

ANNUAL REPORT 2008



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ABOUT THE PROBI BRAND AND LOGO

Probiotics consists of the Latin word Pro and the Greek word Bios, which together form probio, meaning - for life.

Probi's logo is a capital P, symbolizing the stomach, which is the original focus area for Probi. Inside the P is a red dot, which symbolizes bacteria, Probi's patented *Lactobacillus plantarum* 299v, Lp299v.

Year in brief

KEY EVENTS 2008

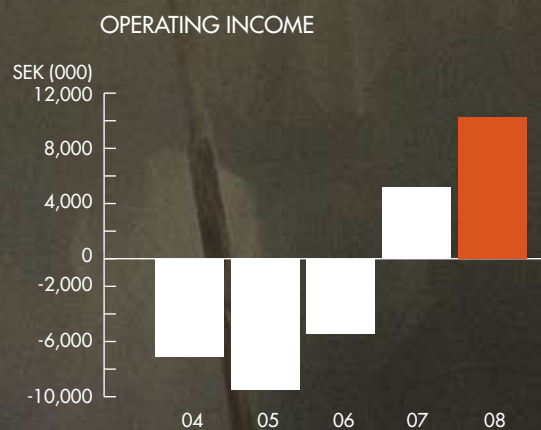
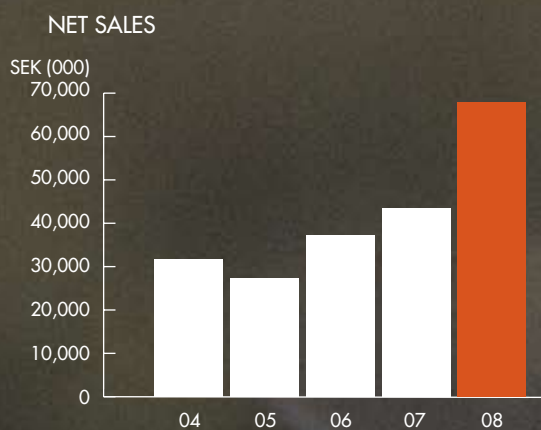
- Successful clinical studies on common colds with world-class research results makes it possible to launch immune products in 2009.
- Agreements signed in 12 new geographic markets for Dietary Supplements, bringing the total to 26 markets.
- US business partner NextFoods invested heavily in the launch of fruit drink Good-Belly using Probi's probiotics in the US. USD 16 million has been guaranteed by Seattle-based Maveron, among others, with Starbucks' CEO and founder Howard Schultz as one of the principle investors.
- The global food group Kraft Foods launched three kinds of müsli bars with probiotics under the LiveActive brand in the US.
- Research support from Vinnova of SEK 1.8 million to partly finance clinical studies focusing on cardiovascular health.

NEW EMPLOYEES AND CHANGES TO LEADING POSITIONS:

- Niklas Brandt, new CFO
- Niklas Bjärum, new Vice President of Marketing and Sales
- Niklas Larsson, new Research Director
- Johan Wahlqvist, new Director of Marketing and Sales for Functional Food
- Kerstin Holmgren, new Senior Application Scientist, Probi's product development
- Eva Röder, new Group Manager, Probi's laboratory

Financial information for 2008

- Net sales rose 56 per cent to SEK 68.0 million (43.6)
- Earnings before depreciation/amortisation and write-downs (EBITDA) rose by 49 per cent and amounted to SEK 15.3 million (10.3)
- Cash flow improved by 7 per cent and amounted to SEK 13.9 million (13.0)
- EPS after tax was SEK 0.85 (2.62)



2008 - a breakthrough year for Probi

Probi saw a very positive performance in 2008, a year that can be characterised as a breakthrough year. The operating income doubled, net sales saw a dramatic boost and numerous contracts and launches were set-up in 2008. The most crucial long-term event for the company is however that Probi has successfully laid the foundation for a completely new product in the major immune product market through its in-house research.

Probi's key figures progressed very well in 2008 despite much of the world being badly affected by the financial crisis. Net sales rose 56 per cent to SEK 68 million and the operating income doubled to SEK 10.2 million. Cash flow also improved dramatically to around SEK 14 million and Probi has a solid SEK 61 million available in liquid funds and an equity/assets ratio of 93 per cent. The earnings trend is mainly a result of the long-term initiative to push Probi's world-leading probiotic products onto the world market.

BEARING FRUIT

The strong development in sales and profitability is proof that the long-term initiative to build Probi is now bearing fruit on a number of fronts. The most visible proof of this is the extensive number of contracts signed in 2008 on 12 new geographic markets. Probi is now active in 26 countries, and of these, contracts have been signed and products launched in 21 countries in 2007 and 2008.

The launches on the US food market were especially important for the 2008 result. Central to this were the collaborations with NextFoods and Kraft. The fact that Probi signed agreements with NextFoods, one of the most successful entrepreneurial companies, and Kraft, one of the global food giants, is proof of Probi's underlying strength. There are still major opportunities in the US, even though market conditions there are poor at the moment.

Both the Functional Food and Dietary Supplement business areas saw major success throughout the year. For Functional Food, the launches in the US were an important driving force for growth, and it reported a sales rise of 59 per cent. To this should be added a 13 per cent increase in sales of ProViva in Sweden.

NEW BUSINESS MODEL

The Dietary Supplement business area saw growth of 40 per cent and was assisted not least by the agreements signed at the end of the year with partners in Eastern Europe. This will result in Probi increasingly prioritising the business model where Probi sells finished products to its partners. The reason is that a partner-based model provides significantly higher revenues and profitability compared to the licence model that Probi has mainly used in the past.

WORLD-CLASS STUDIES

Over the long-term neither the good results nor the many agreements signed were the most pleasing things that happened in 2008. In August 2008 we were able to present a world-class clinical study on common cold showing that a new, patented combination of bacteria has positive effects on the immune system. This gives us the opportunity to broaden Probi's portfolio to also include the immune defence market, which as a whole is worth around SEK 40 billion for dietary supplements and foods. We will extend our dietary supplements range in 2009 with vanilla-flavoured tablets that are the result of years of research on the immune system and common colds.

This is a good example of Probi's strategy to take responsibility for all parts of product development and manufacturing in association with specialists in different countries. Probi's current business is mainly built on gut health and strong clinical documentation in this sector. The immune system, not least an illness such as the common cold, will now be another major global commercial potential for Probi. Products improving the immune system will also be launched in Functional Food in the form of drinks and other types of foods, and discussions with interested companies are already underway.

STRATEGY

The foundation is still world-leading research and better probiotics. Probi is sitting on a treasure chest of very potent, robust probiotic strains. The screening process to identify these takes place in accordance with the principles formulated by the researchers who created Probi about 20 years ago. Our commercial success is basically the credibility of the clinical documentation built up around our bacterial strains and health improvements experienced by consumers who buy our products.



In our business model the emphasis on sales of finished products or highly refined semi-finished products increases via distributors and partners. This increases Probi's control and ability to earn. The traditional licence model, often combined with sales of raw materials, will continue being important for Probi, not least in Functional Food.

IMPORTANT BRANDS

We're also focusing more clearly on our own brands. Our Probi trademark is included today as a guarantee on consumer packages containing Probi's probiotics. It will become increasingly important for Probi to build long-term value into the brand.

We strengthened our organisation in 2008 in a number of key functions, including business development/marketing and product development. Probi has a very strong management team and employees who have all contributed to the company's positive results through their committed efforts. Finding new, qualified, employees and retaining those already employed, is crucial for the company's future competitive strength.

Even though 2008 was a breakthrough year for the company our work is far from over. Probi is just at the beginning of its international venture, which has been methodically underway for many years. The financial crisis is causing problems globally and the strength has probably surprised many people. Generally the number of new product launches could be limited because companies become less inclined to take risks and consumers less willing to try new products. Probi could however be affected to a lesser degree because the interest in healthy products is still strong and under certain circumstances consumers even become more positive during a financial crisis as interest in personal and family wellbeing can increase. We can look forward to an exciting journey in the years to come despite the recession.

A handwritten signature in black ink, appearing to read 'Michael Oredsson'.

Michael Oredsson, CEO

"probiotics boost consumers' well-being by restoring the body's natural balance."



Probi's business

VISION

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

MISSION

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

BUSINESS CONCEPT

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

STRATEGY

- Focus on probiotic-based products where Probi has world-leading, patented technology
- Increased growth through:
 - Investing in new markets
 - Investing in new product offers
 - Investing in new product formats
- Licensing and supplying raw materials for foods
- Licensing and supplying finished products or raw materials for Dietary Supplements

BUSINESS MODEL

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

Every market has unique conditions in terms of competition, population and price levels, as well as acceptance and traditions in terms of probiotics. A thorough analysis is therefore carried out prior to every new investment. This leads to a unique marketing strategy for specific markets in order to optimize profitability and minimize risks.

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

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

FINANCIAL OBJECTIVES

The following objectives were set for the business from 2005 onwards in conjunction with the introduction onto the Nasdaq OMX Stockholm, in December 2004.

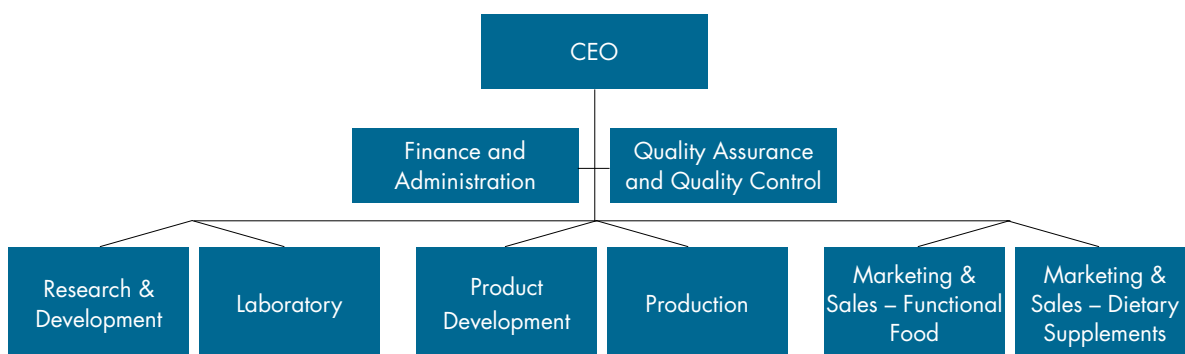
- Probi's organic sales growth over the next five years will average 25 per cent annually
- Probi's operating margin, excluding R&D costs will be a minimum of 60 per cent. R&D after a five-year period will not exceed 30 per cent of operating revenue
- Probi's full-year profit before tax will be positive by 2007. The long-term net margin will exceed 25 per cent
- Probi's cash flow will be positive by 2007 and thereby amount to at least 50 per cent of operating income
- Probi's business will be financed by shareholders' equity over the next three years

Objectives	2005	2006	2007	2008	Objective	Fulfillment of objective/ comments
Organic growth (sales) %	-14	+37	+17	+56	25 on average	24 % up to and including 2008
Operating margin excl. R&D costs %	+21	+27	+44	+41	> 60 %	
R&D costs % of operating revenue	56	40	31	25	< 30 %	✓
Profit before tax, SEK (000)	-8,833	-4,834	+6,427	+12,426	Positive from 2007	✓
Net margin %	-32	-13	+15	+18	> 25 %	
Cash flow, SEK (000)	-7,222	-5,266	+12,984	+13,922	Positive from 2007	✓

ORGANISATION

Probi was originally a research company, which has also characterised the organisation. Of the company's 20 employees a total of 9 work in the research organisation, which also includes Quality Assurance, Regulatory Affairs and Patent Protection. To guarantee that the research results are turned into products Probi has a product development function that is responsible for and establishes external production of tablets and drinks etc. These functions support the two business areas – Functional Food and Dietary Supplements.

Probi's management consists of the CEO, CFO, and the Vice President of Marketing and Sales. The respective business areas are run by Marketing and Sales managers.



HISTORY

Probi was born from a successful research project, which began in 1985 at Lund University. The research project's objective was to identify a product that could strengthen the immune system of intensive care patients. The outcome included the patented probiotic strain *Lp299v* and Probi was founded in 1991.








CUSTOMERS

Probi's customers include leading food, health and pharmaceutical companies on the global health food market. The company provides probiotics for Functional Food, i.e. drinks and dry food like bars, biscuits and cereals and probiotics for Dietary Supplements in the form of tablets and capsules.

Probi's most important Functional Food customers include Skånemejerier, plus Kraft Foods and NextFoods of the US. Some of the most important customers in Dietary Supplements include Institut Rosell, Merck & Co, and Health World/Metagenics in Australia and the US.

MARKET DESCRIPTION AND MARKET OFFERING

Probi operates on a competitive market. The company faces competition throughout the value chain. Competitors include a number of ingredient companies such as Christian Hansen and Danisco. Furthermore Probi competes with probiotics companies such as BioGaia and Valio, who like Probi, have a mixed business model. In addition Probi also competes with food companies with strong brands and in-house probiotic research and production, such as Danone, Yakult and Nestlé. However, it is not only companies and players working specifically with probiotics who compete with Probi, but also companies offering products that meet similar needs such as prebiotics and fibres. A number of global companies with strong resources are active in these segments.

Other companies	Business		Bacteria
BioGaia	Development, production, sales, licensing		<i>Lactobacillus reuteri</i>
Chr. Hansen	Production of ingredients		<i>Bifidobacterium lactis Bb12, Lactobacillus casei F19</i>
Danisco	Production of ingredients		<i>Lactobacillus acidophilus, Bifidobacterium lactis HN 019</i>
Nestlé	Food		<i>Lactobacillus reuteri</i>
Danone	Food		<i>Lactobacillus Casei Defensis</i>
Valio	Food, licensing		<i>Lactobacillus rhamnosus GG</i>
Yakult	Food		<i>Lactobacillus casei Shirota</i>



"probiotics are living microorganisms that provide people with positive health effects when ingested in sufficient quantities." (FAO/WHO, May 2002)."

Probi on the stock market in 2008 – stability during a turbulent year

LISTING

Probi's shares have been quoted on Nasdaq OMX Stockholm since 2004 and traded under the PROB ticker. Probi is listed in the Small Cap segment, which covers small companies with a stock market value of up to EUR 150 million. Probi is listed on the "healthcare" and "biotech" sectors on the stock market lists.

SHARE CAPITAL

Probi's share capital at year-end 2008 was SEK 46,826,500 (46,826,500), divided between 9,365,300 shares. Each share carries one voting right and the same right to a share of the company's assets and profits. The share capital over the year remains unchanged. The shares quotient value is SEK 5.

OWNERSHIP

There were 4,500 registered shareholders on 31 December 2008, compared to 4,050 on 31 December 2007. Of the total shares, institutional ownership accounted for around 61.6 per cent (60.3), private ownership for 38.4 per cent (39.7) and foreign ownership for around 28.2 per cent (26.3). The majority of shares held by foreign investors are in Europe, equivalent to 15.1 per cent (13.2). Probi's principle owners are H&B Capital and Skånemejerier with a combined shareholding of around 23.2 per cent (23.2) of the voting rights and capital.

SHARE PERFORMANCE

Probi's shares rose by 2.7 per cent in 2008 and were quoted at SEK 37.80 (36.80) at year-end 2008. The OMX General index Stockholm PI fell by 42 per cent during the year. The highest and lowest share prices paid in 2008 were SEK 48.80 and SEK 26.00 respectively. On 31 December 2008, Probi's market value was SEK 354 million (345 m).

In 2008 a total of 2,969,306 (3,600,009) Probi shares were traded on the Nasdaq OMX Stockholm, which accounts for 32 (38) per cent of the total number of outstanding shares. An average of 11,783 (14,403) shares were traded per market day. The share

turnover rate, i.e. liquidity, was 31 per cent (39). In the past four years Probi's shares have recorded an average market increase of 6 per cent per year.

DIVIDEND POLICY

The Board has proposed to AGM that no dividend should be paid for the 2008 financial year. Probi's continued growth over the coming years will require significant financial resources. There is deep insecurity in the current global economic climate regarding the ability to finance future investments through the credit markets. As a consequence the company expects that no dividend will be paid up to and including 2009. Provided that after this period Probi has achieved a suitable capital structure and that the company's financial objectives can be maintained, Probi expects to be able to pay dividends of 30-50 per cent of the profit after tax.

OPTION SCHEME

Probi has no outstanding convertible loans or outstanding warrants.

INVESTOR RELATIONS

Probi's long-term objective is to create value growth for its shareholders. The company constantly strives to improve the flow of information and to provide the capital market, shareholders, investors and other interested parties with relevant information to enable a true and fair valuation of the company. The ambition is for the financial information to be characterized by openness and relevance to build confidence and interest in Probi's business.

Financial information about Probi is available on Probi's website: www.probi.se.

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SHARE CAPITAL DEVELOPMENT

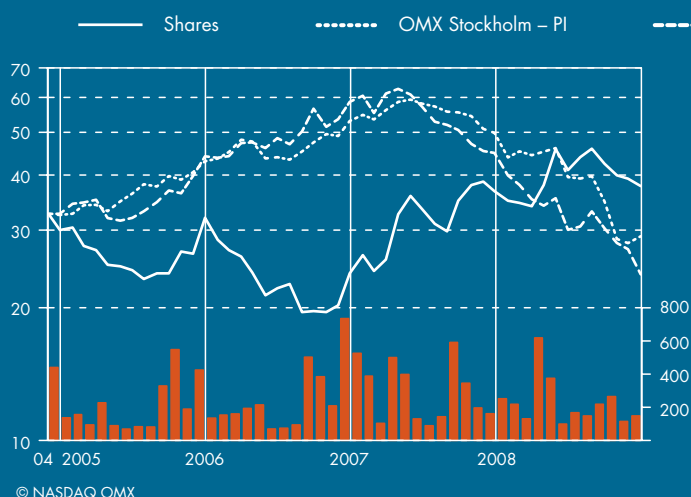
Occurrence	Year	Issue price	Increase in no. of shares	Total no. of shares	Nominal value per share	Increase in share capital	Share capital
Company formed	1991		500	500	100	50 000	50 000
Bonus issue 1:1	1997		500	1 000	100	50 000	100 000
Share issue ¹	1997		150	1 150	100	15 000	115 000
Split 100:1	1997		113 850	115 000	1,00	0	115 000
Bonus issue 34:1	1998		3 910 000	4 025 000	1,00	3 910 000	4 025 000
Share issue ²	1998		1 006 250	5 031 250	1,00	1 006 250	5 031 250
Bonus issue 15:10	1998		7 546 875	12 578 125	1,00	7 546 875	12 578 125
Share issue ³	1998	12	1 721 875	14 300 000	1,00	1 721 875	14 300 000
Bonus issue 13:10	1998		18 590 000	32 890 000	1,00	18 590 000	32 890 000
New share issue with preferential rights	2000	10	8 222 500	41 112 500	1,00	8 222 500	41 112 500
Reverse split 5:1	2004		-	8 222 500	5,00	-	41 112 500
New share issue	2004		1 142 800	9 365 300	5,00	5 714 000	46 826 500

1) The issue was aimed at founders and senior management.

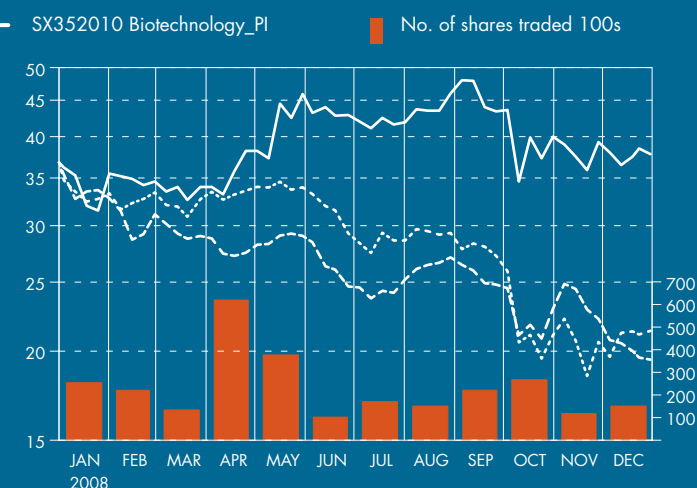
2) The issue was aimed at Skånemejerier's owners and to Probi AB.

3) The issue was aimed at shareholders in Skånemejerier, staff at Probi AB and Skånemejerier and other affiliates.

PRICE TREND AND TURNOVER 2004-2008



PRICE TREND AND TURNOVER 2008



SHAREHOLDERS

Company	No. of shares	Share of share capital and voting rights %
H&B Capital LP	1 212 542	12.95%
Skånemejerier Ek. för.	958 403	10.23%
Consepio	921 126	9.84%
Nordea	854 000	9.12%
KL Chem AB	566 333	6.05%
Bengt Jeppsson	407 517	4.35%
Göran Molin m bolag	384 841	4.11%
Siv Ahrné	159 573	1.70%
Nordea Life & Pension	140 000	1.49%
SEB Private Bank	126 500	1.35%
Other	3 634 465	38.81%
Total	9 365 300	100.00%

HOLDING PER SHAREHOLDER

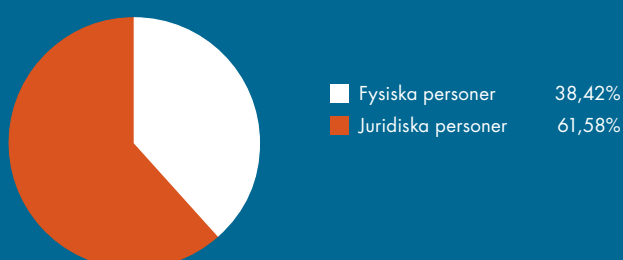
Division of shares	No. of shareholders	No. of shares	No. of shares, %
1-500	3 355	598 915	6.40%
501-1000	586	467 645	4.99%
1001-5000	449	1 008 971	10.77%
5001-10000	56	406 984	4.35%
10001-15000	16	190 014	2.03%
15001-20000	8	144 230	1.54%
20001-	30	6 548 541	69.92%
Total	4 500	9 365 300	100.00%

DATA PER SHARE

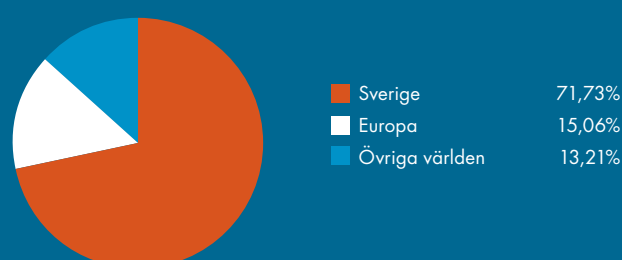
	2008	2007	2006	2005	2004
No. of shares on 31 Dec. (000)	9 365	9 365	9 365	9 365	9 365
EPS, SEK	0.85	2.62 ¹⁾	-0.52	-0.94	-0.71
Shareholders' equity per share, SEK	11.03	10.17	7.55	8.06	9.01
Cash flow per share, SEK	1.49	1.39	-0.56	-0.77	2.86
Share price on 31 Dec. (final price paid, SEK)	37.80	36.80	23.90	32.00	30.00
Price/Shareholders' equity per share, times	3.43	3.62	3.17	3.97	3.33
P/E-tal, ggr	44.47	14.05	neg	neg	neg
Dividend, SEK	-	-	-	-	-
Share price 31 Dec., SEK (000)	354 008	344 643	223 831	299 690	280 959

1) EPS 2007 includes tax revenues of SEK 1.93 per share for activating deferred tax receivables.

FÖRDELNING INSTITUTIONELLA/JURIDISKA PERSONER - PRIVATA AKTIEÄGARE (ANTAL AKTER)



FÖRDELNING SVENSKA - UTLÄNDSKA ÄGARE (ANTAL AKTIER)



Risks

Probi's business activities are exposed to certain types of risks. Probi is continuously working to identify and evaluate these risks, and this has resulted in a Risk Assessment policy that is reviewed at least once a year. This provides Probi with a clear picture of the risks and how they can be managed to minimize negative impacts on the company's business and growth.

CONTRACTS WITH STRATEGIC BUSINESS PARTNERS

Probi has entered into strategic agreements with a number of business partners. These are expected to contribute to increased revenues in the future. Should any of these business partnerships cease it could have a negative impact on Probi's revenues, results and financial position. Royalty revenues from Skånemejerier represent approximately 50 per cent of Probi's total revenue.

The current weakness in the global economy could mean that potential and existing business partners' susceptibility to risks will increase. This could mean that launches of new products are delayed or cancelled.

STRATEGIC RESEARCH PARTNERSHIPS

In addition to the internal expertise, much of Probi's research is based on partnerships with external Swedish and international scientists. The research partnerships with external partners are an important part of Probi's business model. There is, however, no guarantee that these partnerships will result in new discoveries or that Probi will be granted patents.

KEY EMPLOYEES

Probi is dependent on a small number of key employees and specialists and their expertise. The company's future growth is strongly dependent on retaining employees and recruiting new employees with the required expertise.

REGULATORY RISKS

Requirements and regulations relating to the use of health claims are constantly under review, both for Functional Food and Dietary Supplements. From 1 July 2007, nutritional and health claims are regulated by an EU Ordinance (No.1924/2006) covering all EU countries. This means that all applications for new health claims must be approved by the European Food Safety Authority (EFSA). Probi has worked actively in 2008 to prepare applications for health claims in the areas where relevant clinical results can be documented. Probi believes that the regulation of health claims will probably benefit demand of high quality products, but could also lead to a more costly and longer development process.

DOCUMENTATION AND PATENT PROTECTION

Probi's continued commercial success is mainly dependent on continued successful research and the ability to protect future revenues using wide-ranging patent protection. Probi has noticed increased activity and interest and new regulations in the area of probiotics. It is therefore important that patents granted can be supported and that recently developed products and applications can be patented.

SECURITY

Probi signs confidentiality agreements with employees and external consultants and the company strives to create a high awareness regarding confidential and sensitive information. Ongoing checks of systems, firewalls and virus protection provides protection against unauthorised access to Probi's IT network and business system. Probi actively works with operational security and makes sure that security systems run properly.

COMPETITION

Probi faces increased international competition from ingredients companies and suppliers of probiotics in both business areas. The competition, mainly in Functional Food, is not just limited to probiotic products, but also comprises other products with strong health claims or that meet similar needs. Probi believes that substitute products, less serious competition and a trivialisation of probiotics is a significant threat to market growth.

FUTURE CAPITAL REQUIREMENTS

Probi's strategy means that the company will continue to make a significant investment in research and development. This investment is currently covered by commercial revenues and Probi has a good financial position. If options for more rapid growth emerge, either through strategic acquisitions or organic growth, Probi might need to acquire further capital through a share issue or loans.

FINANCIAL RISKS

Probi's business is subject to various kinds of financial risks. Dramatic, unforeseen changes in currency exchange rates, interest rates and raw material prices can affect Probi's financial position and results. These risks are monitored continuously and the Board revises and sets Probi's Financial Policy annually, which describes the management of the financial risks. Probi's business is currently not dependent on external financing via the credit market and the company has no interest-bearing liabilities. Probi carries out impairment tests annually concerning patents, goodwill, licenses and similar rights.



A LEADING HEALTH CHARITY IN THE US CHOOSES PROBI

Through his regular appearance on Oprah Winfrey's TV show, heart surgeon Dr. Mehmet Oz has become the most well-known and influential doctor in the US. Dr. Oz has been an advocate of probiotics for many years. Five years ago he founded HealthCorps, a health charity aimed at boosting awareness of health and a good diet in U.S. schools. Dr. Oz and HealthCorps have now chosen to collaborate with Probi in the US.

HealthCorps is partly operated with the help of volunteer medical students who take timeout from their studies to educate and mentor school children across the US. The movement has a strict social commitment and provides extra curricular activities to support young people's families break bad habits and create a more healthy lifestyle.

Time Magazine ranked Dr. Oz as one of the world's most influential people in 2008 and in September 2009 he will have his own talk show on US television, produced by Oprah Winfrey's company. Probi will offer its partners in the US the opportunity to take part in HealthCorps' activities and also to get exposure in relation to the TV show.

The probiotic market



Probi is active on the global health market. The company supplies probiotics to food, health food and pharmaceutical companies. These in turn provide their customers with probiotics in the form of Functional Food or Dietary Supplements in the form of tablets or capsules.

The global market for probiotics is very diverse, both in terms of products and health benefits. The North American probiotic food market is relatively undeveloped compared to the mature Japanese market. Probiotics in Japan have a strong position which is a result of a long tradition and a strong regulatory framework.

The global market for probiotic food products in 2008 was worth USD 18 billion with growth of around 15 per cent. Forecasts indicate that probiotics are expected to demonstrate two-digit growth over the next few years.¹⁾

The value of the global market for probiotic dietary supplements was USD 1.8 billion in 2008. The growth rate for this segment was also 15 per cent. The dietary supplements market is fragmented in the US and Europe, while the market for probiotic foods is relatively concentrated.

NORDIC REGION

The Nordic functional food market is made up of both multinational companies with strong brands and small local players with a major foothold on local markets.

1) Source: Euromonitor

Examples of probiotic companies include Swedish BioGaia, Danish Danisco and Christian Hansen and Finnish Valio. Companies with probiotics in their range include Swedish Skånemejerier, French Danone and Swedish/Danish Arla in food and MidelfartSonesson in dietary supplements.

USA AND EUROPE

Americans traditionally consume more vitamins and dietary supplements than Functional Foods. The US market accounts for around 30 per cent of the total dietary supplement market but only around 20 per cent of the probiotic market. Sales in Europe are strongly nationally concentrated with dominant local brands. There is however a consolidation, which means that the number of regional players is increasing.

NEW PRODUCTS

Probi concluded a successful clinical study on common colds in 2008. The successful result means that Probi's product portfolio over the coming years will be strengthened. A new market has opened with the development of an immune product that both reduces the length of time someone is sick and alleviates the symptoms. This creates new opportunities for Probi on the global immune market, which the company estimates to be worth around SEK 40 billion.

Probi has mainly provided and focused on probiotics for improved gastro-intestinal wellbeing. Probiotics have caused great interest for some time among various players outside the traditional gastro-intestinal area. A number of research reports highlight the health benefits of probiotics on health problems such as allergies, headaches and cognitive health.

DRIVING FORCES

Interest in health and diet has established itself as a modern lifestyle. Millions of people now have more understanding of how they should live and eat to manage their hectic lifestyles to feel good.

Both researchers and consumers are realizing that health problems can be prevented by eating healthily, and it is that preventative aspect which is important. That the correct diet can prevent future medical problems is a fact that has helped to open up greater acceptance for the positive effects of probiotics.

Individuals are taking greater responsibility for their health, which is a result of increased financial means and welfare. This is positive for society and healthcare can focus resources on the treatment of serious diseases that are not dietary- or lifestyle-related.

GOOD FOR MORE THAN JUST YOUR STOMACH

Research has also shown that stomach and gastric health has a significant impact on the wellbeing of the entire body. Around 70 per cent of the immune system is located in the gastro-intestinal tract. Probiotics will therefore probably gain ground in a number of health markets.

DOCUMENTATION NEEDED

An integrated health market is being established in the interface between pharmaceuticals and food. Consumers are, to a greater extent, demanding effective, scientifically documented products. Food companies are looking at the pharmaceutical industry's strategy in terms of product development, documentation and opportunities to increase margins by charging more for products where they have documented positive health benefits.

Growing common European legislation concerning health claims for these categories of products will ensure a standard and give consumers the option of choosing quality products that make them feel better.

ADAPTED PRODUCT DEVELOPMENT

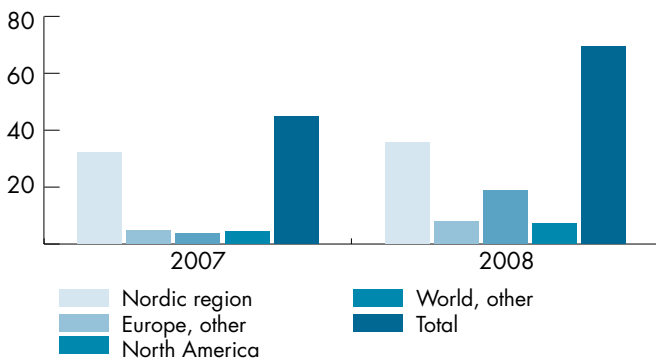
Meanwhile it is important to focus on the individual. Well-informed consumers want products that suit their individual needs and are no longer satisfied with products for mass consumption. Gender, age, lifestyle and needs are important aspects that affect consumers' purchasing patterns.

This affects a number of product features. In the near future, probiotics will most likely become available in a broad number of different product formats specially suited to different consumer groups. Probiotics are already available in ice cream, cheese, milk formula for babies, in straws and as an ingredient in sun-factor creams to protect the body from harmful UV rays.

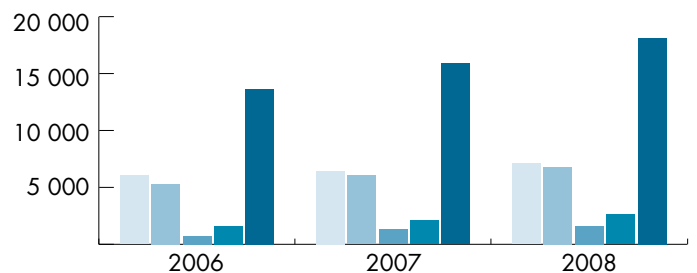
TASTE IS IMPORTANT

The conclusion is that there is a growing band of consumers who are both interested in and very well informed about their dietary needs. Eating correctly is an active choice. Food companies are therefore interested in marketing new foods and drinks with added health benefits as a way of differentiating themselves and building their brands. It is however a crucial success factor to be able to provide a product that tastes good.

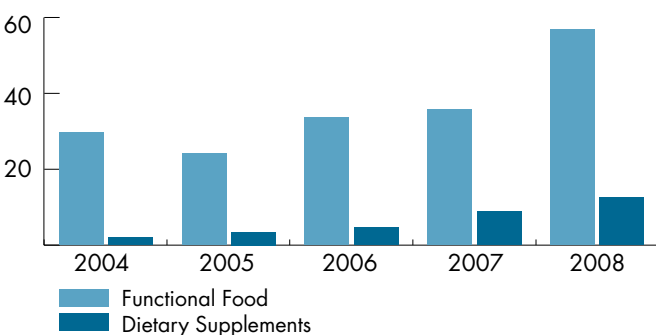
SALES PER GEOGRAPHIC MARKET (SEK M)



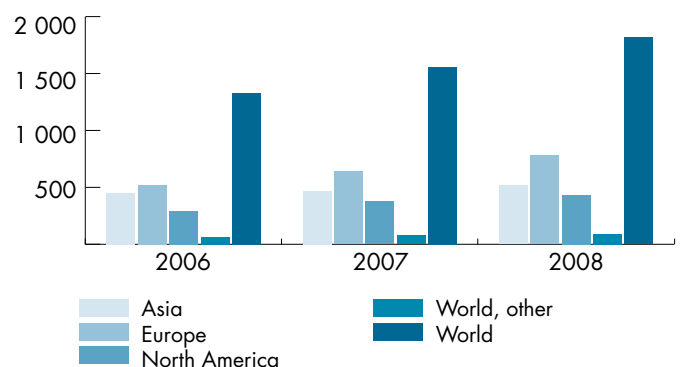
MARKET SIZE PROBIOTIC FUNCTIONAL FOOD¹⁾



SPECIFICATION OF REVENUE BETWEEN BUSINESS AREAS 2004-2008 (SEK M)



MARKET SIZE PROBIOTIC DIETARY SUPPLEMENTS¹⁾



1) Consumer value, USD millions

Good opportunities for Functional Food



"The ProViva fruit drink has been a sales success since launch in 1994 and has shown consistent high sales growth."

Probi saw a breakthrough on the North American market in 2008. Furthermore, world-class clinical results were achieved for the new immune product, which gives Probi excellent potential to access a completely new market in 2009.

Health is currently one of the most predominant trends in the food market. This trend has been strong all through the 2000s and shows no signs of abating. This has created a positive attitude to probiotics and in 2008 the global probiotic market grew by 10-15 per cent.

CHANGING ATTITUDES

The market picture has changed from an international perspective over the past two years. North America, where consumers have traditionally been suspicious about foods with bacteria, is seeing a marked change in attitude. Dairy company Danone has successfully communicated the health benefits of probiotic products through comprehensive advertising campaigns, which has led to significant growth on a previously slow market.

The sluggishness of this important market is partly due to cultural differences. Compared to Europe, the US has a rather underdeveloped dairy industry and a food culture that sees yoghurt as a dessert. Danone's campaigns have therefore led to an increased understanding of how probiotic products work, something which led to a dramatic increase in interest on the market. Probi has also started a collaboration for its probiotics with Dr. Mehmet Oz, known as "America's Doctor" from the Oprah Winfrey show, and his health movement HealthCorps. Dr. Oz will launch his own TV show in autumn 2009 focusing on increasing awareness on health and wellness in the US. Dr. Oz, through his collaboration with Probi, will help boost interest for probiotics, which over the long-term will positively affect the US market further.

The upswing in North America will probably have global consequences. Since many of the major food companies are American there has been a reluctance to launch probiotic products on other markets. As the North American market is now growing, so is the interest from the major food companies.

KRAFT AND NEXTFOODS

An important event during the year was Probi's collaboration with the global food company Kraft Foods. An agreement was signed in April 2008 for the launch of Probi's probiotics in bars, which is a major, popular product on the US market. Bars with probiotics were launched early last summer under the LiveActive brand. It is a complex product which is the result of an extensive product development collaboration between Kraft and Probi. Probi works with bacterial strains that have better stability than competitors during industrial processing and consequently on store shelves. That a world-leading company like Kraft is turning to Probi is a clear sign of quality.

Probi is also very hopeful about the agreement signed with NextFoods in the US which means that the probiotic fruit drink *GoodBelly* has been launched in North America in stages, initially as concentrated fruit shots in different flavours and then in quarter gallon cartons. *GoodBelly* was first sold exclusively via WholeFoods, a food chain that invests wholeheartedly in health conscious and environmentally-aware consumers. *GoodBelly* is now available in several national chains and is on sale at more than 5,000 stores in the US. The gradual launch proved to be a very successful concept when NextFoods' founder Steve Demos built up the world's biggest soy drink "Silk" in the 1990s.

IMMUNE MARKET

Probi's new immune product is built on world-class clinical results, which means that Probi now has the opportunity to develop a second-generation range of products. The clinical findings from the Berlin study shows that common cold symptoms were reduced by 33 per cent and that people who developed a cold recovered on average one day sooner than people who received a placebo product. Almost 50 per cent of the people who took part in the study and were treated with Probi's product considered it very effective and a further 20 per cent considered it effective. People who received a placebo product recorded significantly less happy with the product and almost none in this control group considered the treatment to be very effective.

This is Probi's first immune and common cold product and it is the first time Probi has combined two different strains of bacteria in one product; one bacteria that upregulates parts of the immune system and one that suppresses other parts, leading to fewer cold symptoms. A number of companies have already shown great interest. The immune product opens up completely new market opportunities for Probi, since immune products are an established market and common cold a problem for almost everyone on the planet. Probi's ambition is to launch the product in 2009.



ABOUT FUNCTIONAL FOOD

Functional Food is food enriched with ingredients that provide positive health benefits in addition to the products' normal nutritional value.

Own business increases growth in Dietary Supplements



Probi is currently seeing strong growth on the Dietary Supplement market. Own products and successful international launches with major business partners like Merck are paving the way for greater growth and new markets.

The probiotic market for dietary supplements accounts for a tenth of the probiotic food market. This is also a market dominated by strong local players, but has witnessed change in recent years. The number of regional players has increased, which has given Probi the opportunity to boost its launch rate. Probi has dedicated market resources that have solely worked with dietary supplements over the past three years, meaning that the company can carry out more business on its own.

Probi's strategy now is to establish a stronger independent position and move up the value chain. For dietary supplements this means that Probi commissions finished products from subcontractors and then turns straight to distributors and partners with turnkey products. This strategy will be applied fully with the common cold product where Probi will take responsibility for the end product.

GROWING INTERNATIONAL MARKET

The dietary supplement market is growing by 10 – 15 per cent annually. Consumption of probiotic dietary supplements is so far higher in the US than on other markets. Growth is however higher in other parts of the world.

Merck's launch in France of BionTransit, containing Probi's Lp299v bacteria, has been very successful.

Merck started with its own product Bion3, a multivitamin tablet containing probiotics, followed by an agreement with Probi's strategic partner Institut Rosell and the launch of BionTransit which has strong clinical documentation in the gastro area. Sales have developed well and Merck and Institut Rosell signed agreements during the year for BionTransit covering parts of South America and Europe.

The agreements signed at the end of 2007, with the Indian pharmaceutical companies Aristo Pharmaceuticals and Ranbaxy for Probi's Lp299v capsules are now starting to generate sales. The Chinese market is also being developed in collaboration with Biostime. A slow regulatory system has meant a long registration process in order to get started, but Probi expects to increase the level of penetration in China in 2009.

Probi is generally seeing increasing interest in dietary supplements with probiotics, where indication-specific products are especially successful. Probi intends to prioritize companies that can deliver large volumes over the coming years.

LOYAL CUSTOMERS

Probi's business model differs from many of its competitors for dietary supplements. Many of the company's competitors sell probiotic ingredients, while Probi either licences out the use of its patents and knowhow or sells a finished product to distributors.

Probi also offers market potential by identifying and defining major target groups with specific health problems. Probi's products can be seen as a means of exploiting market potential. In this way Probi provides a concept with a clear positioning to its customers and not just a product.

Probi's high level of scientific documentation is not just a competitive advantage, but also a necessity to provide a small company like Probi with global market coverage. Probi's expertise and service level, combined with unique products have created a loyal customer and consumer base.

NEW DIETARY SUPPLEMENT AGREEMENTS IN 2008

Customer/partner	Market
SALVAT	Spain
Merck Kga	Belgium
Proton System	Serbia, Montenegro, Croatia, Macedonia, Bosnia and Herzegovina, Albania, Slovenia and Hungary
Sanum Polska Ltd	Poland
Quesada Farmaceutica	Argentina



Q & A

Niklas Bjärum

Vice President of Marketing and sales

How would you describe 2008?

The hard work is paying off. We have seen a breakthrough in North America and for dietary supplements.

Strong clinical data during the year, not least with our immune product is opening up new markets.

How do you think 2009 will turn out?

I expect to see continued growth. We will sign the first contracts for the immune concept and also continue rolling out our existing products.

What are the main risks and opportunities?

On the regulatory side there are both risks and opportunities in how we communicate the health benefits of food, but it is an uncertainty that affects the entire industry. The current financial climate can also lead to companies not being willing to take risks and hesitating to launch new products.

But a major opportunity for us is that health is at the top of the agenda for many food companies today. This means that companies are interested in differentiating from their competitors on the market.

Is there anything special you would like to highlight from 2008?

Yes, that we proved that we are able to generate business in dietary supplements on our own and thereby grow faster.

What is the best thing about working at Probi?

Working with professional companies on a complex and vast global market. This means that we need to create smarter, exciting solutions. I am also proud of working with something that can significantly contribute to public health.

World-class results open a global market worth SEK 40 billion



Probi's successful common cold study in Berlin generated world-class results. Probi is now working to launch a product in 2009. The product is a combination of two probiotic strains that regulate the immune system, minimise cold symptoms and shortens cold periods.

The clinical findings surpass results from previous competitive studies. Cold symptoms among trial recipients of Probi's product fell by 33 per cent compared with the placebo group. Cold periods were significantly reduced among people who received Probi's product: 5.6 days as opposed to 6.7 days for the placebo group. There was also a trend that the number of cold episodes fell during the study period. Probi's product contains a combination of two probiotic strains, one *Lactobacillus plantarum* and one *Lactobacillus paracasei*. Probi has been unable to identify any current product on the world market that can match these results. This has provided Probi with the impetus to develop a tablet that is expected to be launched

at the end of 2009. The successful clinical development has opened up a new global market for Probi with an estimated value of about SEK 40 billion.

CONTINUING SUCCESS

Probi was founded by microbiologists and surgeons and is a result of successful basic and applied research. This has affected Probi's culture and work method. Science is prioritized and nine people are currently employed in R&D. These employees are also responsible for Quality Assurance, Regulatory Affairs and Patents.

The R&D organisation have responsibilities that are very similar to those carried out in a pharmaceutical company. Basic research is still carried out at the university by a team funded by Probi. Probi then takes over and takes responsibility for the clinical development. Probi focuses on specific health issues where probiotics have a positive impact and also takes responsibility for product safety.

Clinical and product development takes at least three years from concept to finished product. To ensure that the scientific results are turned into products Probi has a dedicated product development department responsible for preparing external production of various products. As an example this is where responsibility lies for the new immune product.

SUPPORTING NEW RESEARCH

Probi has previously mainly focused on gastro health and the immune system. In 2009 the focus of Probi's research will be on the metabolic syndrome, i.e. obesity, heart health and type 2 diabetes. In 2008 a number of in vitro studies were initiated. There is huge interest and during the year Probi was granted research funds of SEK 1.8 million from the state-owned Vinnova to partly finance the project in 2009 and 2010.

Probi has high hopes for the research. The company intends to continue being a pioneer in probiotics by launching new products addressing important health needs. Probi will achieve this by increasing the pace of research and product development. Probi is renowned throughout the industry for delivering clinical data of the highest quality through collaborations with Lund University, Antidiabetic Food Centre and other leading research centres and companies around the world.

OVER 100 PATENTS

Patents are very important, both for Probi's scientific renown and for the commercial successes that patents permit in the form of licensing and royalty revenues. The patenting process is the responsibility of the R&D department. It is time-consuming but essential since intellectual property is Probi's core value. Probi has patents protecting its core probiotic strains and their health properties. The patent portfolio is monitored and analysed regularly. Probi currently has 140 patents worldwide.

CONSUMERS WITH HIGH DEMANDS

The EU has run an initiative over the past few years towards joint legislation of health claims. Being able to claim and scientifically prove that products are beneficial to health are important sales arguments. Consumers are becoming increasingly health conscious and aware of what they are consuming. They must be able to trust the products and are demanding scientific documentation.

Probiotics are special to the extent that one cannot make general claims, such as for vitamin C. Every bacterial strain is unique and requires individual clinical documentation. It is Probi's ambition to get authority approval for a number of specific health claims in Europe and in other big geographies.



Q & A

Niklas Larsson

Research Director

What is the most important thing that happened in 2008?

The success of our common cold studies where we achieved world-class results. R&D will be even more focused in the future. We will not spread ourselves too thinly but be more specific in our project undertakings.

What is the most important thing that will happen in 2009?

We will focus on the metabolic syndrome, particularly cardiovascular disease and type 2 diabetes, and complete a number of key activities in the research project.

We will also be identifying a limited number of new research areas that could generate new products relatively quickly.

What risks and opportunities do you see for the future?

Timing is always a risk in research. Until the clinical results are confirmed you do not know when the project will end. We have also identified new areas of use as probiotics achieves greater acceptance outside the traditional gastro area. The immune product will provide Probi with a major opportunity to access new global markets.

What is the best thing about working with R&D at Probi?

Probi's research is top of its class and our experience and expertise allows us to be pioneers in the industry in pushing the boundaries of probiotics forward.

Organisation and employees

Probi achieved a commercial breakthrough in 2008, which has also had an effect on the organisation. The Development as well as the Marketing and Sales organisations have been bolstered to meet increased demands from customers and business partners.

PROBI'S STAFF POLICY

The starting point of Probi's staff policy is the company's business concept: to provide probiotics with well-documented positive health benefits to leading companies in foods and dietary supplements. Working with products that lead to people improving their health and wellbeing is both stimulating and a responsibility. Probi strives towards providing a dynamic environment for its employees where the individual is given responsibility and significant development opportunities.

PROBI'S VALUES

- **Know-how and expertise**
Know-how and expertise help Probi involve business partners, customers, consumers and employees.
- **Dedication**
Working for Probi with health products is a significant responsibility and demands commitment over and above the norm.
- **Credibility**
Credibility in all areas is fundamental in order for Probi to be the natural choice for business partners, customers and consumers.
- **Curiosity**
Probi is based on science. Curiosity is a driving force for the company and it does not shy away from trying new paths, both in research and development and on the market.

EFFECTIVE ORGANISATION

Probi's business model builds on networks and partnerships with a number of different stakeholders: customers, business partners and research providers. The network, where business partners take responsibility for different tasks such as marketing, sales and distribution, have made it possible to keep Probi's own organisation small and effective. The organisation is characterized by openness and a short decision-making process. Probi currently has two business areas: Functional Food and Dietary Supplements. Probi also has a significant R&D department. No business is currently conducted in Clinical Nutrition.

The Management Team consists of three associates: the CEO, the CFO and the Vice President of Marketing and Sales. Each business area has its own Marketing and Sales manager with independent business responsibility. Probi's research organisation is run by a Research Director. Research has close ties to the market through a dedicated product development Director who is responsible for developing the research findings into commercial products

HIGH LEVEL OF EXPERTISE

For a small company on a global and competitive market it is extremely important to provide a high level of expertise to business partners and customers. Probi therefore strives to attract and retain highly qualified employees. The company also offers an ambitious skills development course.

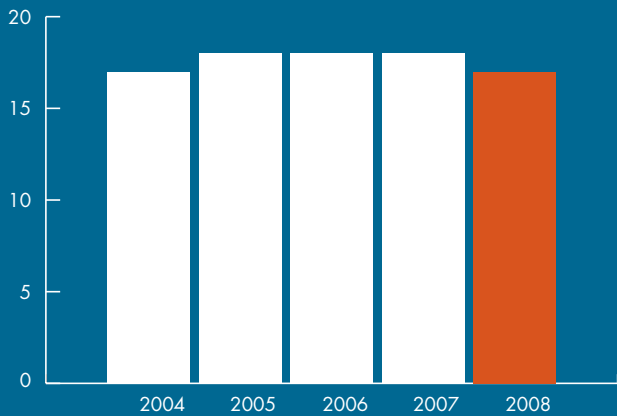
A development project began in 2008 with an external provider. All employees take part in this scheme that will continue into 2009. The overall aim is to create conditions for long-term sustainable efficiency in the organisation. Central concepts are clear objectives, motivation and a balance between work and private life. In addition, most employees are enrolled in additional training, such as mentorship programs and individually tailored skills development programs. The skills development varies depending on the task in hand and function.

FACTS ABOUT EMPLOYEES

The average headcount in 2008 was 17 (18). Probi strives for an even gender distribution and of the total headcount there were 9 women (53 per cent). On 31 December 2008 the company had 20 (18) employees. 90 per cent of the company's employees have a university or college degree, 40 per cent of whom defended their thesis. The average period of employment at Probi is 4.5 years (4.8). 9 associates work in Research and Development, where Niklas Larsson was recruited as Research Director in spring 2008. Of the Research and Development staff, 3 work with Regulatory Affairs and Quality Assurance. Probi's scientists have experience in medicine, microbiology, chemistry and biotechnology.

Of the total number of employees 4 people work with Marketing and Sales. The Marketing and Sales organisation saw the addition of Johan Wahlquist during the year as Director of Marketing and Sales – Functional Food.

AVERAGE NUMBER OF EMPLOYEES



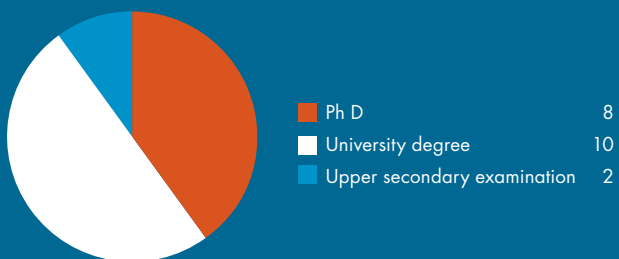
ABSENCE DUE TO ILLNESS

Total absence due to illness	5.2%
Of which more than 60 calendar days of the total	85.4%

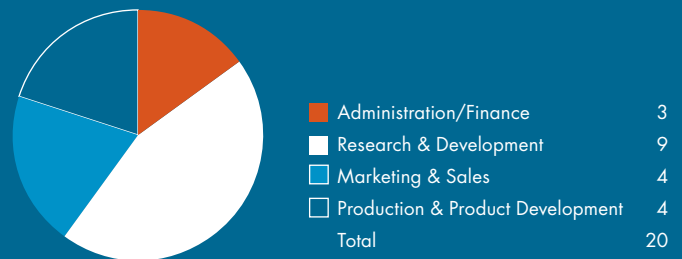
DIVISION BY AGE AND GENDER

	Total	♂	♀
-29	2		2
30-39	3	1	2
40-49	11	7	4
50-	4	1	3
Total	20	9	11

LEVEL OF EDUCATION



SPECIFICATION OF EMPLOYEES BY FUNCTION





FIVE-YEAR SUMMARY

SEK (000)		2008	2007	2006	2005	2004
Income statement in summary						
Net sales		67,959	43,568	37,215	27,236	31,619
Total operating revenue		69,362	44 656	38,417	27,666	31,915
Total operating expenses		-59,123	-39,474	-43,824	-37,165	-39,003
Operating income		10,239	5,182	-5,407	-9,499	-7,088
Income after financial items		12,426	6,427	-4,834	-8,833	-6,675
Net result for the year		7,995	24,528	-4,834	-8,833	-6,675
<hr/>						
Total shareholders' equity		103,256	95,261	70,733	75,567	84,400
Liquid assets		61,342	47,420	34,436	39,702	46,924
<hr/>						
Key ratios	Definition	2008	2007	2006	2005	2004
Equity/assets ratio, %	1	92.6	91.9	85.9	91.1	90.1
Debt/equity ratio, %	2	0.0	0.0	5.1	4.8	4.5
Return on capital employed, %	3	12.5	7.6	-6.1	-10.4	-8.6
Return on equity, %	4	12.5	7.7	-6.6	-11.0	-9.4
Cash liquidity, %	5	870.0	645.0	589.0	1,161.0	903.0
Share in operating income of research costs, %		25.0	31.0	40.0	56.0	46.0
Average number of employees		17	18	18	18	17

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

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

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

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

5. Total current assets, excluding stock in trade, as a percentage of current liabilities.

The image features a solid blue background with three concentric white circles. The circles are centered on the left side of the frame and increase in size from the innermost to the outermost. The text is positioned in the upper right quadrant, overlapping the space between the middle and outer circles.

PROBI AB (PUBL) ANNUAL REPORT 2008

DIRECTORS' REPORT

The Board of Directors and CEO of Probi Aktiebolag (publ), with its registered office in Lund, Sweden, Corporate Identity Number 556417-7540 hereby present the annual accounts and consolidated accounts for 2008.

Address: Ideon Gamma 1, 223 70 Lund, Sweden.

Probi's shares are listed on the Nasdaq OMX Nordic Exchange Stockholm.

Probi was founded in 1991 and is a leading player in probiotic research and the development of effective, well-documented probiotics. The Company's research is conducted using living microorganisms, resulting in scientifically proven health benefits.

The fields of research include: gastrointestinal health, immunology, the metabolic syndrome and stress and performance recovery. Probi's clients include leading companies in the field of functional food and dietary supplements.

FUNCTIONAL FOOD

The Functional Food business area focuses on commercialising Probi's probiotics together with leading food companies, and on actively supporting clients' launches with product development, clinical studies and health claims.

2008 was a breakthrough year on the important and expanding US market with the launch of NextFoods and Kraft Foods products based on Probi's Lp299v bacteria. The business area has also seen positive developments on previously established markets, and revenue increased by 59 per cent during the year (6). The increase is mainly due to raw material supplies to Kraft Foods in connection with the launch. Furthermore, sales of Skånemejerier's ProViva fruit drink made positive progress in 2008. Probi's royalty revenues from Skånemejerier increased by 13 per cent to MSEK 35.3 (MSEK 31.3).

NextFoods' launch in the US of GoodBelly fruit drinks with Probi's leading Lp299v bacteria has continued to develop as planned. NextFoods is focusing completely on products based on Probi's probiotics. The company is founded and run by Steve Demos, who during the 1990s established the world's most popular soy drink, Silk. GoodBelly shots in three flavours were launched on a test market in January 2008 at WholeFoods and Wild Oats stores. The test launch was so successful that NextFoods extended the launch in Q3 2008 to cover approximately 15 per cent of US food stores. Meanwhile, the Company launched three new GoodBelly fruit drinks in quarter gallon cartons at WholeFoods and Wild Oats. NextFoods is planning to expand its distribution, as soon as possible, throughout the retail sector. The level of Net sales are maintained at a good level, but due to the uncertainty of the US economy, economic factors are being closely monitored before a definitive date is set for any expansion. NextFoods has a strong financial position as

a group of investors, led by Maveron LCC, invested USD 16 million in the Company in August to support the nationwide launch of GoodBelly in the US. The agreement with NextFoods provides Probi with a guaranteed revenue in 2008 and 2009 of a total of approximately MSEK 10.

Kraft Foods launched three different flavours of LiveActive probiotic muesli bars onto the US market in June. This resulted in extensive raw material supplies from Probi, mainly in Q2 and Q3, in connection with the launch. The products were positively received by consumers with a good repurchase frequency. The marketing of the product has, however, not been sufficient to achieve the desired volumes. This has implied a drop in raw material deliveries during Q4 and it cannot be ruled out that this decline will continue. Probi is currently in negotiations with Kraft concerning the future development of the range.

The interest in probiotics amongst major food companies, not the least in the US, remains positive and Probi is in negotiations with a number of potential business partners in this area. Probiotics are now one of the main growth markets in health foods, which creates excellent conditions for attracting companies interested in expanding their range of healthy probiotic products.

DIETARY SUPPLEMENTS

The Dietary Supplements business area focuses on commercialising Probi's probiotics together with the best dietary supplement companies, and actively supports clients' launches with product development, clinical studies and health claims.

New contracts have been signed within the area of Dietary Supplements in 2008 for the distribution of dietary supplements based on Lp299v in 12 new geographic markets. This means that Probi's dietary supplements are now marketed in 26 countries, and in 21 of these countries contracts were signed or launches were undertaken in 2007 and 2008.

Dietary Supplements' revenues increased by 40 per cent during the year to MSEK 12.5 (MSEK 8.9), of which royalties accounted for 53 per cent (62). Operating income for the business area amounted to MSEK 1.6 (MSEK 0.7) for the year.

Probi has collaborated with Institut Rosell for a number of years within the area of dietary supplements. This collaboration continued to develop positively in 2008. Revenues increased by 39 per cent compared with 2007. In addition, three agreements were signed in 2008 within the framework of this collaboration. Agreements have been signed with SALVAT in Spain, Quesada Farmaceutica in Argentina and Merck in Belgium. The first deliveries to Spain were completed at the end of 2008, while the launches in Belgium and Argentina will be made in 2009. The Belgian contract implies that the collaboration with Merck is now being further extended. Merck's BionTransit product, based on Probi's Lp299v bacteria, is

already sold successfully in France and Chile. Probi expects the collaboration with Merck to further expand in the future.

In 2008, Probi increasingly prioritised the establishment of direct agreements with partners and distributors to significantly boost revenues and profitability, and to step up market coverage. Distribution agreements were signed in July with Sanum Polska and the Serbian Company, Proton System. These agreements provide the business partners with the right to market and distribute dietary supplements based on Probi's Lp299v in their respective market areas, which include a total of 9 countries in Eastern and Central Europe. In 2008, deliveries to these two companies amounted to MSEK 1.9.

Since 2002, Probi has collaborated with Health World in Australia, whereby capsules containing Lp299v are produced locally. This product has achieved a very good market position, with volumes developing positively and revenues increasing by 28 per cent compared to 2007.

Biostime's launch in China is going according to plan. Probi's Dietary Supplements business, aimed at gut health developed very positively in 2008. In 2009, we expect to extend the business to also cover the immunology/common cold area.

CLINICAL NUTRITION

Probi does not currently conduct any sales or research activities in the area of Clinical Nutrition. The business will, in the future, be focused on the Functional Food and Dietary Supplements business areas in which there is significant potential for growth within the framework of existing products and the new immunology/common cold product. Operating expenses for Clinical Nutrition for the year were MSEK 0.9 (MSEK 3.1).

In January 2008, the University Hospital in Maastricht placed a Clinical Nutrition study with a trial product from Probi on hold. This was done in anticipation of the results of an investigation carried out in connection with patients with acute inflammation of the pancreas showing higher mortality rates than expected in a probiotic study carried out by another company at a hospital in Utrecht. The Utrecht study is in no way connected to Probi or Probi's probiotics.

The Maastricht study will not be resumed, partly as a result of the long delay and partly because it will take a long time to recruit new patients. A total of 254 of the planned 370 intensive care patients were included, with 130 patients in the probiotics group and 124 patients in a group receiving antibiotics. The primary aim of evidencing that probiotic treatment is no worse than antibiotic treatment in terms of preventing infections (<10 % difference), was not achieved. Despite this, the difference in infection frequency between the groups was not significant. The registered difference was mainly due to a higher frequency of urinary infections in the probiotic group. It has also been confirmed that there was no significant difference in mortality rates between the groups. The quantity of data was reduced since the study was interrupted and the results should, therefore, be interpreted with caution. In general terms, the study should be interpreted positively because it is generally accepted that preventative antibiotic treatment decreases the mortality rate of intensive care patients compared to those receiving no treatment.

The results from the Maastricht study, once again, demonstrate the dramatic health benefits offered by Probi's probiotics, in this

case, to critically ill patients. There is, however, currently insufficient clinical data to warrant a launch in this business area.

RESEARCH AND DEVELOPMENT

In 2008, Probi successfully completed an extensive common cold study carried out using a new immunology product. This study offers Probi the opportunity to launch its own finished product via partners and distributors. The product is based on a combination of two patented bacterial strains within the *Lactobacillus plantarum* and *Lactobacillus paracasei* species. Probi is planning to launch the new product in the second half of 2009.

The main outcomes of the study were sharply reduced cold symptoms, as well as shorter cold periods. The severity of the cold symptoms was significantly reduced and reported as 33 per cent lower in the group receiving Probi's product, compared to the placebo group. Furthermore, the length of the trial subjects' colds was significantly shorter among those receiving Probi's product: 5.6 days, compared to 6.7 days for the placebo group. The results of the study also demonstrated a trend towards the number of colds decreasing amongst those receiving Probi's product.

Probi's activities accelerated during the fourth quarter in the research area focused on the metabolic syndrome, which is characterised by a number of different risk factors linked to life-style disorders, such as cardiovascular disease and type 2 diabetes. The risk factors include obesity, insulin resistance, increased blood lipids and high blood pressure. Probi received a research grant of MSEK 1.8 in November from Vinnova to conduct clinical studies in the cardiovascular field. The grant was for and will be used to partly finance a research study in the cardiovascular area. The first payments from Vinnova will arrive in 2009.

Nutritional and health claims have been regulated since 1 July 2007 by EU Regulation (No. 1924/2006) applying to all EU countries. This means that all applications concerning health claims must be approved by the European Food Safety Authority (EFSA). During the year, Probi actively worked on preparing applications for health claims in the areas in which relevant clinical benefits can be documented. The first application under Article 13.5 of the EU Regulation was submitted in December 2008.

PERSONNEL

At year-end Probi had 20 employees, of which 11 were women and 9 were men. The average number of employees during the year was 17 (18). Of the Company's employees, 8 (7) have defended their Doctor's Degree Thesis.

Probi's organisation has been strengthened during the year with new recruitments within several different areas. Within the area, Research and Development, a new Research Director, Niklas Larson and a Senior Application Scientist, Kerstin Holmgren, were recruited. Marketing resources were boosted by recruiting Johan Wahlqvist as Director of Marketing and Sales for the Functional Food business area. A new CFO, Niklas Brandt, also joined the Company in 2008.

NET SALES AND RESULTS

Probi's net sales for the year amounted to MSEK 68.0 (MSEK 43.6 m), an increase of 56 per cent.

The Functional Food business area accounted for the major portion of the increase, as net sales increased by 60 per cent to MSEK 55.5 (MSEK 34.7). The increase is mainly due to the extensive raw material deliveries to Kraft Foods during Q2 and Q3, in conjunction with the launch of the LiveActive probiotic bars. Furthermore, revenues from ProViva continued to show positive growth and increased by 13 per cent during the year, compared to 2007.

Net sales in the Dietary Supplements business area increased by 41 per cent to MSEK 12.4 (8.8). The collaboration with Institut Rosell is continuing to develop very well and revenues have increased by 39 per cent compared to 2007. In addition, sales of finished products have increased due to new agreements signed in 2008.

Other operating revenue includes MSEK 0.6 referring to capital gains in conjunction with the sale of Probi's production unit in Sösdala.

Operating expenses increased by MSEK 59.1 (MSEK 39.5). The increase is mainly due to increased sales of raw materials and their associated production costs. In addition, R&D costs were MSEK 3.4 higher than in 2007. This is mainly due to the common cold study, with a new immunology product completed in Q3. Probi's overall sales and administration costs increased by MSEK 4.6.

Operating income doubled from MSEK 5.2 to MSEK 10.2.

Profit after tax for the year totalled MSEK 8.0 (MSEK 24.5). Profit after tax for 2007 included tax revenue of MSEK 18.1, attributable to a deferred tax receivable on loss carry-forwards.

Tax expenses for the year totalled MSEK 4.4. This does not include any liquidity effect, as reported tax is offset against deferred tax recoverables from previous years' loss carry forwards. The year's tax expenses included MSEK 0.9 referring to the revaluation of the deferred tax receivables, due to the reduction of corporate tax in Sweden from 28 per cent to 26.3 per cent from 1 January 2009.

Earnings per share for the year were SEK 0.85 (2.62), a reduction of 68 per cent. Earnings per share for the full year 2007 included tax revenue of SEK 1.93 per share due to deferred tax receivables on loss carry-forwards capitalised in 2007. Excluding this tax revenue, earnings per share increased from SEK 0.69 in 2007 to SEK 0.85 in 2008.

CASH FLOW AND FINANCIAL POSITION

Cash flow for the year was MSEK 13.9 (MSEK 13.0) and cash flow from operating activities was MSEK 13.1 (MSEK 17.8). Cash flow for 2007 included a one-off payment from Danone of MSEK 8.7.

Investments in intangible fixed assets during the year amounted to MSEK 3.0 (MSEK 1.1), of which MSEK 1.9 (MSEK 1.1) for patents and MSEK 1.1 for capitalised development costs. Investments in tangible fixed assets during the year amounted to MSEK 0.5 (MSEK 0.3). The sale of the production unit in Sösdala in 2008 positively affected cash flow from investing activities by MSEK 4.2. Liquid assets at the end of the reporting period amounted to MSEK 61.3 (MSEK 47.4).

Probi invests significant amounts in research and development. The share of R&D costs of overall costs, excluding raw materials, goods for resale and depreciation was 43 per cent for the year (43).

The Company's accumulated fiscal deficit on 31 December 2008 was MSEK 52.0 (MSEK 64.6). Probi's Board of Directors has made

the assessment that the income and cash flow from operating activities will be positive in the future, therefore, the deferred tax receivable of MSEK 13.7 (MSEK 18.1) has been reported in full.

There are no unreported measures against former Board Members or senior managers. In 2008, the Company was not involved in any legal disputes.

OWNERSHIP

Probi had 4,500 (4,050) shareholders on 31 December 2008 according to Euroclear Sweden (former VPC). The Company currently has no outstanding convertible loans or any outstanding warrants.

EVENTS AFTER THE BALANCE SHEET DATE

Peter Zakrisson, who has presided as Chairman of Probi's Board since 2002, resigned on 3 February 2009. The Board appointed Mats Lidgard, a Board Member since 2004, to serve as Chairman until the AGM on 6 May 2009. In conjunction with the notice of the AGM, the Nomination Committee will present its proposals regarding the composition of the Board of Directors for the forthcoming period.

No other significant events took place after balance sheet date.

FUTURE DEVELOPMENT

Probi's business model is based on research and development, patenting and documentation of probiotic bacteria and product concepts and the production of probiotic bacteria. Probi engages with companies that produce, distribute and market products based on Probi's patented bacteria and product concepts. The Company will continue its activities in accordance with the established plan. Probi expects that income and cash flow from operating activities will be positive in 2009.

ENVIRONMENTAL IMPACT

Probi has decided to undertake a review of the Company's environmental impact in 2009. The Company is not engaged in any operations for which a permit is required pursuant to the Swedish Environmental Code.

SUBSIDIARIES

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

PROPOSED ALLOCATION OF PROFIT

The Parent Company's and the Group's income statements and balance sheets are subject to approval by the AGM on 6 May 2009. The following profits in the Parent Company are at the disposal of the AGM (TSEK):

Profit brought forward	24,528
Profit for the year	7,995
Total	32,523

The Board of Directors and CEO propose that profits be carried forward. The Group's accumulated loss according to the consolidated balance sheet totals TSEK -40,861.



FINANCIAL STATEMENTS

INCOME STATEMENTS

CURRENCY: TSEK	Note	GROUP		PARENT COMPANY	
		2008	2007	2008	2007
OPERATING REVENUE					
Net sales	6	67,959	43,568	67,959	43,568
Other revenue		1,403	1,088	1,403	1,088
Total operating revenue	5, 28	69,362	44,656	69,362	44,656
OPERATING EXPENSES					
Change in inventories		-34	669	-34	669
Raw materials and consumables		-156	-123	-156	-123
Goods for resale		-12,966	-2,120	-12,966	-2,120
Employee benefit expenses	9	-17,454	-17,703	-17,454	-17,703
Other external costs	7, 8	-23,386	-15,127	-23,386	-15,127
Depreciation of fixed assets	10, 16, 17, 18	-5,029	-5,070	-5,029	-5,070
Other operating expenses		-98	0	-98	0
Total operating expenses		-59,123	-39,474	-59,123	-39,474
OPERATING INCOME		10,239	5,182	10,239	5,182
Result from financial investments					
Financial income	11	2,195	1,287	2,195	1,287
Financial expenses	11	-8	-42	-8	-42
Total result from financial investments		2,187	1,245	2,187	1,245
PROFIT BEFORE TAX		12,426	6,427	12,426	6,427
Tax on profit for the year	12	-4,431	18,101	-4,431	18,101
INCOME FOR THE YEAR		7,995	24,528	7,995	24,528
Number of shares		9,365,300	9,365,300		
Earnings per share, SEK		0.85	2.62		

There have been no changes in the number of the Company's shares and the average number of shares in 2008 was, therefore, the same as the total number of shares, namely 9,365,300.

The Company currently has no outstanding convertible loans or outstanding warrants.

CONSOLIDATED BALANCE SHEETS

ASSETS

CURRENCY: TSEK	Note	2008	2007
	5		
Fixed assets			
Intangible fixed assets	15, 16, 17	22,426	23,759
Tangible fixed assets	18, 19	1,705	5,750
Deferred tax assets	13	13,670	18,101
Total fixed assets		37,801	47,610
Current assets			
Inventories		1,621	1,654
Accounts receivable	21	6,598	5,956
Other current receivables		19	19
Prepaid expenses and accrued income	22	4,161	1,043
Liquid assets	23	61,342	47,420
Total current assets		73,741	56,092
TOTAL ASSETS		111,542	103,702

EQUITY AND LIABILITIES

CURRENCY: TSEK	Note	2008	2007
	5		
Equity	24		
Share capital		46,827	46,827
Other contributions received		97,290	97,290
Loss brought forward		-40,861	-48,856
Total equity		103,256	95,261
Current liabilities			
Accounts payable - trade		3,266	2,194
Other current liabilities		2,653	2,031
Accrued liabilities and prepaid income	26	2,367	4,216
Total current liabilities		8,286	8,441
TOTAL EQUITY AND LIABILITIES		111,542	103,702

PARENT COMPANY'S BALANCE SHEETS

ASSETS

CURRENCY: TSEK	Note	2008	2007
	5		
Fixed assets			
Intangible fixed assets	15, 16	19,664	20,997
Tangible fixed assets	18, 19	1,705	5,750
Participations in Group companies	20	4,031	4,031
Deferred tax assets	13	13,670	18,101
Total fixed assets		39,070	48,879
Current assets			
Inventories		1,621	1,654
Accounts receivable – trade	21	6,598	5,956
Other current receivables		19	19
Prepaid expenses and accrued income	22	4,161	1,043
Liquid assets	23	61,342	47,420
Total current assets		73,741	56,092
TOTAL ASSETS		112,811	104,971

EQUITY AND LIABILITIES

CURRENCY: TSEK	Note	2008	2007
	5		
Equity	24		
Restricted equity			
Share capital		46,827	46,827
Statutory reserve		21,140	21,140
Total restricted equity		67,967	67,967
Non-restricted equity			
Income brought forward		24,528	0
Income for the year		7,995	24,528
Total non-restricted equity		32,523	24,528
Total equity		100,490	92,495
Long-term liabilities			
Liabilities to Group companies		4,035	4,035
Total long-term liabilities	25	4,035	4,035
Current liabilities			
Accounts payable - trade		3,266	2,194
Other current liabilities		2,653	2,031
Accrued expenses and prepaid income	26	2,367	4,216
Total current liabilities		8,286	8,441
TOTAL EQUITY AND LIABILITIES		112,811	104,971

CHANGES IN EQUITY - GROUP

CURRENCY: TSEK	Share capital	Other contributions received	Loss brought forward	Total equity
Opening balance, 1 Jan 2007	46,827	97,290	-73,384	70,733
Income for the year			24,528	24,528
Opening balance, 1 Jan 2008	46,827	97,290	-48,856	95,261
Income for the year			7,995	7,995
Equity, 31 Dec 2008	46,827	97,290	-40,861	103,256

CHANGES IN EQUITY – PARENT COMPANY

CURRENCY: TSEK	Share capital	Statutory reserve	Non-restricted equity	Total equity
Opening balance, 1 Jan 2007	46,827	25,974	-4,834	72,801
Allocation of previous year's income		-4,834	4,834	0
Income for the year			24,528	24,528
Opening balance, 1 Jan 2008	46,827	21,140	24,528	92,495
Income for the year			7,995	7,995
Equity, 31 Dec 2008	46,827	21,140	32,523	100,490

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

CASH FLOW STATEMENT

CURRENCY: TSEK	Note	THE GROUP		PARENT COMPANY	
		2008	2007	2008	2007
OPERATING ACTIVITIES					
Profit before tax		12,426	6,427	12,426	6,427
Depreciation/amortisation		5,029	5,070	5,029	5,070
Disposals of tangible fixed assets		98	0	98	0
Capital gains from disposal of tangible fixed assets		-559	0	-559	0
Cash flow from operating activities before changes in working capital		16,994	11,497	16,994	11,497
Change in inventories		34	-669	34	-669
Change in operating receivables		-3,760	6,716	-3,760	6,716
Change in operating liabilities		-155	259	-155	259
Cash flow from operating activities		13,113	17,803	13,113	17,803
INVESTING ACTIVITIES					
Acquisition of intangible fixed assets		-2,975	-1,056	-2,975	-1,056
Acquisition of tangible fixed assets		-463	-313	-463	-313
Disposal of tangible fixed assets		4,247	0	4,247	0
Cash flow from investing activities		809	-1,369	809	-1,369
FINANCING ACTIVITIES					
Repayment of debt		0	-3,450	0	-3,450
Cash flow from financing activities		0	-3,450	0	-3,450
CHANGE IN LIQUID ASSETS	23	13,922	12,984	13,922	12,984
Liquid assets on 1 Jan		47,420	34,436	47,420	34,436
Liquid assets at year-end		61,342	47,420	61,342	47,420
INTEREST PAID AND RECEIVED					
		2008	2007	2008	2007
Interest income according to income statement		2,058	1,287	2,058	1,287
Interest expenses according to income statement		-8	-42	-8	-42

No prepaid or accrued interest effects have an impact on the interest income and interest expenses reported above.

NOTES TO THE CONSOLIDATED ACCOUNTS

NOTE 1 GENERAL INFORMATION

Probi Aktiebolag (publ), with its registered offices in Lund, Sweden, Corporate Identity Number 556417-7540, address: Ideon Gamma 1, 223 70 Lund, Sweden was founded in 1991 and is a leading player in the field of probiotic research and development of effective, well documented probiotics.

The Company's research relates to living microorganisms with scientifically proven health benefits. The main fields of research include: gastrointestinal complaints, immunology, metabolic disorders, as well as stress and performance recovery. Probi's clients include leading companies in the functional food and dietary supplements business areas.

Probi's business concept builds on providing effective, well-documented probiotic product concepts with extensive patent protection, thereby creating the potential for a higher level of royalties than found in the industry as a whole.

The Group is comprised of the Parent Company, Probi AB, and two dormant subsidiaries; Probi Food AB and Probi Feed AB. Probi's shares are listed on the Nasdaq OMX Nordic Exchange Stockholm.

These consolidated accounts were approved by the Board of Directors for publication on 8 April 2009.

NOTE 2 ACCOUNTING AND VALUATION PRINCIPLES

The consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act, RFR 1.1, supplementary accounting regulations for Groups and with the International Financial Reporting Standards (IFRS), as adopted by the EU and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), approved by the European Commission.

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

Standards, amendments and interpretations of existing standards where the change has yet to come into force

The following standards and interpretations of existing standards have been published but have not been implemented in advance. Probi will apply these from 1 January 2009 and this application will affect the financial reporting.

- IAS 1 (Revised), "Presentation of Financial Statements" (applicable from 1 January 2009). The revised standard will prohibit the presentation of income and expense items in the report covering changes to equity and will require that "changes to equity excluding transactions with shareholders" be reported separately from

changes in equity concerning transactions with shareholders. All changes to equity not referring to shareholders must, instead, be submitted in one report (report of overall results) or in two reports (a separate income statement and report of overall results). It is likely that both separate income statements and a report of overall results will be required to be presented.

- IFRS 8, "Operating segments" IFRS 8 replaces IAS 14, "Segment reporting" (applicable from 1 January 2009). The new standard requires segment information to be presented from a management perspective, implying that this information must be presented in the same manner as for internal reporting. It is Probi's assessment that this will not result in any significant changes to its current segment reporting.

The following standards and interpretations of existing standards have been published but have not yet been applied. These standards will be applied by Probi starting on 1 January 2009. However, based on the current business model and accounting principles, these standards will not have an effect on the financial reporting.

- IAS 23 (Amendment), "Borrowing costs" (applies from 1 January 2009).
- IAS 27 (Revised), "Consolidated Financial Statements and separate financial reports" (applies from 1 July 2009)¹⁾.
- IAS 32 (Amendment), "Financial instruments: Classification, and IAS 1 (Amendment), "Presentation of Financial Statements" – "Puttable financial instruments and obligations arising on liquidation" (applies from 1 January 2009).
- IAS 39 (Amendment), "Financial instruments: Recognition and measurement" - "Eligible Hedged Items" (applies from 1 July 2009)¹⁾.
- IFRS 2 (Amendment), "Share-based Payment" (applies from 1 January 2009).
- IFRS 3 (Revised), "Business Combinations" (applies from 1 July 2009). The Group will apply IFRS 3 (Revised) in advance for all business acquisitions from 1 January 2010)¹⁾.
- IFRIC 15, "Agreements for construction of real estates" (applies from 1 January 2009)¹⁾.
- IFRIC 16 "Hedges of a net investment in a foreign operation" (applies from 1 October 2008)¹⁾.
- IFRIC 17, "Distributions of Non-cash Assets to Owners" (applies for the financial year beginning 1 July 2009 or later)¹⁾.
- IFRIC 18 "Transfers of Assets from Customers" (applies from 1 July 2009)¹⁾.

¹⁾ Still subject to the European Commission's approval process.

2.1 Basis of preparation of the consolidated financial reports

The Parent Company's functional currency is the Swedish krona, which is also the reporting currency for both the Parent Company and the Group. All reported amounts have been rounded to the nearest thousand kronor, unless otherwise stated. The consolidated accounts have been prepared in accordance with the acquisition accounting.

The most important accounting principles applied during the preparation of these consolidated accounts are stipulated below. These principles have been applied consistently for all years presented, unless otherwise indicated. The Parent Company applies the same accounting principles with the exceptions and supplements stipulated in RFR 2.1. The accounting principles for the Parent Company are stipulated in the section entitled "The Parent Company's accounting principles".

2.2 Consolidated accounts

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

Acquisition accounting has been applied to the reporting of Probi's acquisitions of subsidiaries. The acquisition value is comprised of the fair value of assets submitted as payment, issued equity instruments and new or assumed liabilities on transfer date, plus expenses directly attributable to the acquisition. Identified acquired assets, assumed liabilities and contingent liabilities in a business acquisition are valued initially at fair value on acquisition date, irrespective of the scope of any possible minority interests. The surplus comprised of the difference between the acquisition value and the fair value of the Group's share of identifiable acquired assets, liabilities and contingent liabilities is reported as goodwill. If the acquisition value falls below the fair value of the acquired subsidiary's assets, liabilities and contingent liabilities, then, the difference is reported directly in the income statement.

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

2.3 Segment classification

Up to and including 2008, Probi has applied IAS 14 "Segment reporting". Business segments include products or services subject to risks and to a yield differing from that of other business segments. Geographic markets provide products or services in a specific, financial environment subject to risks and to yields differing from other risks and yields applying to units active in other financial environments. Probi classifies business segments as primary segments and the geographic markets as secondary segments.

2.4 Revenue

Revenue comprises the fair value of the compensation which has been received or will be received in return for the Company's own or licensed goods sold within the framework of the Group's operations. Revenue is reported excluding VAT, returns and discounts, and after the elimination of intra-Group sales.

Probi reports revenue when the amount can be reliably measured, when it is likely that future economic benefits will accrue to the Company and when special criteria have been met for each of the Company's operations, as described below. The amount of revenue is deemed not to be measurable in a reliable manner until which time the obligations with regard to the sale have been met, or have expired. Probi bases its assessments on historical results and takes into account, in connection herewith, the type of client, type of transaction and special circumstances, on a case-by-case basis.

Royalty revenues: Royalty revenues are recognised as revenue on a percentage basis, based on the licensee's reporting of the sales value of consumer products containing Probi's products and ingredients. The accounting process is carried out at the end of each month. Licensing revenues referring to down payments made in conjunction with the signing of the contract are allocated into periods over the period until the date at which Probi expects a launch to take place in a given territory. The portion of licensing revenues that is not matched by expenses is reported directly.

Income from goods sold: Income from goods sold is recognised upon delivery of the goods in accordance with the sales and delivery conditions on a case-by-case basis.

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

2.5 Borrowing costs

Borrowing costs are taken up as income in the period to which they refer, irrespective of the manner in which the borrowed funds have been utilised. Interest is not capitalised in the acquisition value of assets.

2.6 Income tax

Income taxes reported comprise tax payable or recoverable in respect of the year in question, together with adjustments made in respect of current tax for previous years. The valuation of all tax liabilities/recoverables 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 effects associated with items in the income statement are also reported in the income statement. The tax effects for items booked directly against equity are also reported against equity.

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

2.7 Intangible assets

Goodwill: Goodwill comprises the amount by which the acquisition value exceeds the fair value of the Group's participation in the acquired subsidiary's identifiable net assets at the time of the acquisition. Goodwill on acquisitions of subsidiaries is reported as intangible assets. Goodwill reported separately is tested annually to identify any write-down requirements and is reported at acquisition value less accumulated write-downs. Goodwill write-downs are not reversed. Profits or losses on the sale of a unit include the residual reported value of the goodwill referring to the sold unit. Goodwill is allocated between cash-generating units during the testing of write-down requirements.

Accounting principles related to research and development expenses: Research expenses are capitalised on an ongoing basis. Development expenses are reported as assets from the date on which it is deemed that the project or activity to which they relate will lead to a technically and commercially viable product, and for which Probi has determined to seek a partner or in some other manner will attempt to launch the product. Probi conducts research and development work in the probiotics field. Probi's licensees use these probiotics in their own products and these are, in turn, further developed for launch and commercial use. Probi provides assistance, but is not the entity completing the development of the end-product. Probi may develop, in certain cases, a product solution with the intention of presenting a potential licensee with an opportunity in new areas. Probi does not, however, control the launch or the choice of product solution.

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

Other intangible assets: Patent and licensing expenses are reported at acquisition value and are amortised on a straight-line basis over their contractually regulated useful lifetime. The useful lifetime of the assets is reviewed annually. The following periods of amortisation are applied:

- Patents, 10 years.
- Licenses, 12 years, related to acquisitions of European rights where the initial contractual period is 12 years.

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

2.8 Tangible fixed assets

Buildings and all other tangible fixed assets, with the exception of land, are reported at their acquisition value less depreciation. Land is reported at its acquisition value. The acquisition value includes expenses directly attributable to the acquisition of the asset. Additional charges are added to the reported value of the asset or

are reported 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 acquisition value of the asset can be reliably measured. The reported value for replaced parts is eliminated from the balance sheet. All other forms of repairs and maintenance are reported as costs in the income statement during the period in which they arise.

Depreciation of tangible fixed assets is carried out using the straight-line method as follows:

- Buildings 25 years
- Equipment, tools, fixtures and fittings 3-10 years

Land is not depreciated.

Profit and loss on the disposal of tangible fixed assets is reported under Other operating income and Other operating expenses, respectively.

2.9 Write-downs of non-financial assets

Assets that have an undefined useful lifetime are not depreciated; instead, they are reviewed annually with regard to any requirement of a write-down. Depreciated assets are evaluated with regard to a reduction in value, whenever events or changes in circumstances indicate that the reported value may not be recoverable. A write-down is effected in the amount by which the asset's reported value exceeds its recoverable amount: The recoverable amount is whichever is the higher of an asset's fair value less selling expenses, and its value in use. When conducting testing of write-down requirements, assets are grouped at the lowest level at which separate identifiable cash flows (cash generating units) exist.

2.10 Leasing

Lease agreements within the Group are either classified as financial or operational leasing. Lease agreements for fixed assets for which the Group, in all material respects, carries the same risks and enjoys the same benefits as that of direct ownership, are classified as financial leasing.

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

Financial leasing agreements: When the leasing agreement results in the Group, in its capacity as lessee and in all material respects enjoying the financial benefits and when the Group carries the financial risks attributable to the leasing object, then the object is reported as a fixed asset in the consolidated balance sheet. A corresponding obligation to pay future leasing charges is reported as a liability. All lease agreements, irrespective of whether they are operational or financial, are reported in the Parent Company as rental agreements (operational leasing agreements).

All of the Company's lease agreements are operational in nature.

2.11 Financial instruments

The Group's financial instruments reported in the balance sheet include liquid assets, accounts receivable and accounts payable, as well as borrowings.

Accounts receivable: Accounts receivable are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. These items are distinguished by the fact that they arise when the Group supplies funds, goods or services directly to a client without intending to trade in the receivable originating as a result of such supply of funds, goods or services. These amounts are included under Current assets, with the exception of items falling due more than 12 months after balance sheet date, which are classified as fixed assets. Accounts receivable are reported under the Accounts receivable in the balance sheet. Accounts receivable are reported in the amount the Group expects to receive, based on an individual assessment of bad debts.

Borrowings: Borrowings are initially reported in the amount received after deductions for transaction costs. This ensures that on due date, the reported amount corresponds to the amount to be repaid. Financial liabilities do not cease to be reported until the debts have been settled by means of repayment or the loan has been remitted. All transactions are reported on settlement date.

2.12 Inventories

Inventories are valued, using the first-in-first-out (FIFO) principle, at the lower of the acquisition value and the net sales value on balance sheet date. The acquisition value of the finished goods comprises the cost of raw materials, direct salaries, other direct costs and attributable indirect manufacturing costs (based on normal manufacturing capacity). Borrowing costs are not included. The net sales value is the estimated sales price in operating activities, less any applicable variable sales overheads.

2.13 Accounts receivable

Accounts receivable are initially reported at fair value and thereafter, at accrued acquisition value applying the effective interest rate method, less any provision for a reduction in value. A provision for the depreciation of accounts receivable is made when there is objective proof that the Group will be unable to obtain the full amount due in accordance with the original terms of the receivable. The amount of the provision is determined on the basis of the difference between the reported value of the asset and the current value of the estimated future cash flows, discounted applying the effective interest rate. The provision is reported in the income statement.

2.14 Liquid assets

Liquid assets include cash and bank balances. Liquid assets do not include any current investments.

2.15 Foreign currencies

Transactions in foreign currencies are translated into the functional currency at the exchange rate applying on transaction date. Monetary assets and liabilities in foreign currencies are converted at the rate on balance sheet date. Exchange rate differences arising

in conjunction with the translation are reported in the income statement. Non-monetary assets and liabilities reported at historical acquisition values are converted at the exchange rate on the transaction date.

2.16 Provisions

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

2.17 Remuneration to employees

Pensions

All of the Company's pension plans are defined contribution plans. A defined contribution plan implies that Probi pays fixed fees to a separate legal entity. Probi has no legal or informal commitments to pay further premiums if such legal entity has insufficient funds to pay all benefits to employees attributable to employees' service during current or previous periods. Probi's payments to defined contribution plans are reported as expenses over the period during which the employees performed the service to which the contribution relates.

Redundancy payments

Redundancy payments are made when an employment contract is terminated prior to pensionable age or when an employee accepts voluntary redundancy in exchange for such payment. A redundancy payment is reported 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

Probi reports a liability and a cost for bonus plans when there is a legal obligation to do so according to the employment agreement.

2.18 Cash flow statement

The cash flow statement is prepared in accordance with the indirect method. Reported cash flow only includes transactions, involving payments received or payments made. Liquid assets are defined as bank balances and petty cash.

2.19 Parent Company's accounting principles

The Parent Company's financial reports have been prepared in accordance with the Swedish Annual Accounts Act (ÅRL) and RFR 2.1, which implies that the Parent Company's financial reports apply International Financial Reporting Standards (IFRS) as adopted by the EU, when this is possible within the framework of the Swedish Annual Accounts Act and with regard to the relationship between reporting and taxation. No differences between the reporting of the Parent Company and the Group have been identified.

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

Market risks

Currency risks

Probi is active on the international market, which implies that income and expenses arise in varying currencies affected by exchange rate fluctuations. Revenues from Skånemejerier currently dominate, and contractually, these are always paid in SEK, irrespective of whether they derive from royalties from sales in Sweden or abroad. Transactions in foreign currencies increased in 2008, mainly in USD and EUR, in connection with new contracts.

Probi's financial policy describes the manner in which the Company is to manage currency risks in relation to SEK. The objective is, wherever possible, to minimise currency exposure and hence, the currency risk by purchases and sales being matched in each currency. Probi can also hedge currencies. So far, this has not been done, as payment of the balance in foreign currencies often takes place in conjunction with the signing of a contract, or has involved receivables with a short term and limited credit risk. When delivery contracts have longer terms, Probi includes a renegotiation clause in the contract coming into force when currency fluctuations exceed set limits.

A sensitivity analysis shows that the effect on the income statement in 2008 of a 5 per cent change in the USD/SEK exchange rate would have been SEK +/- 1.1 million. In terms of costs in EUR, these corresponded to the same amount of revenue which is the reason no equivalent effect is shown here.

Interest risks

Probi has no interest-bearing liabilities. This implies that interest risk is considered to be minimal.

Price risks

Probi's revenue consists mainly of royalty and licensing revenues based on long-term contracts. For this part of the business, the price risk is considered very low. For the portion of the business referring to trading in goods, the purchases are made on the international market. There are many active suppliers in this market which safeguards market rates as regards purchase prices.

Credit risks

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

Liquidity risks

Liquid assets are currently invested in interest-bearing accounts with special terms for deposits. Alternative investment types will be considered if the return from such investments is higher. The fixed period must not exceed 12 months and investments may only be made

after approval by Probi's Chairman. Furthermore, the Company's approach to liquidity asset management stipulates that only that portion of the combined surplus from liquid assets exceeding MSEK 12 can be invested.

Probi has, to date, not utilised alternative investment forms to secure liquid funds.

NOTE 4 IMPORTANT ESTIMATES AND ASSESSMENTS FOR ACCOUNTING PURPOSES

Estimates and assessments are evaluated on an ongoing basis and are based on historical experience and other factors, including expected future events considered reasonable under current circumstances. The estimates and assessments that could involve a risk of considerable adjustments in reported values of assets and liabilities in the coming financial year, are dealt with in the main section below.

Deferred tax asset

Probi's Board of Directors considers that income and cash flow from operating activities will be positive in the future, which is the reason the deferred tax asset of MSEK 13.7 has been reported in its entirety. Probi's deferred tax asset refers to taxable loss carry-forwards. The Company's accumulated taxable deficit on 31 December 2008 was MSEK 52.0 (MSEK 64.6).

Testing of write-down requirements has been carried out for patents, licences and similar rights

Probi carried out testing of write-down requirements in 2008 to ensure the value of its patents, licences and similar rights as at 31 December 2008, Probi closely monitors its partners' launches and development work. The information obtained from this material forms the basis for the information used when the Company carries out testing of write-down requirements. The executed tests have indicated that no write-down requirement exists.

Write-down requirement testing for goodwill

From financial year 2004, the Group investigates whether any write-down requirement exists for goodwill on an annual basis in accordance with the accounting principles described in Note 2.9. This is also done when there are indications of a write-down requirement.

The goodwill item refers to the strategic acquisition in 1998 of the outstanding shares in Probi Food AB.

The recoverable value for cash-generating units has been determined by calculating the value in use. A rate of 12% (12) has been applied as the discount rate and growth has been estimated at 10% (10). This is lower than the level of growth of the licence agreement in question in 2008. Probi has carried out testing of write-down requirements to secure the value of goodwill on 31 December 2008. These tests did not indicate any write-down requirement.

NOTE 5 SEGMENT INFORMATION

The Group is active in three main business areas: Functional Food (FF), Dietary Supplements (DS) and Clinical Nutrition (CN). CN will not be reported as a separate business segment from 2009 onwards as Probi currently has no sales or research activities in this area.

The FF business area has existed since the first licensing agreement was signed in 2003. DS became an independent business area in 2002. "Other" comprises unallocated research and business development costs, general administrative costs and other central costs. There are no sales or other transactions between the various business segments.

Income statement per business segment

The Group	2008				
	FF	DS	CN	Other	Total
Total operating revenue	56,770	12,499	0	93	69,362
Total operating expenses	-47,354	-10,896	-873	0	-59,123
Operating income	9,416	1,603	-873	93	10,239

The Group	2007				
	FF	DS	CN	Other	Total
Total operating revenue	35,695	8,905	0	56	44,656
Total operating expenses	-28,123	-8,250	-3,101	0	-39,474
Operating income	7,572	655	-3,101	56	5,182

Balance sheet per business segment

The category "Other" comprises assets and liabilities attributable to Group-wide activities.

The Group	2008				
	FF	DS	CN	Other	Total
Total assets	32,756	3,774	0	75,012	111,542
Total liabilities	5,051	3,235	0	0	8,286
Equity	0	0	0	0	103,256
Investments	3,303	14	0	121	3,438
Depreciation/amortisation	-4,672	-134	-223	0	-5,029

The Group	2007				
	FF	DS	CN	Other	Total
Total assets	32,998	1,844	1,340	67,520	103,702
Total liabilities	4,677	941	315	2,508	8,441
Equity	0	0	0	0	95,261
Investments	1,241	128	0	0	1,369
Depreciation/amortisation	-4,627	-151	-292	0	-5,070

Operating revenue, assets and investments per geographic area

The Group	2008				
	Nordic Region	Europe, other	North America	Other, world	Total
Operating revenue	35,558	7,808	18,803	7,193	69,362
Assets	91,415	15,102	4,107	918	111,542
Investments	1,604	357	329	1,148	3,438

The Group	2007				
	Nordic Region	Europe, other	North America	Other, world	Total
Operating revenue	32,080	4,640	3,562	4,374	44,656
Assets	83,950	17,653	1,571	528	103,702
Investments	493	192	246	438	1,369

NOTE 6 DISTRIBUTION OF NET SALES

	The Group		Parent Company	
	2008	2007	2008	2007
Goods	17,891	3,330	17,891	3,330
Royalties, licenses, etc.	50,068	40,238	50,068	40,238
Total	67,959	43,568	67,959	43,568

NOTE 7 AUDITORS' FEES

	The Group		Parent Company	
	2008	2007	2008	2007
Audit and audit-related services (PricewaterhouseCoopers)	338	325	338	325
Other assignments (PricewaterhouseCoopers)	84	19	84	19
Total	422	344	422	344

The term "audit assignment" refers to the auditing of the annual financial statements, the accounts and the administration of the Board and CEO, other duties incumbent upon the Company's auditors, and the provision of advice or other assistance occasioned by observations in conjunction with such auditing, or the execution of other such duties. Everything else is classified as Other assignments.

NOTE 8 FORSKNING OCH UTVECKLING

	The Group		Parent Company	
	2008	2007	2008	2007
Expensed research and development expenses	17,424	14,024	17,424	14,024

NOTE 9 AVERAGE NO. OF EMPLOYEES, SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY CONTRIBUTIONS

	The Group		Parent Company	
	2008	2007	2008	2007
AVERAGE NO. OF EMPLOYEES				
Women	9	10	9	10
Men	8	8	8	8
Total	17	18	17	18
SALARIES AND REMUNERATION				
Board of Directors::				
Peter Zakrisson	150	150	150	150
Lars Backsell	100	100	100	100
Hilde Furberg	100	100	100	100
Mats Lidgard	100	100	100	100
Hans Wigzell	100	75	100	75
Lena Åsheim	75	0	75	0
Former Board Members:				
Ola Erici	25	75	25	75
Göran Molin	0	25	0	25
Rolf Trulsson	0	25	0	25
CEO				
Michael Oredsson	1,609	670	1,609	670
Former acting CEO, Rolf Bjerndell	0	814	0	814
Former CEO, Per Bengtsson	0	2,934 ¹⁾	0	2,934 ¹⁾
Other management (3)	2,991	3,520	2,991	3,520
Other employees	6,834	4,645	6,834	4,645
Total	12,084	13,233	12,084	13,233
SOCIAL SECURITY CONTRIBUTIONS TOTAL:				
	6,313	6,573	6,313	6,573
Of which pension costs:				
	1,960	1,856	1,960	1,856
Board Members				
	0	0	0	0
CEO				
Michael Oredsson	360	109	360	109
Former acting CEO, Rolf Bjerndell	0	0	0	0
Former CEO, Per Bengtsson	0	429 ¹⁾	0	429 ¹⁾
Other management (3)	706	854	706	854
Other employees	894	464	894	464

1) Refers to severance pay expensed in 2006.

The CEO and an additional 3 senior managers are entitled to bonuses if certain goals, established annually by the Board, are met. If the goals are met in full, a bonus shall be paid of 30 per cent of the annual salary. Bonuses shall, however, never be paid in an amount totalling more than 50 per cent of the annual salary. In 2008, no variable remuneration was paid to the Board, CEO or other senior managers.

The notice period for the CEO is 6 months if notice is 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 managers is 6 months if notice is given by Probi, and 3 months if notice is 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. There are no share-related benefits in the Company. The Company has no outstanding and unreported pension undertakings, as all pensions are defined premium pensions. There is no share-related remuneration in the Company. There are no women serving within the Company's management group.

Absence due to illness	Parent Company	
	2008	2007
Total absence due to illness	5.2 %	7.3 %
Of which absence due to illness of more than 60 days as a percentage of total absence due to illness	85.4 %	84.5 %

No specification is provided as there are fewer than 10 employees in each sub-category.

NOTE 10 DEPRECIATION/AMORTISATION AND WRITE-DOWNS OF FIXED ASSETS

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

	The Group		Parent Company	
	2008	2007	2008	2007
Depreciation/amortisation	5,029	5,070	5,029	5,070

NOTE 11 FINANCIAL INCOME AND EXPENSES

	The Group		Parent Company	
	2008	2007	2008	2007
Interest income	2,058	1,287	2,058	1,287
Exchange rate differences	137	0	137	0
Interest expenses	-8	-42	-8	-42
Total	2,187	1,245	2,187	1,245

NOTE 12 INCOME TAX

	The Group		Parent Company	
	2008	2007	2008	2007
Current tax for the year	0	0	0	0
Deferred tax	-4,431	18,101	-4,431	18,101
Total	-4,431	18,101	-4,431	18,101
			2008	2007
Profit before tax			12,426	6,427
Nominal tax rate 28 %			-3,479	-1,800
Tax effect on other non-taxable or tax deductible income			-68	-46
Deferred tax asset on accumulated loss carry-forwards			0	19,947
Revaluation of deferred tax asset			-884	0
Tax cost			-4,431	18,101

As a result of the reduction in Swedish corporate tax in 2009 from 28% to 26.3% the reported values for deferred tax assets have been recalculated.

NOTE 13 DEFERRED TAX

	The Group		Parent Company	
	2008	2007	2008	2007
Opening balance	18,101	0	18,101	0
Reported in the income statement	-4,431	18,101	-4,431	18,101
Closing balance	13,670	18,101	13,670	18,101

Probi's Board of Directors is of the opinion that both income and cash flow from the operating activities will be positive in the future and the deferred tax asset of MSEK 13.7 has, consequently, been reported in its entirety. Probi's deferred tax asset is attributable to taxable loss carry-forwards. The Company's accumulated taxable deficit, as of 31 December 2008 was MSEK 52.0 (MSEK 64.6).

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

	The Group		Parent Company	
	2008	2007	2008	2007
Leasing costs for the year	2,041	1,889	2,041	1,889
Falls due for payment within 1 year	2,040	2,021	2,040	2,021
Falls due for payment after 1 year but within 5 years	200	329	200	329
Falls due for payment after more than 5 years	0	0	0	0

NOTE 15 CAPITALISED EXPENDITURE FOR DEVELOPMENT

	The Group		Parent Company	
	2008	2007	2008	2007
Opening acquisition value	0	0	0	0
New acquisitions	1,064	0	1,064	0
Closing accumulated acquisition value	1,064	0	1,064	0
Opening amortisation	0	0	0	0
Amortisation for the year	0	0	0	0
Closing accumulated amortisation	0	0	0	0
Closing residual value	1,064	0	1,064	0

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

NOTE 16 PATENTS, LICENSES AND SIMILAR RIGHTS

	The Group		Parent Company	
	2008	2007	2008	2007
Patents and licenses				
Opening acquisition value	55,311	54,255	55,311	54,255
New acquisitions	1,912	1,056	1,912	1,056
Disposals	0	0	0	0
Closing accumulated acquisition value	57,223	55,311	57,223	55,311
Opening amortisation	-34,314	-30,110	-34,314	-30,110
Disposals	0	0	0	0
Amortisation for the year	-4,310	-4,204	-4,310	-4,204
Closing accumulated amortisation	-38,624	-34,314	-38,624	-34,314
Closing residual value	18,599	20,997	18,599	20,997

Patents, licenses and similar rights are primarily attributable to the repurchase of the European rights from Skånemejerier for MSEK 40 in 2001, the book value of which, on 31 December 2008, was MSEK 13.6. The remaining MSEK 5 refers to patents.

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

Probi carried out testing for write-down requirements to determine the value of patents, licenses and similar rights on 31 December 2008. Probi closely monitors its partners' launches and development work. The information obtained from this material forms the basis of the information used when the Company performs testing of write-down requirements. The discount rate used was 12 per cent (12).

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

NOT 17 GOODWILL

	The Group		Parent Company	
	2008	2007	2008	2007
Goodwill				
Opening acquisition value	2,762	2,762	-	-
Closing residual value	2,762	2,762	-	-

The goodwill item refers to the strategic acquisition in 1998 of outstanding shares in Probi Food AB and is, therefore, reported under the Functional Food segment. Goodwill is tested each year with regard to any write-down requirement, and as of the 2004 financial year according to the accounting principles described in Note 2.9. Such tests are also carried out when there are indications of a write-down requirement.

The recoverable value of cash-generating units has been determined by calculating the value in use. A rate of 12 per cent (12) has been used as the discount rate and growth has been calculated at 10 per cent (10), which is lower than the growth for the licensing agreement in question in 2008.

Probi has carried out testing of write-down requirements to determine the goodwill value as at 31 December 2008. These tests have not indicated any write-down requirement.

NOTE 18 BUILDINGS AND LAND

	The Group		Parent Company	
	2008	2007	2008	2007
Buildings and land				
Opening acquisition value	4,642	4,642	4,642	4,642
Disposals for the year	-4,642	0	-4,642	0
Closing accumulated acquisition value	0	4,642	0	4,642
Opening depreciation	-1,008	-847	-1,008	-847
Depreciation for the year	-54	-161	-54	-161
Disposals for the year	1,062	0	1,062	0
Closing accumulated depreciation	0	-1,008	0	-1,008
Closing residual value	0	3,634	0	3,634
Taxable value on land in Sweden	0	1,123	0	1,123
Taxable value on buildings in Sweden	0	1,638	0	1,638

Disposals in 2008 refer to the Company's production unit in Sösdala.

NOTE 19 EQUIPMENT, TOOLS, FIXTURES AND FITTINGS

	The Group		Parent Company	
	2008	2007	2008	2007
Equipment				
Opening acquisition value	14,351	14,038	14,351	14,038
Purchases	463	313	463	313
Sales	-341	0	-341	0
Disposals	-10,104	0	-10,104	0
Closing accumulated acquisition value	4,369	14,351	4,369	14,351
Opening depreciation	-11,342	-10,637	-11,342	-10,637
Depreciation for the year	-666	-705	-666	-705
Depreciation on sold equipment	231	0	231	0
Depreciation on disposed equipment	9,113	0	9,113	0
Closing accumulated depreciation	-2,664	-11,342	-2,664	-11,342
Opening write-downs	-893	-893	-893	-893
Disposals	893	0	893	0
Closing accumulated write-downs	0	-893	0	-893
Closing residual value	1,705	2,116	1,705	2,116

An update has been undertaken of the Company's fixed assets register during the year. In conjunction with this, fully depreciated equipment was identified that had not been removed from the register in conjunction with disposals in previous years. This has resulted in corrections being reported under disposals for 2008. The corrections made in the fixed assets register have not impacted income for the year.

NOTE 20 PARTICIPATIONS IN GROUP COMPANIES

Parent Company	2008	2007
Book value	4,031	4,031

Specification of Parent Company's shareholding in Group companies

Parent Company	Share of equity	Share of voting power	No. of shares	Book value
Probi Food AB 556354-1951, Lund	100%	100%	10,000	3,931
Probi Feed AB 556540-4364, Lund	100%	100%	1,000	100

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

NOTE 21 FINANCIAL INSTRUMENTS

	The Group		Parent Company	
	2008	2007	2008	2007
Accounts receivable	6,598	5,956	6,598	5,956
Liquid assets	61,342	47,420	61,342	47,420
Total	67,940	53,376	67,940	53,376

Probi's accounts receivable primarily refer to a few major licensing partners. The Company does not consider these partners to constitute a significant credit risk.

Maturity structure of accounts receivable

	The Group		Parent Company	
	2008	2007	2008	2007
Not fallen due	6,115	5,143	6,115	5,143
Falling due within 0-45 days	483	813	483	813
Total	6,598	5,956	6,598	5,956

The accounts receivable amounts due for payment at year-end were settled before the end of January. No write-downs of accounts receivable took place in 2008.

NOTE 22 PREPAID EXPENSES AND ACCRUED INCOME

	The Group		Parent Company	
	2008	2007	2008	2007
Royalty revenue	2,507	0	2,507	0
Prepaid rent	442	418	442	418
Other items	1,212	625	1,212	625
Total	4,161	1,043	4,161	1,043

NOTE 23 LIQUID ASSETS

The Group's liquid assets refer to cash and bank balances.

NOTE 24 EQUITY

A specification of changes in equity can be found in the "Changes in equity" report, which follows directly after the balance sheet.

No. of shares	Class A shares	Class B shares	Common share class	Total
No. on 31 Dec 2007	0	0	9,365,300	9,365,300
No. on 31 Dec 2008	0	0	9,365,300	9,365,300

The quotient value of the shares is SEK 5.

NOTE 25 OTHER LONG-TERM LIABILITIES

	The Group		Parent Company	
	2008	2007	2008	2007
Liabilities to Group Companies, > 5 years	0	0	4,035	4,035
Total	0	0	4,035	4,035

NOTE 26 ACCRUED EXPENSES AND PREPAID INCOME

	The Group		Parent Company	
	2008	2007	2008	2007
Accrued holiday pay including social security contributions	651	511	651	511
Social security contributions	340	887	340	887
Royalty expenses	216	74	216	74
Severance pay	0	1,175	0	1,175
Other items	1,160	1,569	1,160	1,569
Total	2,367	4,216	2,367	4,216

NOTE 27 PLEDGED ASSETS AND CONTINGENT LIABILITIES

	The Group		Parent Company	
	2008	2007	2008	2007
Floating charges	800	800	800	800
Total pledged assets	800	800	800	800

The Company has no contingent liabilities.

NOTE 28 TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties reported in the income statement:

	The Group		Parent Company	
	2008	2007	2008	2007
Skånemejerier (royalty revenue)	35,306	31,342	35,306	31,342
Skånemejerier (other)	10	0	10	0
Total revenue	35,316	31,342	35,316	31,342
Skånemejerier (royalty expenses)	-45	-65	-45	-65
H&B Capital Advisors AB	-46	-71	-46	-71
GMF AB, related party: Göran Molin (former Board Member)	0	-57	0	-57
Dacke Group, related party: Peter Zakrisson (Chairman of the Board)	-66	0	-66	0
Lavindia AB, related party: Mats Lidgard (Board Member)	-37	0	-37	0
Milifa redovisning & administration, related party: Per-Ola Forsberg (former deputy CEO)	-247	0	-247	0
Total costs	-441	-193	-441	-193

Transactions with related parties are reported in the balance sheet:

	The Group		Parent Company	
	2008	2007	2008	2007
Operating receivables				
Skånemejerier	3,233	3,281	3,233	3,281
Total operating receivables	3,233	3,281	3,233	3,281
Operating liabilities				
Skånemejerier	-2	-2	-2	-2
Total operating liabilities	-2	-2	-2	-2

Skånemejerier and H&B Capital are Probi's largest shareholders. Transactions have been carried out on market terms and at market values. The Parent Company has an agreement with Skånemejerier, consisting of licenses and service agreements. Royalties from Skånemejerier are based on these long-term agreements. Skånemejerier has decided to transfer a number of its business activities to its subsidiaries, which, in part, includes ProViva. This means that Probi's contract with Skånemejerier will transfer to ProViva AB as at year-end, ProViva AB is a wholly-owned subsidiary of Skånemejerier. The conditions of the agreement and period of validity remain unchanged. In general the transactions refer to compensation for costs and consulting fees.

NOTE 29 EVENTS AFTER BALANCE SHEET DATE

Peter Zakrisson, who has been Probi's Chairman of the Board since 2002 requested to step down from the Board on 3 February 2009. The Board has appointed Mats Lidgard, who has been a Board Member since 2004, to the position of Chairman of the Board until the AGM on 6 May 2009. In conjunction with the notice of the AGM, the Nomination Committee will present its proposals to the Board for the coming period.

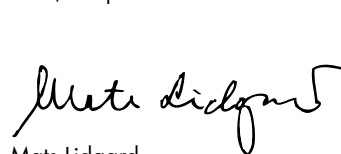
No other significant events took place after balance sheet date.

The income statements and balance sheets will be presented to the AGM for adoption on 6 May 2009.

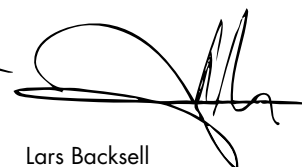
The Board of Directors and CEO guarantee that the consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and that they provide a true and fair view of the Group's financial position and results. The annual report has been prepared in accordance with generally accepted auditing standards and provides a true and fair view of the Parent Company's financial position and results.

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 results and describes significant risks and factors of uncertainty faced by the Parent Company and the companies within the Group.

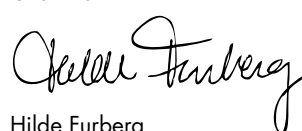
Lund, 8 April 2009



Mats Lidgard
Chairman



Lars Backsell



Hilde Furberg



Hans Wigzell

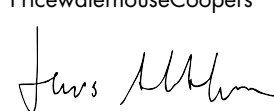


Lena Åsheim



Michael Oredsson
CEO

Our auditors' report was submitted on 9 April 2009.
PricewaterhouseCoopers



Lars Helgesen
Authorised Public Accountant
Auditor-in-Charge



Anette Källåker
Authorised Public Accountant

AUDITORS' REPORT

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

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the CEO of Probi AB (publ) for the year 2008. The Company's annual accounts and consolidated accounts can be found on pages 26-45 of the printed version of this document. The Board of Directors and the CEO are responsible for these accounts and the administration of the Company as well as for the application of the Swedish Annual Accounts Act when preparing the annual accounts and the application of the International Financial Reporting Standards (IFRS) as adopted by the EU and the Swedish Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

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

The annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and thereby provide a true and fair view of the Company's financial position and results in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and the Swedish Annual Accounts Act and thereby give a true and fair view of the Group's financial position and results. The Directors' Report is compatible with the other sections of the annual accounts and the consolidated accounts.

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

Malmö, 9 April 2009

PricewaterhouseCoopers AB


Lars Helgesen
Authorised Public Accountant
Auditor-in-Charge


Anette Källåker
Authorised Public Accountant

CORPORATE GOVERNANCE REPORT

According to its Corporate Governance Report, Probi AB (publ) Corporate Identity Number 556417-7540, is to develop, manufacture and market products stimulating growth and/or regulating the natural microbial flora in humans and associated operations.

Probi's shares have been listed on the NASDAQ OMX Nordic Exchange Stockholm since 2004. On 31 December 2008, Probi had 4,500 shareholders. Shareholders exercise their influence over the Company at the AGM of shareholders, which is Probi's ultimate decision-making body. Each share entitles the holder to one vote.

SWEDISH CODE OF CORPORATE GOVERNANCE

Probi, its Board of Directors and Nomination Committee, apply the Swedish Code of Corporate Governance ("the Code"). No deviation from the Code has been made. This report describes the manner in which the Code is applied. The report has not been subject to an audit by the Company's auditors.

NOMINATION COMMITTEE

On 8 May 2008, the AGM resolved that the Nomination Committee should consist of three owner representatives and the meeting re-elected Lars Gatenbeck and Kåre Larsson and elected Anders Olsson. Lars Gatenbeck and Anders Olsson represent Probi's largest owners, H&B Capital LP and Skånemejerier, respectively. None of the Nomination Committee's members are dependent in relation to the Company or Company management.

The Nomination Committee's principle tasks are to:

- Evaluate the Board's structure and duties.
- Make proposals for choice of Board Members and Chairman of the Board and their remuneration.
- Make proposals to the AGM, when appropriate, concerning auditors and their remuneration.

The Nomination Committee's proposals are presented in conjunction with the notice to attend the Annual General Meeting. Shareholders who wish to contact the Nomination Committee can do so as stipulated in the information provided on Probi's website at www.probi.se

THE BOARD

According to Probi's Articles of Association, the Board of Directors is to consist of a minimum of three and a maximum of seven members with a maximum of three deputies. The Annual General Meeting on 8 May 2008 elected a Board consisting of six members with no deputies.

The Board of Directors for 2008 included the following members: Peter Zakrisson (12 of 13), Lars Backsell (10 of 13), Hilde Furberg (13 of 13), Mats Lidgard (11 of 13) and Hans Wigzell (10 of 13). Lena Åsheim (4 of 6) replaced Ola Erics (5 of 7), who, in conjunction, with the Annual General Meeting on 8 May resigned from the Board. The figures in parentheses represent the number of times the individual was present at Board meetings.

Chairman of the Board Peter Zakrisson, who represented Probi's largest owner, H&B Capital, resigned from the Board in February 2009. The Board has, therefore, in accordance with Section 6.1 of

the Articles of Association, appointed Mats Lidgard as Chairman up until the Annual General Meeting in 2009.

Lena Åsheim is a Board Member of Skånemejerier. All Board Members are independent in terms of their relation to the Company and Company management. A presentation of the Board Members is available on page 49.

The AGM decides on principles and monetary limits for Board fees. A Board Member is allowed to carry out a limited amount of consultancy services for Probi, but only after a decision has been made by the Board and if such services are considered the most cost-effective and beneficial alternative for the Company. These consultancy fees are reported in the annual report.

For 2008 the Board's fees were fixed at TSEK 650, of which TSEK 150 refers to the Chairman of the Board and TSEK 100 refers to each of the other Board Members. For information regarding Board fees see Notes 9 and 28.

WORK OF THE BOARD AND ITS FORMAL WORK PROCEDURES

The Board annually prepares procedures and rules regulating the division of the work and responsibilities of the Chairman and CEO. The Board is ultimately responsible for Probi's organisation and the administration of the Company's affairs. The Board decides on major organisational and business activity changes, and whether to appoint or dismiss the CEO. The Board's tasks include evaluating and determining strategies, business plans and budgets. The Board also adopts quarterly reports, financial statements and annual reports. The Chairman of the Board is responsible for continually monitoring the Company and ensuring that all Board Members continually receive the relevant information in order to decide on and evaluate Probi. The Chairman must consult with the CEO on strategic issues, supervise Board meetings and ensure that Board matters are not in contravention of the regulations regarding conflicts of interest stipulated by the Swedish 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 authorisation and disclosure requirements towards the Board.

The work of the Board in 2008 has, in addition to fixed duties, mainly focused on strategic and structural issues and the launch of Probi's immunology product.

CHIEF EXECUTIVE OFFICER

The presentation of the CEO is on page 50.

AUDIT COMMITTEE

Probi's audit committee is comprised of the Board in its entirety. The Board continually keeps its agreement up to date with the auditors, who personally report their findings at least twice annually. The auditors also provide information regarding the areas which future reports will specifically address, while the Board informs the auditors about issues or areas that it wishes to highlight.

REMUNERATION COMMITTEE

Probi's Remuneration Committee is comprised of the Board in its entirety. The Remuneration Committee determines salaries and the CEO's remuneration and the principles for salaries and remuneration for other senior managers. The Remuneration Committee continually reviews conditions of employment and benefits to senior managers. For information regarding salaries and remuneration to the CEO and other senior managers see Note 9.

AUDITORS

PricewaterhouseCoopers AB was appointed as the Company's auditors at the 2006 AGM, with Authorised Public Accountant, Lars Helgesen, as Auditor-in-Charge until the AGM 2010.

THE BOARD'S INTERNAL CONTROL REPORT

The Board is responsible for the internal control concerning financial reporting.

This report is limited to the internal control concerning the financial reporting and has not been subject to scrutiny by the Company's auditors.

Authorisation and responsibility is documented and reported in the internal guidelines and instructions. This includes the division of responsibilities between the Board and CEO, attestation instructions and accounting and reporting instructions.

The instructions in this document aim at minimising the risk of irregularities and improper benefits to other parties at the expense of the Company.

The Board follows the financial development partly through reporting at Board meetings and partly through monthly reports. The CEO is responsible for preparing and presenting reports to the Board at each Board Meeting, with the following principle content for the reporting of the period in question:

- Sales and market developments and status of R&D projects
- Balance sheets, income statements and financing analyses
- Investments and capital tied up
- Key ratios
- Forecasts for current quarters and full year

In addition, the CEO must, as soon as possible after the start of each calendar month, submit a monthly financial report to the Board Members.

QUALITY OF FINANCIAL REPORTING

The Board is responsible for ensuring the quality of the Company's financial reporting. This is partly done through ongoing contact being maintained with the Company's auditors and partly through ongoing evaluations of the information submitted by the management of the Company. Central to this work is the safeguarding to ensure that measures are undertaken to remedy any discrepancies arising in conjunction with audit and to ensure that proposed quality improvements are implemented.

Considering the size of the Company, it has not been deemed reasonable to introduce a specific monitoring function (internal audit).



THE BOARD



MATS LIDGARD

Born 1954. Board Member since 2004, Chairman since 3 February 2009.

Qualifications: LL.B., Lund University. Senior Partner in the human venture capital company, Lavindia AB. Formerly worked for the Pharmacia Group, Active Biotech AB and SBL Vaccin AB as Chief Legal Officer and other managerial positions.

Other Board assignments: Airsonett AB, Creative Peptides Sweden AB, Eurocine Vaccines AB, Jatab Care AB, Synphora AB and Unitech Pharma AB.

Shares in the Company: 1,000 shares.

Independent in relation to the Company: Yes

Independent in relation to major shareholders: Yes



LARS BACKSELL

Born 1952. Board Member since 2006.

Qualifications: Business Administration Degree from the Stockholm School of Economics. Founder of Recip AB. Formerly worked for the Pharmacia Group in various managerial positions.

Other Board assignments: Chairman of Recipharm AB, Chairman of IVA's Trade and Industry Advisory Board.

Shares in the Company: 0 shares.

Independent in relation to the Company: Yes

Independent in relation to major shareholders: Yes



HILDE FURBERG

Born 1958. Board Member since 2005.

Qualifications: B.Sc. in Medical Technology, University of Oslo. Vice President & General Manager Nordic/Benelux Genzyme.

Other Board assignments: Copenhagen Capacity.

Shares in the Company: 0 shares.

Independent in relation to the Company: Yes

Independent in relation to major shareholders: Yes



HANS WIGZELL

Born 1938. Board Member since 2007.

Qualifications: Doctor of Medicine at Karolinska Institutet. Professor Emeritus in Immunology, and actively involved in research at Karolinska Institutet. Principle at KI between 1995–2003 and Scientific Advisor to the Government between 1999–2007.

Other Board assignments: Karolinska Development, Biovitrum, Raysearch, Neodynamics and Intercell in Vienna.

Shares in the Company: 21,000 shares.

Independent in relation to the Company: Yes

Independent in relation to major shareholders: Yes



LENA ÅSHEIM

Born 1958. Board Member since 2008.

Qualifications: Degree in Agriculture, M.Sc. concentrating on agricultural financing from Sweden's University of Agricultural Sciences in Uppsala. CEO of Krinova Science Park in Kristianstad. Formerly worked in the food ingredients industry on international markets in sales and corporate management positions.

Other Board assignments: Skånemejerier and Swedish Meats.

Shares in the Company: 125 shares.

Independent in relation to the Company: Yes

Independent in relation to major shareholders: No

SENIOR MANAGEMENT AND AUDITORS



MICHAEL OREDSSON

Born 1960
CEO

Qualifications: Degree in International Business Administration from Lund University.

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

Shares in the Company: 2,000 shares



NIKLAS BRANDT

Born 1959
CFO

Qualifications: Business Administration Degree from Lund University.

Background: Employed in May 2008 as CFO. Joined the Company from Moving AB, where he was CFO for six years. Prior to that he held a number of senior positions in finance and administration in various companies such as Tibnor and EF Education.

Shares in the Company: 1,000 shares



NIKLAS BJÄRUM

Born 1963
Vice President of Marketing and Sales

Qualifications: Degree in International Business Administration from Lund University.

Background: Employed in February 2001 and assumed responsibility for the Company's sales and marketing. Since receiving his degree in 1988, he has worked in a number of positions in Marketing, Sales and Business Development of both an operational and strategic nature at international food companies, such as Nestlé and Masterfoods (Mars Inc.) In 1998, he changed industries and worked at Ericsson Mobile Communications for three years, where he was responsible for Business Development for the European market.

Shares in the Company: 2,000 shares

AUDITORS

PricewaterhouseCoopers AB

Auditor-in-charge, Authorized Public Accountant: Lars Helgesen, Malmö

Authorized Public Accountant: Anette Källåker, Malmö

ANNUAL GENERAL MEETING

The AGM will be held at 3 p.m. on Wednesday 6 May 2009 at the Edison Park, Emdalavägen 16, Lund.

RIGHT TO PARTICIPATE

In order to have the right to participate in the meeting, shareholders must both be registered in the register of shareholders maintained by Euroclear Sweden AB (former VPC AB) as at Wednesday 29 April 2009, and shall have notified the Company of their intention to participate in the meeting by no later than 4 p.m. on 29 April 2009.

Shareholders whose shares are registered with a trustee must temporarily re-register their shares in their own name with Euroclear Sweden AB in order to participate in the meeting. Such registration must be effected by no later than Wednesday 29 April 2009. This means that shareholders must notify their intention to temporarily re-register these shares with the trustee in good time before this date.

APPLICATION TO PARTICIPATE

Applications to participate in the meeting can be made by:

- Submitting a written application to: Probi AB, Ideon Gamma 1, 223 70 Lund
- Sending a fax to: +46 (0)46 286 89 28
- Sending an e-mail to: probi@probi.se
- Calling +46 (0)46 286 89 20.

The application should include the following:

- Name
- Civic registration number or Corporate Identity Number
- Number of shares
- Daytime telephone number
- In certain circumstances the number of representatives (max. two) intending to participate in the meeting.

If shareholders intend to be represented on the basis of a power of attorney and other authorisation documents must be included with the application plus the representatives' names.

A power of attorney form is available upon request.

CALENDAR

Q1 Report	22 April 2009
2008 Annual General Meeting	6 May 2009
Q2 Report	18 August 2009
Q3 Report	21 October 2009
Financial Statements 2009	27 January 2010



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