015

Per Lundin
Chairman

Benedicte Fossum

Mats Lidgard

Jan Nilsson

Eva Redhe Ridderstad

Declan MacFadden

Jörn Andreas

Peter Nählstedt
CEO

Our auditor's report was submitted on 13 March 2015
Deloitte AB

Per-Arne Pettersson
Authorised Public Accountant

Auditor's report

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

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Probi AB (publ) for the financial year 2014-01-01 – 2014-12-31, with the exception of the corporate governance report on pages 49–51. The annual accounts and consolidation accounts of the company are included in the printed version of this document on pages 44–66.

Responsibilities of the Board of Directors and the Chief Executive Director for the annual accounts and consolidated accounts

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the

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

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

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2014 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the CEO of Probi AB (publ) for the financial year 2014-01-01 – 2014-12-31. We also conducted a statutory review of the corporate governance report.

Responsibilities of the Board of Directors and the CEO

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the CEO are responsible for administration under the

Companies Act and for ensuring that the corporate governance report has been prepared in accordance with the Annual Accounts Act.

Auditor's responsibility

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

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

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

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

Furthermore, we have read the corporate governance report and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the corporate governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

Opinions

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

A corporate governance report has been prepared, and its statutory information corresponds to the other sections of the annual accounts and the consolidation accounts.

Malmö, 13 March 2015
Deloitte AB
Signature on Swedish original

Per-Arne Pettersson
Authorized Public Accountant



Board of Directors

Per Lundin

Chairman of the Board, born 1947.

History

Chairman of the Board since 2009. Board member since 2009. Senior Advisor. Formerly Director of Sales, Kraft Foods Nordic, Vice President of ICA Meny and President of Arvid Nordquist.

Other board assignments

Kung Markatta AB, Internatural AB, Alma AS, Gastronomi Sverige AB, Kinnan Holding AB and Seniorlife AB.

Shares in the company

–

Independent in relation to the company

Yes.

Independent in relation to major shareholders

Yes.

Benedicte Fossum

Board member, born 1962

Education

Veterinarian, Norway School of Veterinary Science.

History

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

Other board assignments

Bionor Pharma ASA, Smartfish AS, Ayanda Group AS, Foinco AS, Zentuvo AS and Mittas AS.

Shares in the company

–

Independent in relation to the company

Yes.

Independent in relation to major shareholders

Yes.

Mats Lidgard

Board member, born 1954

Education

LLB, Lund University.

History

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

Other board assignments

Cebix AB, Jatab Care AB, Scandinavian Biopharma Holding AB and Synphora AB.

Shares in the company

1,000 shares.

Independent in relation to the company

Yes.

Independent in relation to major shareholders

Yes.



Eva Redhe Ridderstad

Board member, born 1962

Education

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

History

Board member since 2011. Former 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 Pled Pharma AB, Starbreeze AB, Axel Christiernsson International AB, Temaplan Asset Management Holding AB and the First Swedish Pension Insurance Fund.

Shares in the company

4,000 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, 1993–1996.

Other board assignments

Atherioco AB, MedScienta AB and PetaJoule AB.

Shares in the company

–

Independent in relation to the company

Yes.

Independent in relation to major shareholders

Yes.



Declan MacFadden

Board member, born 1954

Education

Bachelor's Degree in biochemistry and microbiology from University College, Galway, Ireland and Master's Degree (Malting and Brewing Science) from Birmingham University.

History

Board member since 2013. Formerly CEO of Symrise Asia Pacific, 2005–2014. Based in Asia since 1998. Has previously held executive positions in various companies, including ICI, Unilever, Biocon, Guinness and Warner Lambert.

Other board assignments

Chairman of QNECT Pte. Ltd. (Singapore). Board member of Indevex (Sweden). Chairman of the UWCSEA Foundation Board. Former Chairman and Board member of Esterol Malaysia.

Shares in the company

–

Independent in relation to the company

Yes.

Independent in relation to major shareholders

No.



Jörn Andreas

Board member, born 1980

Education

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

History

Board member since 2014. Vice President Finance, Symrise DIANA Division, Rennes, France. Previously worked at The Boston Consulting Group, Hamburg, Germany and Bayer AG, Leverkusen, Germany.

Other board assignments

–

Shares in the company

–

Independent in relation to the company

Yes.

Independent in relation to major shareholders

No.

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

2,000 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

2,000 shares.



Niklas Brandt

CFO, born 1959

Education

Business Administration degree from Lund University.

History

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

Shares

1,000 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 February 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

4,000 shares.

Annual General Meeting

The Annual General Meeting (AGM) will be held on Thursday 23 April 2015 at 3:00 p.m. at Elite Hotel, Ideon Gateway, Scheelevägen 27, Lund.

Right to participate

To be entitled to participate in the AGM, shareholders must be registered in the shareholders' register maintained by Euroclear Sweden AB as of Friday, 17 April 2015 and have notified the company of their intention to participate not later than Friday, 17 April 2015 at 4:00 p.m.

Shareholders whose shares are registered with a trustee must temporarily re-register their shares in their own name with Euroclear Sweden AB in order to participate in the AGM. Such registration must be completed not later than Friday, 17 April 2015. 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-mailing 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 2015

23 April 2015

Interim report Q1, 2015

23 April 2015

Annual General Meeting 2014

16 July 2015

Interim report Q2, 2015

22 October 2015

Interim report Q3, 2015

26 January 2016

Year-end report 2015

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