
**Science for
a good life**

2013 Annual Report

**The digestive tract is our market.
All over the world.**

**Whether you come from Bombay or Boston,
London or Lund, Perth or Pretoria, your digestive
tract is home to many kinds of bacteria. If your
digestive system is out of balance, hostile
bacteria can get the upper hand. This is often
one of the leading causes of today's rapidly
growing and global lifestyle-related diseases.**

**The beneficial health effects of Probi's bacteria
– probiotics – have been demonstrated in
several medical studies. Probiotics can reduce
stomach discomfort, strengthen the immune
system and help the body recover after a
workout.**

**Every day, our research helps us identify new
products and develop those we already sell.
We believe that research and marketing should
go hand-in-hand. We don't touch a test tube
until we know there is a market for our product.**



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Research and Development is an important part of Probi. Marketing and Sales is another. The key to Probi’s success is that both of these parts work continuously together, side by side, to form the core of this “commercial research company.”

This is Probi

SALES TREND (TSEK)				
2009	2010	2011	2012	2013
65,466	80,381	94,379	99,562	102,210

Objective:
organic growth
10% on average

NET MARGIN (%)				
2009	2010	2011	2012	2013
22	23	21	18	19

Objective:
exceeding 20%

OPERATING PROFIT (TSEK)				
2009	2010	2011	2012	2013
13,809	18,097	17,797	17,209	18,143



Probi’s market

Probi develops and manufactures high-quality ingredients for probiotic products. For strategic reasons, Probi partners with market leaders in various consumer markets. Probi’s probiotic products are sold under Functional Food and Consumer Healthcare. Functional Food includes Probi’s probiotics, mainly in various types of fruit beverages. Consumer Healthcare includes Probi’s probiotics in the form of capsules, sachets, tablets and powder.
[Read more on pages 10–11.](#)



Largest ever research portfolio

Probi conducts extensive and well-structured research and development activities, comprising both product development and long-term clinical research projects. Probi has developed a detailed and structured development plan, which has led to a focus on six clinical projects, the company’s largest clinical research portfolio to date.
[Read more on pages 20–23.](#)



Sales in 35 countries

Probi’s products are currently sold or being launched in 35 countries, and the geographic spread is gradually being expanded. In 2013, the main focus was to establish marketing channels in the US and to launch products in selected Asian countries.
[Read more on pages 26–31.](#)

Significant events in 2013

102.2 million

Net sales

Net sales rose to MSEK 102.2 (99.6).

19 %

Net margin

The net margin increased to 19% (18).

18.1 million

Operating profit

Operating profit increased to MSEK 18.1 (17.2).

26 employees

Number of employees

At the end of 2013, Probi had 26 employees (24).

First quarter

FEB 19 Probi and NextFoods strengthened their partnership around GoodBelly® in the US.

MAR 28 Revised financial objectives. Financial objectives for the 2013 and 2014 financial years were defined as:

- 10% average organic growth.
- Net margin exceeding 20%. (Read more on page 8).

Second quarter

APR 24 Probi's 2013 Annual General Meeting. (Read more in the Corporate Governance Report on pages 55–57).

MAY 24 Michael Oredsson leaves Probi – Gun-Britt Fransson appointed Interim CEO. Michael Oredsson announces his resignation as CEO of Probi. The Vice President of Research and Development, Gun-Britt Fransson, was appointed Interim CEO.

JUN 19 The first "Probi Conference" is a success. Probi's first conference for the company's partners was arranged in Lund (read more on page 25).

JUN 26 Probi signs agreement to launch digestive and immune health products in partnership with AlenMed in Belarus under the Probi brand.

Third quarter

JUL 16 Probi signs a partnership agreement with BiO-LIFE in Malaysia.

AUG 15 Probi signs an agreement with BotanicPharma in Morocco to launch a digestive health product.

SEP 30 Probi expands its partnership with Health World Australia through the launch of Probi Defendum®.

Fourth quarter

NOV 18 Probi recruits Peter Nählstedt as new CEO. Peter Nählstedt was appointed new CEO for Probi, assuming the position on 7 January 2014. Interim CEO Gun-Britt Fransson will continue as Vice President of Research and Development and a member of Probi's Management Group (read more about Peter Nählstedt on page 76, and his CEO's statement on pages 6–7).

NOV 26 Probi strengthens Research and Development and Regulatory Affairs. As part of Probi's focus on research and development, two strategically important roles have been added: Anna-Karin Robertson, Head of Discovery, and Anna-Lena Karlsson, Head of Regulatory Affairs (read more about Probi's R&D organisation on page 22).

2013 was intense and, in many respects, a successful year for Probi. Our marketing ventures in North America, Asia and Eastern Europe were successful, at the same time as our research portfolio is the largest to date. I think these activities emphasise that Probi is as a commercial research company.

“An open and results-oriented culture that aims to continue building a commercial research company”

In 2013, Probi's sales rose 10% compared with 2012, excluding contractual changes. Even more significant is the fact that sales in the Consumer Healthcare business area rose 24% and that the North American market accounts for most of this increase. A conscious effort that quickly generated results.

In Functional Food, contractual changes pertaining to Danone and NextFoods had an adverse impact on sales. Despite this, however, the business area performed well. Demand in the US is high. Sales by our partner NextFoods product, GoodBelly, rose 20%.

Market focus in North America and Asia

Geographically, Probi has chosen to focus on North America and Asia in recent years, since these are markets with major potential. The North American market is diversified, relatively young and growing fast. We have stepped up our cultivation of this market, which is now beginning to generate results. The performance during the second half of 2013 was particularly strong, with several new customers.

In many Asian countries, there is a major interest and widespread knowledge of probiotics which, in combination with a dense population, makes these markets highly

attractive to Probi. In 2013, we signed an agreement in Malaysia with BiO-LiFE, part of Swiss DKSH, a well-established Group with channels in several Asian countries. We consider Malaysia to be the starting point for a broader launch across Asia.

In 2013, we also took a key strategic step by signing an agreement with AlenMed concerning Belarus. AlenMed conducts operations across the entire Eurasian region and could therefore become a stepping stone to the Russian market. We also signed a distribution agreement in Morocco in 2013, where the digestive health market is significant. In 2014, our marketing and sales activities will continue to focus on the US, Asia and other strategic areas.

Health claims in Switzerland and strengthened patent protection

In 2013 Probi's health claim for Probi Digestis, our digestive health product in Consumer Healthcare, was approved in Switzerland, which only two other companies have achieved before. This is particularly interesting since the regulatory frameworks of Switzerland and the EU are similar in many respects.

Patent protection of our flagship bacterial strain, *Lactobacillus plantarum* 299v (DSM 9843) was also strengthened when both

European and US patent authorities approved our bacterial diversity patent.

Largest-ever research portfolio

Global research into probiotics is intensive. New molecular biological tools are enabling new and radical studies of intestinal microflora, which is speeding up the pace of development. Probi assesses that commercial launches of yet-to-be identified probiotic strains will change the face of future product offerings, and it intends to be at the forefront of this development.

As a result, we continued to strengthen our focus on research and development (R&D) in 2013. A key component of this focus is to deepen knowledge of our current product platforms by extending them to new age categories and new indication areas.

Probi implemented two strategic recruitments in Regulatory Affairs and Discovery during the year to further enhance the R&D operations. These appointments will make us more efficient when promoting our products in new markets, and maintaining our position at the forefront of probiotics development.

Probi's balance sheet is strong, thus providing us with latitude and ensuring that we are well-equipped to meet new challenges. Probi has chosen to invest in proprietary R&D to build value.

An open culture with major potential

As I write, I have only been the CEO of Probi for a few weeks. My first impression is that Probi has a strong corporate culture and an open working environment. Openness is combined with a results-oriented culture, where the common objective is to continue building a commercial research company. Probi has single-handedly developed sales channels to 35 countries and I assess the market outlook for Probi's current and future products as highly favourable.

Lund, March 2014



Peter Nählstedt, CEO



Objectives, visions and strategies

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

Vision

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

Mission

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

Business concept

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

Business areas

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

Functional Food business area

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

Consumer Healthcare business area

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

Probi's brands and product platforms

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

Probi Digestis

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

Probi Defendum

Clinical documentation for the prevention and relief of colds and similar infections based on a combination of the bacterial strains *Lactobacillus plantarum* HEAL9 (DSM 15312) and *Lactobacillus paracasei* 8700:2 (DSM 13434).

Probi's financial objectives

Probi's overall objectives are to generate a return for its owners, and to generate funds for developing the business operations and creating growth. The management leads and controls the company based on the guidelines and financial objectives adopted by the Board. The financial objectives for the fiscal years 2013 and 2014 are:

- 10% average organic growth.
- Net margin¹ exceeding 20%.

¹ Profit before tax as a percentage of net sales.

Results	
OBJECTIVE	OBJECTIVE ATTAINMENT IN 2013
10% average growth	In 2013, the organic growth was 3% (6).
Net margin exceeding 20%	In 2013, the net margin was 19% (18).

Background to the objectives

Probi predicts favourable growth in Asia, North America and Eastern Europe over the years ahead. During this period, a generally weak trend is expected in the EU probiotics market, mainly due to a ban on health claims for probiotics, but also because of an expected weak economy. Probi aims to receive approval for its health claims in the EU over the next few years, which may provide conditions for adjusting the company's financial objectives.

Strategy

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

New markets

Most of Probi's sales today are in the Nordic region and the potential for international growth is considerable. Markets where Probi

has growth potential include Asia, North America and Eastern Europe. In the North American market, a focus on expanding the number of sales channels continues.

New product platforms

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

New product formats

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

Business models

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

Licensing model

This model is applied in the Functional Food business area. Customers are predominantly leading food companies with the potential to achieve major sales volumes. Revenue is mainly derived from royalties from partner-generated sales. This model carries a very low risk, but Probi receives a limited portion

of the revenue and the value chain. The licensee usually owns the product brand, while Probi guarantees the product through its ingredient brand.

Product model

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

Consumer model

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

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

The global market for probiotics and probiotic food continues to grow. Assessments show that the market will be worth about USD 45 billion in 2018¹. In 2013, the market increased 5% to USD 32.4 billion (30.7).

Robust growth in the probiotics market continues

Asia is the largest market. Due to the strong population growth and greater prosperity, demand is expected to increase most in Asia in the years ahead mainly in China and India.

In percentage terms, the US is the fastest-growing market. Annual sales of probiotic products in the US market have more than doubled over the past two years. Russia has also grown by between 25-30%. Other major markets with favourable growth include Brazil and Poland, with annual growth exceeding 5% in recent years.

Due to the ban on using health claims in the EU, many players have reduced their marketing campaigns in the EU in recent years.

Food products such as yoghurt and beverages dominate the probiotics market. The market for both probiotic dietary supplements, which account for about 10% of the food market, and probiotic juices is expected to show favourable growth over the coming years. In general, growth for probiotic dietary supplements is considered higher than for probiotic food products.

Lifestyle-related diseases reaching epidemic proportions

Lifestyle-related diseases are rising sharply all over the world and pose one of the greatest threats to human health and development. These include cardiovascular diseases, cancer, chronic respiratory diseases and diabetes, which are responsible for an estimated 35 million deaths annually, or about 60% of all deaths globally.

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

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

Two business areas with varying market conditions

Probi markets its products in two business areas: Functional Food and Consumer Healthcare.

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



These two business areas and their market mechanisms differ. Probi's basic technical platform is a shared condition.

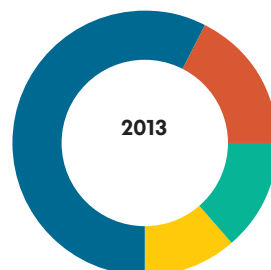
Functional Food

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

Consumer Healthcare

The Consumer Healthcare market has a variety of sales channels. Consumers can buy products in many different ways. Physicians can prescribe the products, or patients can purchase the products themselves at pharmacies, health food stores or supermarkets. In some markets, the products can also be purchased online or by mail order. The products can be registered under various labels, from traditional dietary supplements to registered products with distinct health claims.

Geographic distribution of revenue (MSEK)



- Nordic region MSEK 59.6
- Rest of Europe MSEK 14.1
- North America MSEK 18.3
- Rest of the world MSEK 11.6

Probi's largest market is the Nordic region

The Nordic region is Probi's largest market, accounting for about 60% of revenue in 2013. In Functional Food, revenue from the Nordic region dominates in the form of royalties on ProViva sales. In Consumer Healthcare, sales of Probi Mage® and Probi Frisk® generate about one-third of revenue. After the domestic Nordic market, the major markets are the US, Australia, Poland and France.

Competitors

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

Beneficial effects of probiotics on human health



People have eaten probiotic-rich fermented foods, such as yoghurt, sauerkraut, sausage, pickled herring and cheese, for thousands of years. When the refrigerator arrived, fermentation was no longer needed and people have not been consuming enough probiotics since then. One way to increase your uptake is to eat food with added probiotics or dietary supplements that contain probiotics.

Newborns begin life as sterile, but immediately after birth, bacteria begin to colonise and multiply on the skin, mouth and intestines. Throughout the rest of our lives, we will carry a variety of microorganisms. About one kilo of a person's total weight is bacteria.

Ever since the first bacteria were discovered in the 1800s, scientists have worked hard to eradicate them. For many years, one of the principal goals for scientists was to understand, prevent and treat the human diseases caused by bacteria. The enthusiasm for penicillin and other antibiotics discovered in the 1900s was great. The new medicines would save millions of human lives. Scientists would overlook the benefits of bacteria for a long time.

In recent years, research has shown that relatively few of the bacteria we carry can be considered harmful. The vast majority are "good" for the body, and we can't live without them.

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

Intake of probiotic bacteria has fallen

Probiotics are defined as "live microorganisms, which when administered in adequate

amounts confer a health benefit on the host." (FAO/WHO, 2001)

People have eaten probiotic-rich fermented foods, such as yoghurt, sauerkraut, sausage, pickled herring and cheese, for thousands of years. Fermentation was a method used for preserving food and preventing it from going bad. When the refrigerator arrived and new methods of preser-

"In a healthy intestine, bacteria live in a non-harmful coexistence with the body."

vation were introduced, fermentation was no longer needed to keep food edible. As a result, we now consume fewer probiotics. One way to increase your uptake is to eat food with added probiotics or dietary supplements that contain probiotics.

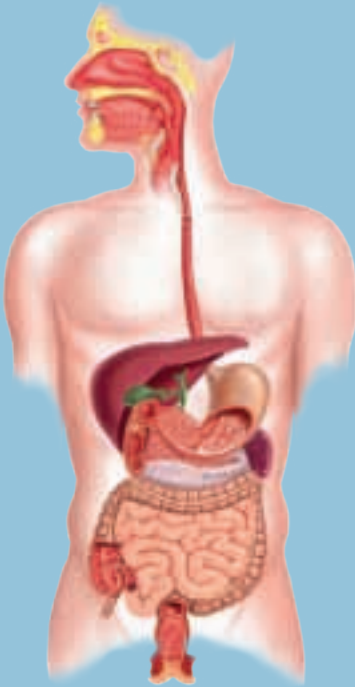
How Probi was founded

In the early 1980s, a number of researchers in Lund were exploring the high mortality rate among intensive-care patients. They were frustrated by the number of patients

who died from multiple organ failure despite seemingly successful surgery. They concluded that the high mortality rate was probably due to a damaged intestinal lining, which resulted in harmful bacteria leaking from the intestine into the body. When they conceived the idea that a bacterium could help seal the intestinal lining, the search for a good bacterium began. The foundation of Probi was laid.

They began by characterising the bacterial strains that are most common in healthy mucosa. Some 20 strains were isolated from intestinal biopsies taken from the researchers themselves, their students and from sick patients. The strains were characterised and in the next stage, given to healthy research subjects. This enabled a study of the strain that was best able to attach to, colonise and multiply in the intestinal mucosa.

Passage through the body places high demands on the bacterium. The pH in the gastrointestinal tract varies considerably, from a low pH in the stomach (2–3) to a significantly higher level in the intestines (7). The challenge facing the researchers was finding that bacteria that could survive passage through the entire tract, all the way down to the rectum where they would colonise and multiply. *Lactobacillus plantarum* 299v (DSM



Lifestyle-related diseases are rising sharply all over the world and pose one of the greatest threats to human health and development. They include cardiovascular diseases, cancer and diabetes. One of the primary contributors to this development is an unhealthy diet.

9843) was the bacterial strain that survived both the passage and the colonisation best. *Lactobacillus plantarum* occurs naturally on the surface of berries and fruit, where it lives in a symbiotic relationship with the berry/fruit. The bacterium breaks down fibres on the surface and builds substances that prevent mould growth. The choice fell on fermenting oatmeal with *Lactobacillus plantarum* 299v (DSM 9843) and then adding the fermented oatmeal to a fruit drink. The end result was ProViva.

Laborious task to identify the right bacterial strain

Identification of the right bacterial strain in the vast flora of the intestine is an extremely laborious task. *Lactobacillus* is a large family. Simply choosing a particular species was not enough either – the smallest unit had to be isolated, at strain level, to identify a bacterium with a specific effect. Different strains have different effects despite very small differences in their genetic structure.

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

Probiotics have been used in attempts to improve human health in a range of areas, from relieving cold symptoms and reducing diarrhoea, constipation, and flatulence to preventing allergies and eczema. Probiotics

have also been shown to reduce the side-effects of radiation and chemotherapy, and have beneficial effects on oral health and vaginal health.

New research leads to new patents

New technology and major international research initiatives are beginning to explain the role of intestinal microflora, or “microbiota.” Research has shown that low microbial diversity is associated with increased risk of developing various diseases and is also a side effect of antibiotic treatment. This has also led to growing interest in how probiotics can influence and increase this diversity.

Probi submitted one of the first patent applications in this area. The application, based on observed effects following the intake of *Lactobacillus plantarum* 299v (DSM 9843), pertains to increased bacterial diversity of this strain for the treatment, or prophylactic treatment, of low bacterial diversity, small and large intestinal bacterial overgrowth and translocation – the movement of bacteria across intestinal tissue into other tissue. The results are unique, and this was also confirmed in 2013 when patent authorities in both the EU and the US approved the patent.



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

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

Gun-Britt Fransson, Vice President of Research and Development, and Niklas Björum, Vice President of Marketing and Sales, on

The commercial research company

Gun-Britt Fransson is Vice President of Research and Development, and Niklas Björum is Vice President of Marketing and Sales. These two are ultimately responsible for ensuring that the concepts and discoveries generated by Probi's research are continuously assessed in relation to end-market conditions for the products.

"Our proprietary products, solutions and concepts, based on our cutting-edge research, provide the platform for Probi's sales," says Niklas. "At the same time, we all maintain a constant focus on sales of our products. It is this combination that underlies our success – always focusing on both development and sales."

Both Gun-Britt and Niklas say that this is basically attributable to mutual respect and understanding – for how Probi's products are developed and manufactured, and how they are sold.

A positive dependence on each other

"Our research is based on the premise that research should not be carried out for the sake of research – there must be a market for our products," says Gun-Britt. "The underlying premise for Marketing and Sales is that

Probi's R&D has researched and developed the products that we sell. The two parts are totally and positively dependent on each other."

"You will never hear Probi say: 'That's been done before'," says Niklas. "That type of negative attitude can kill creativity. At Probi, we welcome all suggestions and add them to our previous experience."

The sales process for Probi is relatively long. Many parts are carried out in an integrated process between various functions. Long-term research provides the groundwork, followed by work in the interface with applications, after which the product is marketed and sold. Many parts are performed collectively and the main emphasis varies. Research is the most important factor in some stages, while marketing or other issues are more important in others.

The culture is formed by the employees who work here now

"You cannot enforce a company culture," says Niklas, who has worked at Probi since 2001. "In a small company like Probi, the culture is formed by the employees who are working here now. But we are large enough to feel sufficiently humble about the lack of







perfection in any one area, and that we are dependent on each other – that we are a team.”

“We have deliberately recruited individuals who are independent and talented, but who don’t need to talk about it every day. We expect everybody to be competent and understand that the final results are what really matter. We all have different skills and contribute to different parts of the process.”

The Product Council coordinates development

“The Product Council coordinates all phases of the development process,” says Gun-Britt. “The Product Council is a joint forum, where all functions are represented. The Council makes joint decisions to commence or conclude Research and Development projects.”

“This means that Marketing and Sales literally sits next to Research and Development in the Product Council in the concept stage. If the Council considers the potential too low, Probi does not pursue the brilliant research idea. There must be an application and provision for the products developed by

Research and Development.”

“The Product Council works according to a project governance system, in which projects are rigorously assessed,” says Gun-Britt. “Effective research requires systems and structure. But this must not hamper creativity, and it doesn’t at Probi. On the contrary, the systematic approach provides support for our creative development process.”

Everyone in the company must be informed

“It is vital that we document our work and that we do it in a manner that is simple and easy to understand,” says Niklas. “It is also essential that all employees know how Probi evaluates a project and what criteria we apply for moving the project forward. Although we are a relatively small company, the Product Council must keep all employees continuously informed.”

“Suddenly realising that we’ve made a highly interesting research advance and then asking: Is there a market for this? is not an option. The market assessment is integrated at an early stage of our process.”

Probi’s personnel policy

Probi’s products improve people’s health and wellbeing, which entails responsibility, but is also a stimulating task. The work environment at Probi should be dynamic. Employees have a high degree of responsibility and opportunities for development are considerable. Probi’s business is based on four fundamental values that provide the platform for the company’s development:

Knowledge and expertise

With their knowledge and expertise, Probi employees engage customers, partners and consumers.

Dedication

Working with research and products that impact human health entails a great deal of responsibility and above-average dedication.

Credibility

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

Curiosity

Probi is always willing to try new approaches in research, product development and in the market.

Today, Probi conducts extensive and well-structured research and development activities, based on a strategy comprising both long-term clinical research projects and short-term application development.

Largest ever research portfolio

The foundation for Probi's success is R&D in the area of probiotic bacterial strains, and the commercialisation of products containing them. It usually takes about three to five years from concept to product development, and a major part of this time is used to conduct clinical trials in order to document whether the bacteria can provide the desired health benefits.

When Probi was founded just over 20 years ago, very little literature was available and very few studies of bacteria and their effect on health had been conducted. Today, research into intestinal bacteria, or "microbiota", and its role in human health and disease, is one of the most dynamic areas in the research community, and new knowledge is presented every day.

The earlier, pioneering research in the late 1980s, which laid the foundation for Probi's commercial platform, focused on identifying bacterial strains that were robust, effective and suitable for industrial processes.

Current research includes both advanced mechanistic studies of existing bacterial strains, in order to better understand the effects of existing products, and clinical trials in new areas. In partnership with such players as Lund University, Probi also conducts basic research in which screening tests are used to

identify bacterial strains with new or improved health benefits.

In 2012, Probi produced a detailed development plan that led to a focus on six clinical projects, which have now been launched. This is the largest clinical research portfolio ever pursued by the company. The projects include studies to advance knowledge of existing products that boost the immune system and gastrointestinal health. Studies to strengthen clinical documentation by also including children have also commenced, with the objective of broadening Probi's market offering. The partnership with Symrise in the field of oral health, which was initiated in late 2012, has progressed according to plan. Most of these projects are expected to be completed by 2015.

Major shift expected in 2018–2019

The major issue for Probi's long-term product development extends beyond 2015 and pertains to the next stage, when the currently ongoing and planned clinical projects have been concluded. By that time, knowledge of bacteria and probiotics will probably be considerably greater, due to the extensive global research taking place in the area. One major focus is to identify differences in the microbiome of overweight and normal-weight individuals, as well as healthy and sick



individuals, and the role of bacterial flora in the development of lifestyle-related diseases such as diabetes and cardiovascular diseases.

Probi considers probiotic research to be undergoing a major shift. To equip the company for this change, a person was employed in 2013 to monitor global, cutting-edge research and establish a plan for Probi's long-term knowledge building and product development. A key component in this process is increased partnership with both academic and industrial partners.

For Probi, it is vital that the company contributes to, and conducts, research at the cutting edge of this development. Continuing to build knowledge of the bacterial strains that are used today is also important, in order to understand and improve the documentation of their benefits. This provides opportunities to develop next-generation products with even more potent health benefits.

Probi's R&D organisation

Probi's Research and Development department is organised into two functions: one that conducts clinical and more long-term research, and one that works with more product-focused applications and production.

The research function includes the clinical project managers and the laboratory. They also conduct trials and compile clinical documentation on the health benefits of bacteria. They monitor international research in the field, and ensure that work practices comply with the latest recommendations and that the most recent methods of analysis are applied.

The application and production unit develops the actual products. Different formulations are required for different products and product-planning matrices, such as drinks, tablets and capsules. Key factors include stability thresholds and product storage methods. Climate also influences the choice of packaging and packaging material since the end-product must remain active when it reaches consumers.

Regulatory Affairs – strategically important for internationalisation

The R&D organisation also includes the Regulatory Affairs function. This function compiles the documentation that is required to register products in specific markets.

Probi is currently in a phase entailing product launches in countries with comprehensive requirements concerning registration and documentation, and the role of Regulatory Affairs has grown in significance. As a result, the unit was strengthened in 2013 by appointing a new employee.

Probi's regulatory work focuses on three areas:

- Ongoing procedures: the continuous production of documentation for existing products. This includes product quality and safety information as well as, in many cases, clinical effects.
- Participation in development activities and establishing registration strategies at an early stage of projects, thus ensuring that the correct documentation is in place should the project lead to a product with commercial potential.
- Building a sustainable structure to facilitate long-term, efficient, effective and structured procedures. As products continue to be launched in more countries, the significance of this area will grow.

GAP

Probi continued its active participation in Global Alliance for Probiotics (GAP), as part of its efforts to lobby regulatory authorities in regard to health claims for probiotics in the EU.

Patents

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

Probi's current patent portfolio comprises 18 patent families (342 cases). It includes 279 approved patents, of which 100 are patents that protect probiotic strains and 179 are patents that protect the use of individual probiotic strains.

Scientific Advisory Board

Probi is assisted by a Scientific Advisory Board comprising renowned researchers and physicians. The role of the Advisory Board is to advise Probi's Board and management in research-related matters based on Probi's current research portfolio, and to provide recommendations for Probi's future research and product development. The Advisory Board has a wide range of expertise with representatives from several disciplines and fields of research that are relevant to Probi.

The following individuals are members of Probi's Scientific Advisory Board:

Jan Nilsson

Professor of Experimental Cardiovascular Research at Lund University (Chairman).

Hans Wigzell

Professor Emeritus, Immunology, Karolinska University Hospital, Stockholm.

Åke Lernmark

Professor of Experimental Diabetes Research at Lund University, Lund.

Göran Molin

Professor of Applied Nutrition and Food Chemistry, Lund University.

Bengt Jeppsson

Professor, Department of Surgery, Malmö University Hospital

Lars Gatenbeck

PhD doctor, Chairman of the Swecare Foundation and CellaVision, Board member and representative in several Life Science companies and organisations.

Published articles

In 2013, eleven research studies based on Probi's probiotic strains were published in scientific journals. These studies demonstrate the following:

- that intake of probiotic bacteria can improve the immune system's response to virus infections and tumours.
- that *Lactobacillus plantarum* 299v (DSM 9843) modifies the inflammatory response, which may benefit patients undergoing minor surgical procedures.
- that daily intake of Probi Defendum® for a period of 12 weeks is efficacious in alleviating the symptoms and frequency of the common cold.
- that supplements of Profermin, containing *Lactobacillus plantarum* 299v (DSM 9843), are safe and may be efficacious in inducing remission in patients with active ulcerative colitis.
- that pre-treatment with *Lactobacillus plantarum* 299v (DSM 9843) improves intestinal permeability following gallbladder drainage and reduces inflammation.

The article, "Differential effect on cell-mediated immunity in human volunteers after intake of different lactobacilli," which describes part of the screening process used by Probi to produce the combination of bacterial strains in Probi Defendum®, was also one of the most downloaded articles from Clinical and Experimental Immunology, which indicates a major scientific interest.

- 1 Modulation of the hepatic cytokine response to portal endotoxaemia using the probiotic *Lactobacillus plantarum* 299v.** Badger SA, Jones C, Regan M, Diamond T, Parks RW, Taylor MA Journal of Gastroenterology and Hepatology Research 2013;2(6)632-637.
- 2 Survival under stress of halotolerant lactobacilli with probiotic properties.** Melgar-Lalanne G, Rivera-Espinoza Y, Farrera-Rebollo R, Hernández-Sánchez H Revista Mexicana de Ingeniería Química 2014;13(1). A similar publication is found in Probiotics & Antimicrobial Proteins 2013;5(4)239-251.
- 3 Intake of Blueberry Fermented by *Lactobacillus plantarum* Affects the Gut Microbiota of L-NAME Treated Rats.** Xu J, Ahrén IL, Prykhodko O, Olsson C, Ahrné S, Molin G. Evid Based Complement Alternat Med. 2013;2013:809128. doi: 10.1155/2013/809128. Epub 2013 Apr 9.
- 4 Differential effect on cell-mediated immunity in human volunteers after intake of different lactobacilli.** Rask C, Adlerberth I, Berggren A, Ahrén IL, Wold AE. Clin Exp Immunol. 2013 May;172(2):321-32. doi: 10.1111/cei.12055.
- 5 *Lactobacillus paracasei* and *Lactobacillus plantarum* strains downregulate proinflammatory genes in an ex vivo system of cultured human colonic mucosa.** Bäuerl C, Llopis M, Antolin M, Monedero V, Mata M, et al. Genes Nutr. 2013;8(2):165-80. doi: 10.1007/s12263-012-0301-y.
- 6 Anchorless surface associated glycolytic enzymes from *Lactobacillus plantarum* 299v bind to epithelial cells and extracellular matrix proteins.** Glenting J, Beck HC, Vrang A, Riemann H, Ravn P, Hansen AM, Antonsson M, Ahrné S, Israelsen H, Madsen S Microbiological Research 2013;168(5)245-253.
- 7 Use of whey permeate containing in situ synthesised galacto-oligosaccharides for the growth and preservation of *Lactobacillus plantarum*.** Golowczyk M, Veraa C, Santosa M, Guerreroa C, Carasia P, Illanesa A, Gómez-Zavagliaa A, Tymczyszyna E. Journal of Dairy Research 2013;80(3) 374-381
- 8 Randomized, double blind and placebo controlled study using a combination of two probiotic lactobacilli to alleviate symptoms and frequency of common cold.** Busch, R., Gruenwald, J., Dudek, S. Food and Nutrition Sciences, 2013 4, 13-20.
- 9 The impact of fermentation and in vitro digestion on formation angiotensin converting enzyme (ACE) inhibitory peptides from pea proteins.** Jakubczyk A, Karaś M, Baraniak B, Pietrzak M. Food Chem. 2013 Dec 15;141(4):3774-80. doi: 10.1016/j.foodchem.2013.06.095. Epub 2013 Jun 29.
- 10 Profermin is efficacious in patients with active ulcerative colitis – a randomized controlled trial.** Krag A, Munkholm P, Israelsen H, von Ryberg B, Andersen KK, Bendtsen F. Inflamm Bowel Dis. 2013 Nov;19(12):2584-92. doi: 10.1097/01.MIB.0000437046.26036.db.
- 11 Modulation of gut barrier function in patients with obstructive jaundice using probiotic LP299v.** Jones C, Badger SA, Regan M, Clements BW, Diamond T, Parks RW, Taylor MA. Eur J Gastroenterol Hepatol. 2013 Dec; 25(12):1424-30. doi: 10.1097/MEG.0b013e328363e26e.



Medical Marketing, information about Probi's products to physicians, nurses, dieticians, pharmacists and other healthcare personal, is an important part of Probi's marketing process. It helps Probi and the company's distributors in various countries to raise awareness of Probi's products and their health benefits, and research.

Global knowledge-sharing optimizes marketing

In some markets, Probi's products are prescribed by physicians, whose knowledge of the product is highly significant for sales results. In markets where the products are registered as dietary supplements, healthcare and pharmacy staff are key ambassadors. Marketing to health and medical care personnel is more scientific than marketing to end-consumers. Hence the name, Medical Marketing.

Improved information material

In 2013, Probi focused on improving and structuring the underlying material for Medical Marketing, which was an extensive project, due to the wide range of information material. It includes both printed and digital material and is designed so that Probi's partners can select and tailor the information to the requirements of their own markets.

Most of the material is scientific, although some is designed for marketing purposes. Parts of the material describe various sales-promotion activities, in which Probi can contribute by providing the results from different markets under various conditions.

Medical Marketing also aims to raise awareness of Probi's products in the scientific community, both internationally and in domestic markets. Part of this work has been

to identify new key opinion leaders and new research collaborations.

Successful Probi Conference for partners

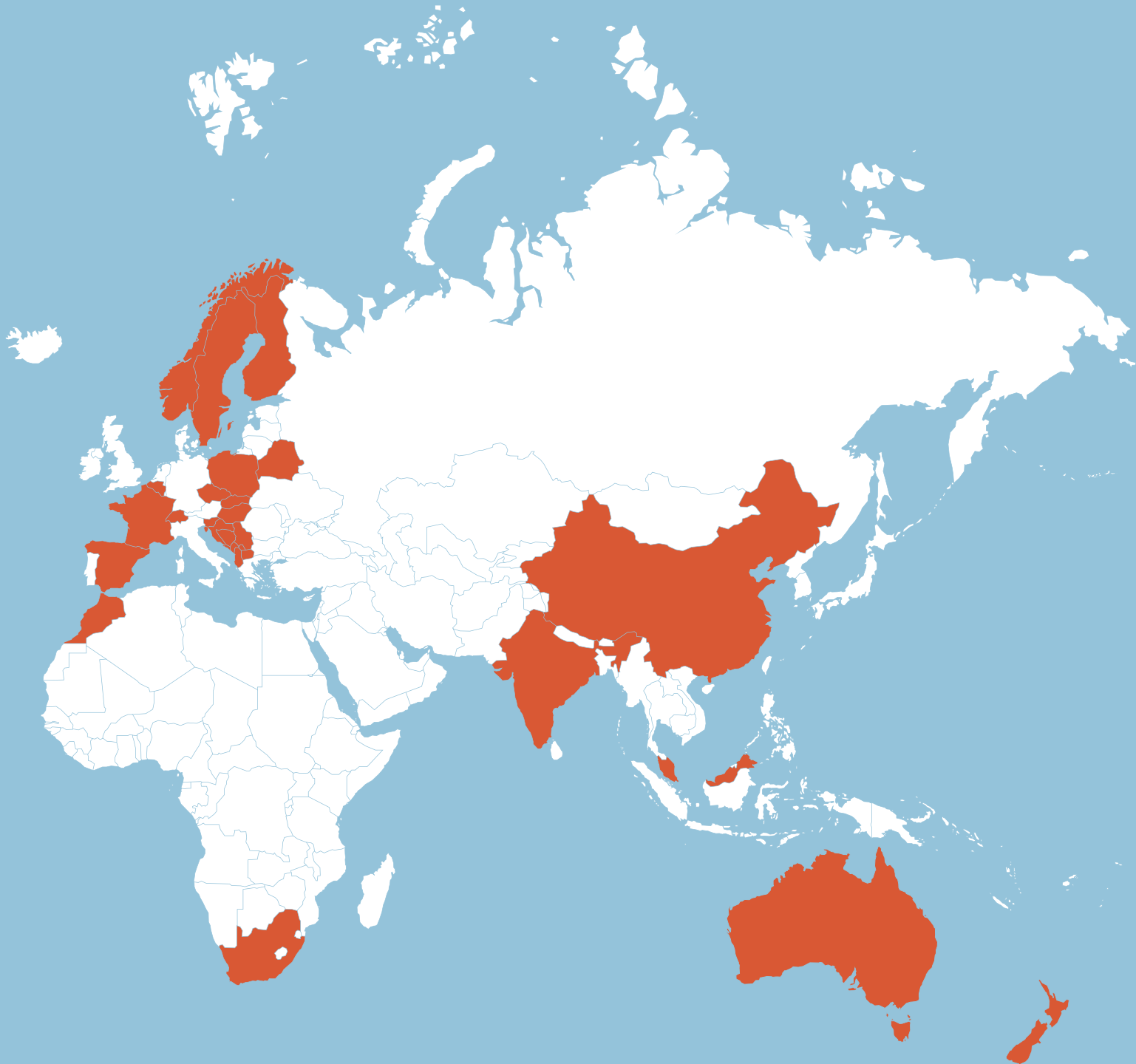
In summer 2013, Probi held the company's first partner conference. Partners were invited to the Ideon Gateway in Lund, and companies came from all over the world – from the US, South Africa, India, Australia and several European countries. Over two days, a total of 50 participants received in-depth information about Probi's research, products and marketing. The new material for Medical Marketing was also presented.

The agenda was based on sharing best practice. Distributors from various markets presented their experiences of how Probi's products are sold and marketed around the world.

The Probi Conference has already impacted global marketing activities. After the conference, the Probi Partner website was created for all of Probi's customers and partners. All material from the conference is available on the website, as well as our marketing material which is continuously updated.

Probi around the world





A wide range of products are sold in the US, far more than in many other markets. Thus, it is vital that Probi identifies the right channels and partners. With the help of its partner Viva 5, Probi has established itself in the US market in just a few short years and gradually begun to strengthen the company's positions in various distribution channels.

The US Clinical documentation drives sales

The probiotics market in North America has grown by double-digit figures in recent years and will continue to grow at the same, or an even faster, rate. The main reason for this rapid growth is that the quality of clinical documentation for these products is improving.

Since documentation is an area in which Probi excels, in terms of both history and quality, Probi serves to gain from this development. As in the rest of the world, the US market is driven by a growing awareness of health and food ingredients.

In the US, physicians often prescribe probiotic products, but the principal market

channels are supermarkets, health-food stores and pharmacies. However, the channel that is growing fastest, in percentage terms, is online sales.

In recent years, personnel in the various channels have become better informed about probiotics and can therefore offer better service to end-consumers. This has contributed to the sharp increase in market growth.

Metropolitan regions on the east and west coasts, such as New York, Los Angeles and San Francisco, comprise the largest markets, although demand is also favourable in inland metropolitan regions, such as Chicago and Dallas.



In 2013, Probi's digestive health capsules were launched by Wakunaga in the US.



Metropolitan regions on the east and west coasts, such as New York, Los Angeles and San Francisco, comprise the largest market.

In 2013, Probi's digestive health capsules were launched in Malaysia in partnership with BiO-LiFE.



Asia

Food is the source of the problem – let food be the solution

The health trend continues to show strong growth in Asia, but the growth rate varies from country to country. Key factors include:

- more people are moving to cities and embracing an urban way of life, which leads to an unhealthy lifestyle.
- a higher proportion of people have attained a higher level of education, thus raising their awareness of food and nutrition.
- more products are now available to the average income earner.

Obesity and diabetes increasing sharply in Asia

According to WHO, 50% of the population in China will be overweight by 2015, which is more than 600 million individuals. More than 100 million adults in China have diabetes. The Indian Council for Medical Research (ICMR) estimates that 60 million adults in

India have diabetes and that 70 million show symptoms of prediabetes.

One child and an ageing population

The one-child policy in China means that the child becomes very important for the family and thus receives a lot of attention. The Jiao-tong University in Shanghai claims that many children are spoiled and that 13% of children in compulsory school are overweight. Some 50% of these children are obese.

Average life expectancy is rising in many countries across Asia. Elderly people are often financially secure, have a high level of education and high expectations in terms of products. They are also aware of the need to remain healthy and active in order to reduce the burden on their children and society. They prioritise nutritious and high-quality food.

In combination, these factors are expected to increase Asian consumer demand for health products, vitamins and dietary supplements, which also includes probiotics.

In many Asian countries, life expectancy is rising and elderly people are often financially secure. They prioritise nutritious and high-quality food.

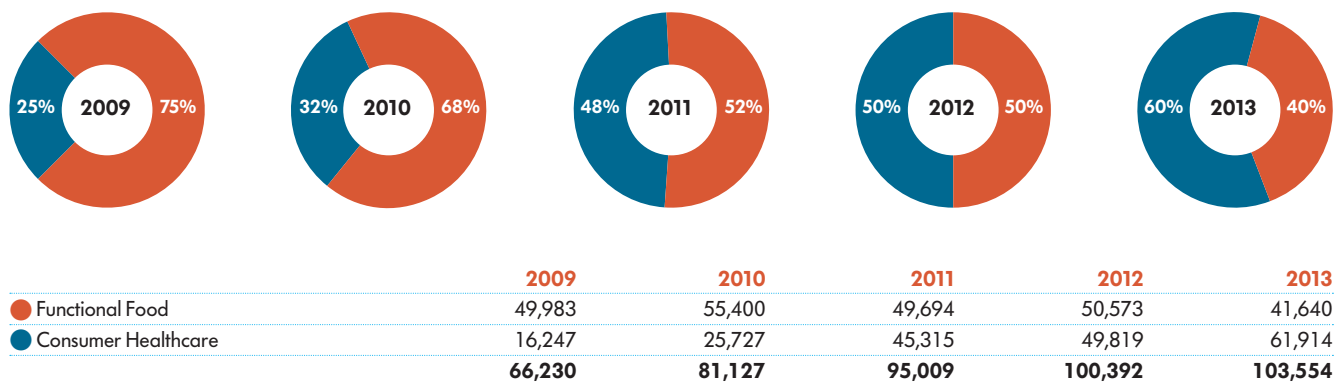


Consumer Healthcare has shown strong growth in recent years, growth that continued in 2013. Net sales rose 24% to MSEK 60.9 (49.1). This trend was attributable to existing customers who expanded their business as well as totally new customers. Expansion took the form of both geographical spread and increased channels in countries that offer opportunities to differentiate the business.

Consumer Healthcare **Continued strong growth**



Share of the Group's revenue (% and SEK 000s)



Probi has strengthened its resources for Consumer Healthcare over the past year, thus creating conditions for more intensive business development in Probi's emerging markets, such as Asia, the US and Eastern Europe.

Solid clinical documentation differentiates Probi when products are launched in new markets or new channels. Finding the right partners, who can appreciate Probi's well-documented products among the vast offering of generic products, is essential.

Successful launch in Malaysia paves the way for the rest of Asia

Probiotics have existed in several Asian countries for many years. In Japan, since the 1930s. Growth in Asia is largely driven by interest in new products from the West. Consumers demand the very best products with documented health benefits, which is a key driver for Probi.

In 2013, one of the most significant strategic agreements for this business area was signed with BiO-LiFE Marketing in Malaysia, concerning a nationwide launch of Probi Digestis® through leading pharmacies. The launch was implemented in the fourth quarter of 2013, and included interviews on Malaysian television with one of Probi's founders, Professor Bengt Jeppsson.

BiO-LiFE is a fast-growing healthcare company with extensive experience in launching probiotic products. The company is a subsidiary of the Swiss DKSH Group, a leading global player focused on market

expansion in Asia. This strong organisation presents opportunities to expand the launch of Probi's products to other markets throughout the rest of Asia.

More channels and products in the US

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

In the fourth quarter of 2013, a launch was implemented in partnership with Wakunaga, a major Japanese probiotic player in the US. The launch pertains to Probi Digestis, and Wakunaga has created four different items to build a proprietary range and brand based on Probi's *Lactobacillus plantarum* 299v (DSM 9843) bacterium. At the end of 2013, Probi made additional deliveries through the Viva 5 partnership to a number of new distributors, prior to launches scheduled for 2014.

In 2012, Pharmavite launched probiotic digestive health capsules in the US, based on Probi's *Lactobacillus plantarum* 299v (DSM 9843) bacterium. In 2013, Probi's deliveries to Pharmavite doubled compared with 2012, and various possibilities for expanding the partnership are under discussion.

Market leader in Sweden

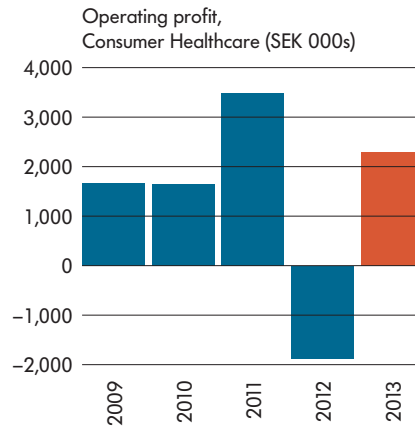
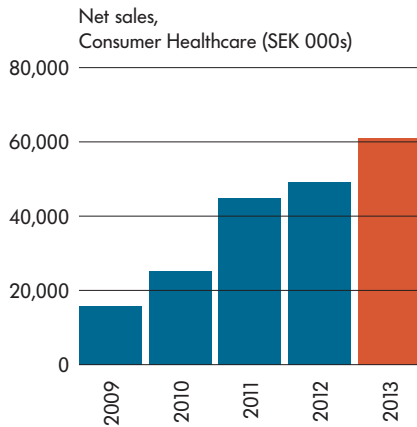
In just a few years, Probi Mage and Probi Frisk have established a very strong position in Sweden with a market share of about 50% for probiotic dietary supplements. In 2013, sales declined slightly compared with 2012, which was mainly due to a lower level of activity around probiotic products in pharmacies and health-food stores.

Continued uncertainty in the EU

Although uncertainty continues to impact other EU markets, Probi's sales were relatively favourable throughout the year. The market is intractable, due to continued uncertainty concerning possibilities to make health claims in the EU. Probi's ongoing research programme includes studies of the immune system and gastrointestinal health, which are intended to provide documentation for health claim applications in the EU. Probi is also a member of the Global Alliance for Probiotics (GAP), which serves as a forum for engaging in dialogue with authorities and recommending policy changes for health claims. Other GAP participants include leading probiotics industry players such as Danone, Chr. Hansen, DuPont, Lallemand, Valio and Yakult.

Approved health claim in Switzerland

Switzerland and Norway are two attractive countries for Probi, since neither country belongs to the EU. In 2013, authorities in both of these countries announced their intention to move closer to new EU regulations.



Facts about Consumer Healthcare

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

The products are mainly sold as capsules, chewable tablets or dose sachets, with a regulatory status as either food or consumer pharmaceuticals depending on the market. Probi has agreements in some 35 markets and predicts major international interest for probiotic premium products. Probi applies two business models in Consumer Healthcare – the Product Model and the Consumer Model. Customers in Consumer Healthcare include Pharmavite in the US, Institut Rosell in France/Canada, Bringwell in the Nordic region, Sanum Polska in Poland, Metagenics/Health World in Australia/US, Vifor in Switzerland, Camox Pharmaceuticals in South Africa and BiO-LiFE in Malaysia.

Launching a product in Switzerland requires an application to local authorities, a presentation of the product and its marketing material and a scientific justification of the intended health claims. The Swiss authority's decision concerning Probi's digestive health product (Probi Intestis®) was based on EU criteria. As the first probiotic dietary supplement in Switzerland, Probi's product was granted a product-specific health claim under the new regulatory framework. This was an important step forward for Probi and the company's local partner, Vifor Pharma.

New agreement in Australia and Africa

Probi has been represented in Australia since 2005 through Health World, which has been selling Probi Digestis for many years. Health World was Probi's first partner in Consumer Healthcare. In 2013, the agreement with Health World was expanded and Probi's immunity booster product Probi Defendum will be launched in Australia in spring 2014.

In the third quarter, an agreement was signed with Botanic Pharma, which plans to launch ProbiMage in Morocco, where the market for gastrointestinal-health products is growing. The launch will be directed toward general practitioners, gastroenterologists and consumers through pharmacies and health food stores.

Agreement in Eastern Europe

Probi has been targeting selected markets in Eastern Europe for some time. The agreement signed with AlenMed in Belarus in the second quarter of 2013, was a major step in this venture. AlenMed comprises an international team of experts in the marketing and distribution of pharmaceutical products in Belarus and the CIS countries. AlenMed works closely with leading companies throughout the region and will be a key partner for Probi's continued expansion in Eastern Europe. Probi Digestis and Probi Defendum will be registered and launched under the Probi brand with emphasis on Probi's high-quality probiotic ingredients. Both products will be marketed by AlenMed Promotion's field organisation and be directed toward general practitioners and gastroenterologists (Probi Digestis), or general practitioners and paediatricians (Probi Defendum), and toward consumers through retailers and pharmacies.

Functional Food

Launch of ProViva 50 without added sugar

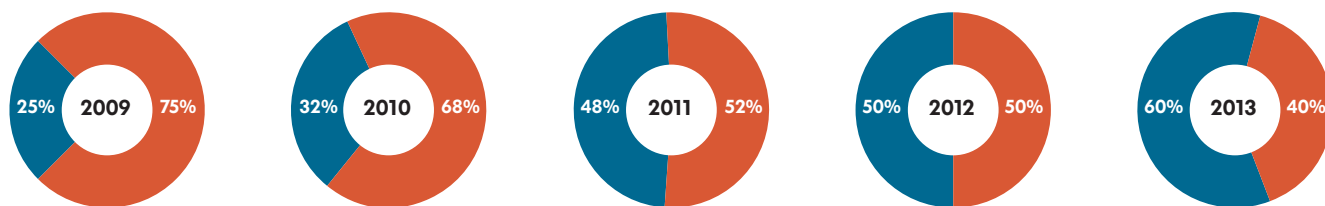
In 2013, net sales amounted to MSEK 41.3 (50.5)¹. Royalty revenue from ProViva amounted to MSEK 38.3 (42.7) in 2013. The decrease was mainly due to the scheduled and gradually downscaled royalty rate, but also to an overall market decline for juices and fruit juice drinks in Sweden throughout the year. In 2013, Danone continued to develop the ProViva range, mainly with ProViva 50 – a product with no added sugar.

¹ Contractual changes with Danone and Next Foods accounted for MSEK 7 of this decline, compared with 2012.



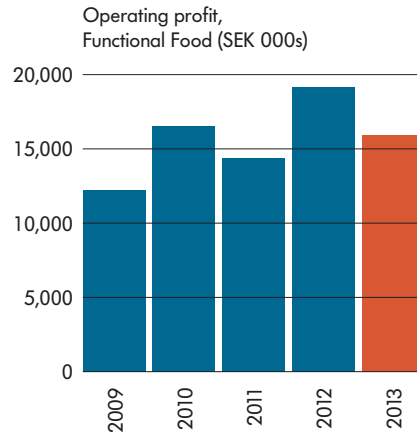
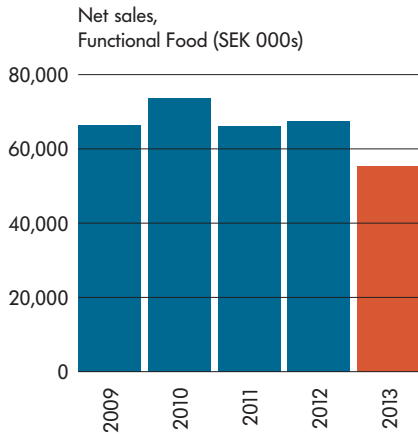


Share of the Group's revenue (% and SEK 000s, respectively)



	2009	2010	2011	2012	2013
Functional Food	49,983	55,400	49,694	50,573	41,640
Consumer Healthcare	16,247	25,727	45,315	49,819	61,914
Total	66,230	81,127	95,009	100,392	103,554





Facts about Functional Food

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

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

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

NextFoods' sales of the Good Belly range in the North American market continued to show a positive trend. Sales revenue in local currency rose 20%, compared with 2012.

Launch of ProViva 50

Since its launch in 1994, the ProViva range has continuously evolved with new flavours and product varieties. In May, Danone/ProViva AB launched the successful ProViva 50 product to meet the growing demand for reduced-sugar products (see separate interview with ProViva AB).

In 2013, the business area invested in several consumer surveys. Understanding consumers is important for securing sales in both the medium and long-term, and for strategically optimising the development of future product concepts. The surveys measured consumer views of Probi's products. The market positions for various products were identified and several concepts from Probi's research portfolio were tested. The surveys were also used as a basis for market planning in collaboration with partners. To summarise, probiotics and lactic-acid bacteria are mostly associated with food such as yoghurt and ProViva. Lactic-acid bacteria as a dietary supplement is still relatively unknown. A positive outcome was that a relatively large proportion of those who have tried Probi's dietary supplements have remained loyal, or very loyal, consumers.



"In 2013, ProViva 50 was launched in three flavours: Orange and Mango, Tropical and Raspberry and Blackberry, and with 50% less sugar," says Marie Birger at ProViva AB. Sales exceeded all expectations in 2013 and the fourth flavour, Blueberry and Redcurrant, was introduced in February 2014.



Successful launch of ProViva 50

In 2014, ProViva 20 will celebrate 20 successful years as a nutritious probiotic fruit drink. The product range has evolved over the years and is now available in 15 flavours. In 2013, ProViva was able to take another major step and launch a totally

Steviol glycosides are extracted from the stevia plant, which has been traditionally used as a sweetener in Central America and the US. On 2 December 2011, Stevia was approved as a food additive in Europe. In summer 2012, Danone/Proviva AB initiated a project with the objective of sweetening ProViva with steviol glycosides.

“The aim was to launch three flavours by spring 2013,” says Marie Birger, Senior Product Development Manager at ProViva AB. “The development process was intense and neutralising the slight liquorice-like taste of the steviol glycosides and delivering a product that didn’t feel watery when the sugar content was reduced proved challenging.”

Extensive consumer surveys and panels were conducted in order to produce a quality product. Part of this development process involved “home testing,” in which a number of consumers were asked to take the product home and see how it worked in their everyday environment at breakfast and other meals.

“Part of the process with the new ProViva product was to find a supplier for the new sweetener. Combining the right fruit and berries with the sweetener was also important – finding the best combination was essential.

The new product was named ProViva 50 because it contains 50% less sugar than other fruit juice drinks and juices. The sugar content in ProViva 50 varies between 4-4.5% and the product contains only the natural sugars from the berries and fruits.

“The three flavours launched in late April 2013 were Orange and Mango, Tropical, and Raspberry and Blackberry. Sales exceeded all expectations in 2013, and a fourth flavour, Blueberry and Redcurrant, was launched in February 2014 – partly to broaden the product range, but also to satisfy consumer requests for ProViva’s blueberry drink with no added sugar,” says Marie Birger.



The genus *Stevia* belongs to the sunflower family and is native to South America. Steviol glycosides are extracted from the leaves and are about 300 times sweeter than sugar. Stevia has been used as a sweetener for many years, and since 1970 in Japan.



Probi's business is focused on health and well-being. Integrating efforts for a better environment and sustainable development are a natural feature of the daily operations.

The environment and quality

Probi's environmental management system has been certified according to ISO 14001:2004 since 2012, with the SP Technical Research Institute of Sweden as the external certification body.

The environmental management system comprises all operations at Probi and includes an environmental manual, environmental policy and a list of environmental aspects.

Environmental initiatives in 2013 included a survey of key suppliers' environmental performance and inspections of the various packaging materials that are used for the products manufactured by Probi.

The significant environmental aspects of Probi's business are:

- Energy consumption in Probi's own operations.
- Selection of suppliers for products and services.
- Selection of packaging materials for products.

Since Probi's business is international, business travel by air is unavoidable. Probi has decided to climate compensate for the CO₂ emissions arising in connection with all business travel by air. For 2013, Probi's climate compensation corresponded to 160 tonnes of CO₂ equivalents in the Trees of Hope forestry project in Malawi, in partnership with the ZeroMission in accordance with the PlanVivo standard.

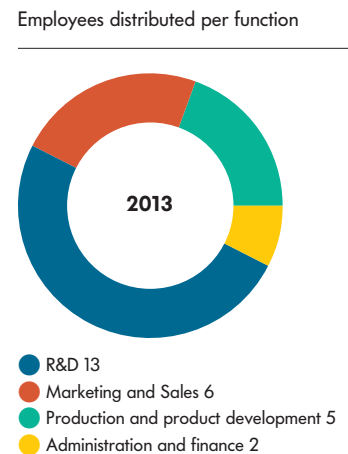
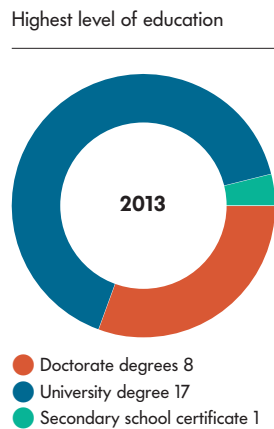
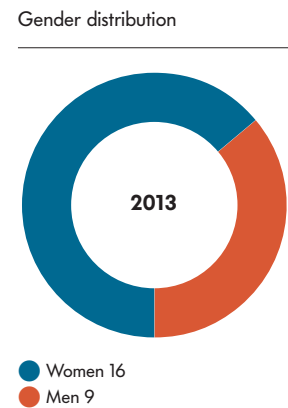
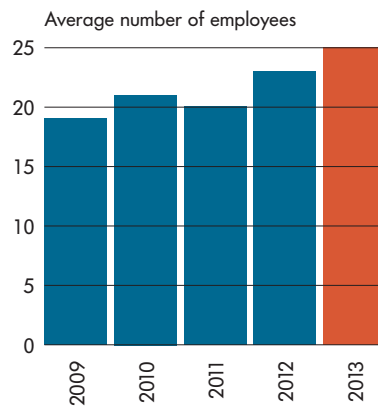
Probi's operations do not require permits under the Swedish environmental code.

Quality

Since 1998, Probi's laboratory operations have been accredited according to ISO 17025 "General requirements for the competence of testing and calibration laboratories." This means that a number of procedures and improvement systems have been developed to fulfil the objectives outlined in a quality handbook that is revised annually. SWEDAC is the supervisory authority for the accreditation process.

At the end of 2013, Probi had 26 employees (24). The average number of employees in 2013 was 25 (23). The proportion of women at the end of 2013 was 69% (63).

Employees



Risks

Probi identifies and continuously evaluates the risks to which its operations are exposed. This process is summarised in a Risk Management Policy, which is revised annually on at least one occasion by the company's Board. This process provides Probi with a clear overview of the risks and how they should be managed to minimise any negative impacts on the operations and the company's development.

Agreements with strategically selected business partners

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

Competition

The growing interest in probiotics entails that Probi faces increased international competition from ingredients companies and probiotic suppliers. Competition will also come from other products that provide equivalent health benefits. In the long-term, this could impose a threat to Probi's market position and growth.

Regulatory risks

Requirements and regulations regarding the use of health claims are regularly tightened. Since 1 July 2007, nutritional and health claims have been regulated by an EU directive (1924/2006) that applies in all EU member states. This means that all applications for new health claims must be approved by the EFSA (European Food Safety Authority). To date, the EFSA has adopted a very restrictive position in regard to the approval of health claims. Up until the end of 2013, no applications for probiotics had been approved, which has entailed a great deal of uncertainty for Probi as well as other leading players in the global market.

Probi's continued expansion is contingent on product launches in a greater number of geographic markets, also outside Europe. Regulatory processes could entail risks for deferred launches and entail costs for Probi.

Patents and intellectual property rights

Probi's continued development is largely dependent on continued successful research and the ability to protect future revenue streams. It is therefore essential that granted patents can be maintained and that newly developed products and applications can be patented or protected by other means.

Probi pursues continuous efforts to strengthen the intellectual property rights and commercial protection of its products. In addition to new patents for existing and new products, this work encompasses the following:

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

Product supply

A significant portion of Probi's future growth will derive from the delivery of ready-made products in the form of powder, capsules and tablets. Probi is therefore dependent on a relatively limited number of suppliers meeting the agreed requirements concerning quality, volumes and delivery times.

Product liability

Probi may be subject to product liability claims if the company's products are alleged to have caused personal injury or property damage. Probi's insurance programme includes product liability protection, although Probi's business could give rise to claims for damages that are not covered by the insurance. Should this occur, this will have a nega-

tive impact on Probi's earnings and financial position.

Strategic research and development

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

Key individuals and employees

Probi is dependent on a number of key individuals and specialists, and the skills they possess. The company's future development is highly dependent on being able to retain employees, and to recruit and introduce new employees with required skills.

Future capital requirements

Probi's strategy entails that the company will continue to invest considerable resources in research and development. These investments are currently covered by cash flow from operating activities and Probi's financial position is sound. Should opportunities for faster growth arise, through strategic acquisitions for example, Probi may need to acquire additional capital by issuing shares or borrowing.

Financial risks

Probi's business is exposed to various types of financial risks. These risks and how they are managed are described in Note 3 Financial risk factors.

The share

Listing

Probi has been listed on the NASDAQ OMX Nordic Exchange Stockholm since 2004 and trades under the symbol PROB. Probi belongs to the Small Cap segment, which consists of small companies with a market value up to MEUR 150. Probi is quoted in the Healthcare and Biotech sectors.

Share capital

Probi's share capital remained unchanged in 2013 and amounted to SEK 46,826,500 (46,826,500), represented by 9,365,300 shares. Each share carries the right to one vote and the same rights to a share in the company's assets and profit. The quotient value of the share is SEK 5.

Ownership

At 31 December 2013, the number of registered shareholders was 4,188, compared with 4,980 at 31 December 2012. Of the total number of shares, institutional ownership accounts for about 68.7% (63.9), private owners 31.3% (36.1) and foreign owners 40.2% (30.9). The largest proportion of shares held by foreign owners is in Europe, corresponding to 39.8% (28.6) of the total number of shares. Probi's two principal owners, Symrise AG and Livförsäkrings AB Skandia, control 39.3% of the capital and 40.3% of the votes.

Holding of treasury shares

At year-end, Probi held 250,000 treasury shares, or 2.7% of the total number of shares, with a quotient value of SEK 5 per share. These shares were acquired in 2011 for MSEK 11.8. In 2013, no Probi shares were bought back.

Share performance

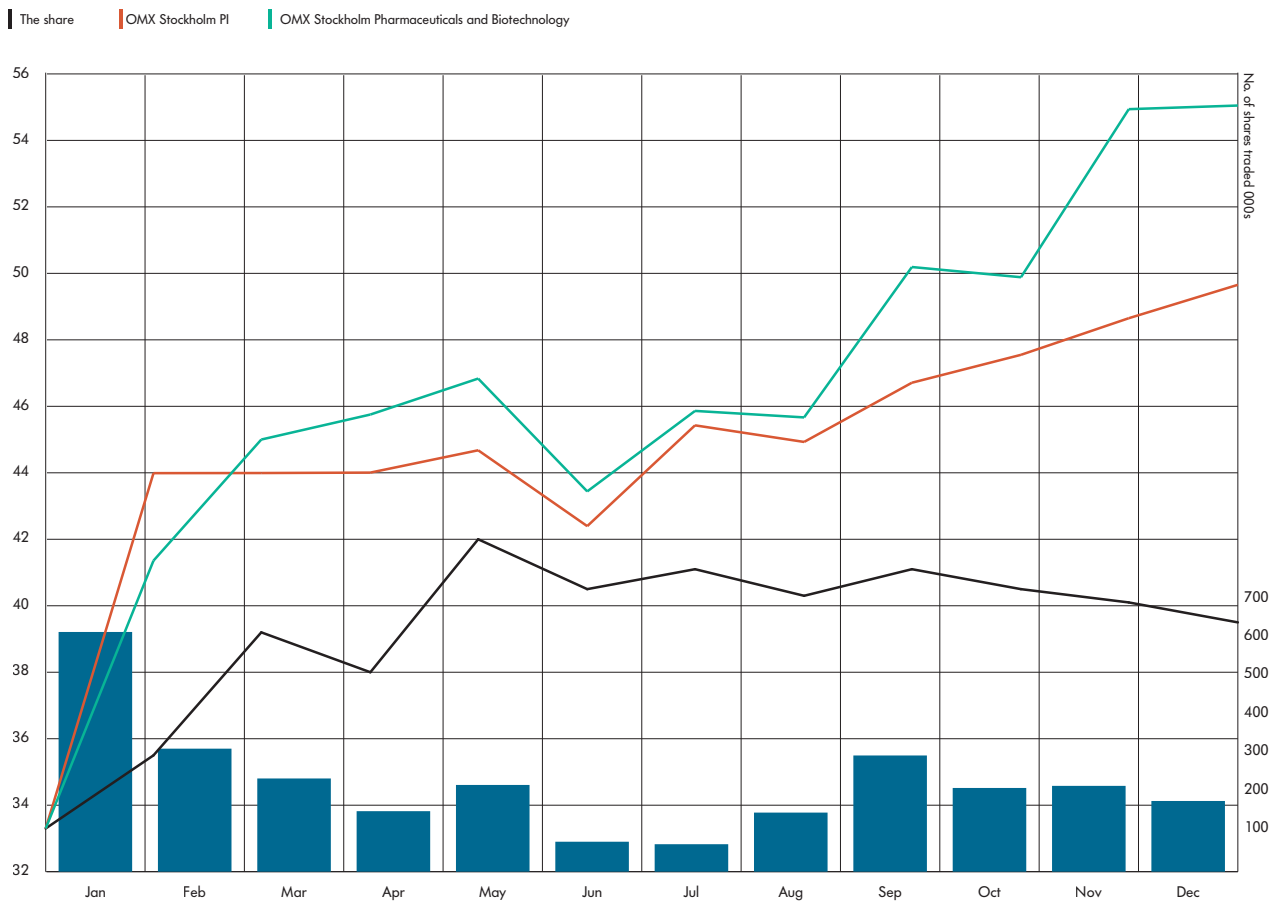
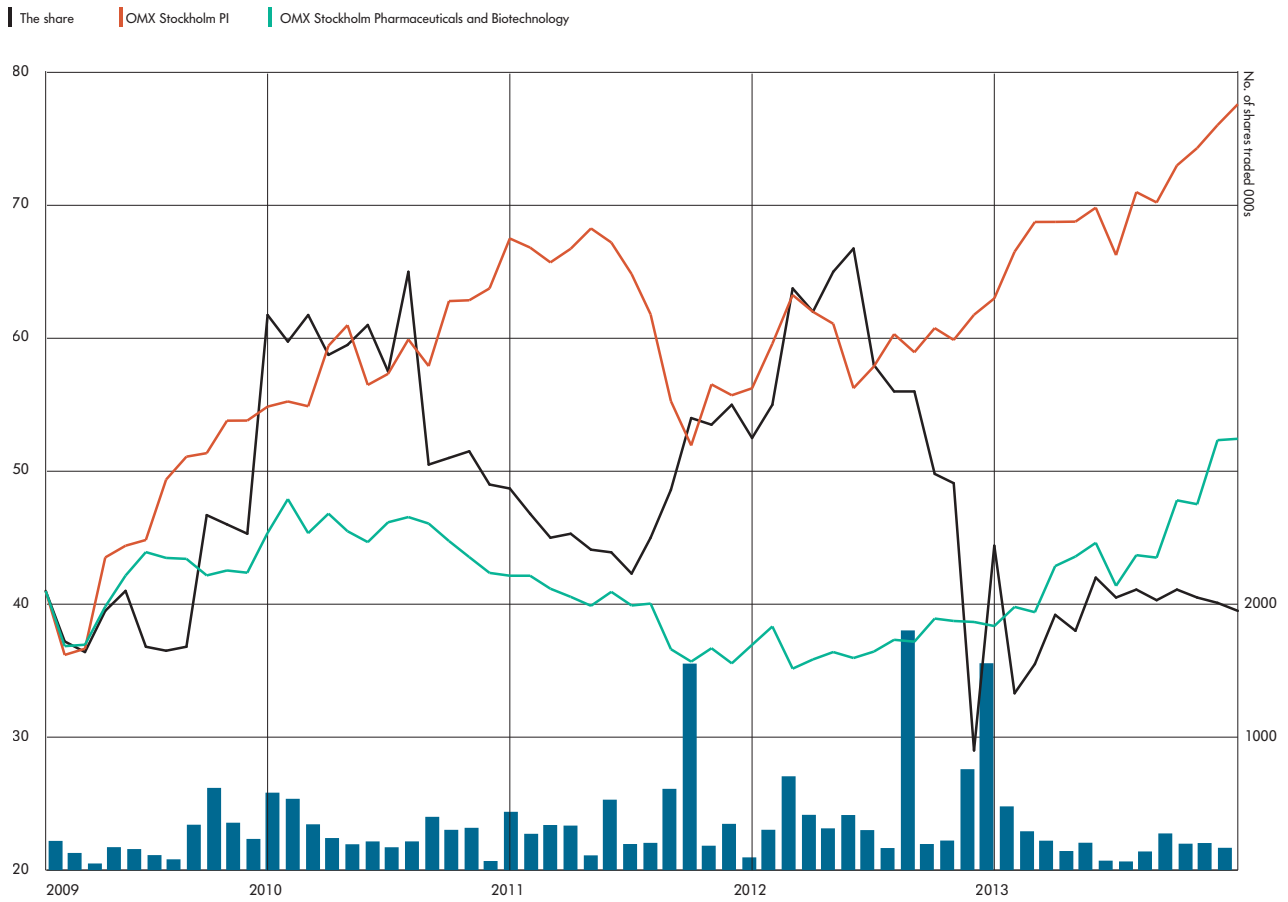
In 2013, Probi's share declined 11% and was listed at a closing price of SEK 39.50 (44.40) at year-end. OMX Stockholm PI rose 21% during the year. The highest and lowest prices in 2013 were SEK 44.30 (67.00) and SEK 32.40 (27.10), respectively. On 31 December 2013, Probi's total market value was MSEK 370 (405). During 2013, 2,703,049 (7,846,447) Probi shares were traded on Nasdaq OMX Nordic, corresponding to 29% (84) of the total number of shares outstanding. The average turnover of shares per trading day was 10,812 (31,386).

Dividend policy

Assuming that Probi is able to maintain a suitable capital structure in the future, and that it is deemed possible to maintain the company's financial objectives, Probi's goal is to be able to pay a dividend of 30-50% of profit after tax. The Board of Directors and the CEO propose that the 2104 Annual General Meeting approve that the company pays a dividend of SEK 0.75 per share (0.75). This entails a total dividend of MSEK 6.8 (6.8), and that the Parent Company's remaining retained earnings of MSEK 53.0 be carried forward. The dividend proposed by the Board of Directors comprises 45% of consolidated profit after tax for 2013.

Options programme

Probi has no outstanding convertible loans or outstanding warrants.



Share capital development

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

1 Issue targeted to founders and senior executives.

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

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

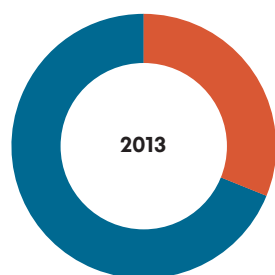
Shareholders

	No. of Series A shares	Proportion of capital (%)	Proportion of votes (%)
Symrise AG	2,781,495	29.7	30.5
Livsförsäkrings AB Skandia	895,077	9.6	9.8
Fjärde AP-fonden	409,548	4.4	4.5
Göran Molin and companies	364,862	3.9	4.0
Bengt Jeppsson	300,000	3.2	3.3
Probi AB	250,000	2.7	0.0
Avanza Pension	240,341	2.6	2.6
Nordea Life & Pensions	194,517	2.1	2.1
Nordea Investment Funds	191,417	2.0	2.1
Pfizer Health AB	127,891	1.4	1.4
Other	3,610,152	38.4	39.7
Total	9,365,300	100.0	100.0

Holding per shareholder

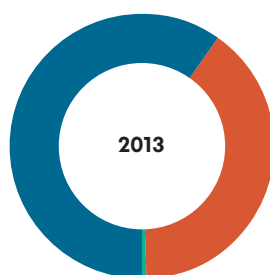
Share distribution	No. of shareholders	No. of shares	Proportion of shares (%)
1 – 500	3,215	529,056	5.6
501 – 1,000	492	387,752	4.1
1,001 – 5,000	381	877,980	9.4
5,001 – 10,000	45	326,201	3.5
10,001 – 15,000	12	152,313	1.6
15,001 – 20,000	7	125,589	1.3
20,001 –	36	6,966,409	74.5
Total	4,188	9,365,300	100.0

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



● Legal entities 68.7%
● Physical persons 31.3%

Distribution Swedish
– foreign owners (no. of shares)



● Sweden 59.8%
● Rest of Europe 39.8%
● Rest of the world 0.4%

Five-year summary

Per-share data

	2009	2010	2011	2012	2013
No. of shares on 31 Dec. 000s	9,365	9,365	9,365	9,365	9,365
Earnings per share. SEK	1.15	1.46	1.54	1.48	1.65
Shareholders' equity per share. SEK	12.17	13.13	12.74	13.47	14.37
Cash flow per share. SEK	1.11	1.93	-1.49	1.22	0.44
Closing share price on 31 Dec. (last price paid. SEK)	61.75	48.70	52.50	44.40	39.50
Price/equity ratio per share. multiple	5.07	3.71	4.10	3.30	2.75
P/E ratio. multiple	53.70	33.36	34.09	30.00	23.94
Dividend. SEK/share	0.50	1.00	0.75	0.75	0.75 ¹
Market value on 31 Dec. SEK 000s	578,307	456,090	491,678	404,719	360,054

¹ The Board's proposal to the Annual General Meeting on 29 April 2014

Income statement in summary

	2009	2010	2011	2012	2013
Total operating revenue	66,230	81,127	95,009	100,392	103,554
Total operating expenses	-52,421	-63,030	-77,212	-83,183	-85,411
Operating profit	13,809	18,097	17,797	17,209	18,143
Income after financial items	14,662	18,709	19,505	18,322	19,491
Profit for the year	10,751	13,661	14,193	13,505	15,045
Shareholders' equity	114,007	122,985	116,149	122,816	131,025
Cash and cash equivalents	71,707	89,762	76,202	87,285	91,301

Key ratios

	Definition	2009	2010	2011	2012	2013
Equity/assets ratio, %	1	94.0	91.0	89.7	89.8	87.5
Debt/equity ratio. %	2	0.0	0.0	0.0	0.0	0.0
Return on capital employed. %	3	14.3	16.0	16.7	16.1	15.6
Return on equity. %	4	13.5	15.8	16.3	15.3	15.4
Acid-test ratio. %	5	1,152	865	778	933	628
R&D expenses as part of operating income. %		22	19	18	18	19
Average no. of employees		19	21	20	23	25

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

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

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

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

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

**Probi AB (publ)
Annual Report and
consolidated financial
statements for the
2013 financial year**

Directors' report

The Board of Directors and CEO of Probi Aktiebolag (publ) with its registered office in Lund, Sweden, Corporate Registration Number 556417-7540, hereby present the annual accounts and consolidated financial statements for 2013. Address: Ideon Gamma 1, SE-223 70 Lund, Sweden.

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

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

Significant events

During the year, Probi entered into new customer partnerships and strengthened its partnerships with existing customers. New agreements were signed with AlenMed for the distribution of Probi Digestis® and Probi Defendum® in Belarus, and with BiO-Life in Malaysia and Botanic Pharma in Morocco for the distribution of Probi Digestis® in each market. In addition, Probi's long-standing

partnerships with such companies as NextFoods in the US, Sanum Polska in Poland and Health World in Australia were strengthened and broadened through revisions of existing agreements. In 2013, Probi's revenue in the key North American market amounted to MSEK 18.3, up MSEK 5.3. Pharmavite, which launched Probi's digestive health capsules in 2012, accounted for a significant portion of this growth. In 2012, Probi also signed a business development agreement with the US-based probiotics specialist Viva 5. The first launch within the framework of this agreement took place in 2013.

During the year, Bundesamt für Gesundheit (BAG), the authority responsible for health claims in Switzerland, approved a specific health claim for Probi Digestis. This approval is highly significant for Probi, since BAG largely complies with the same regulations as the EU, and in addition to Probi Digestis, BAG has only approved two other health claims for probiotics to date, both of them related to probiotic food. During the second half of 2013, Probi Digestis® was launched in Switzerland under the product name of Probi Intestis® through Probi's partnership with Vifor Pharma.

Probi's LP299V® protection was strengthened in 2013 when patent authorities in both the US and Europe approved Probi's patent

application for the increased bacterial diversity observed when *Lactobacillus Plantarum* 299v (DSM 9843) was given to individuals.

Probi has recruited Peter Nählstedt as the company's new CEO. Peter Nählstedt has extensive experience in the international Life Science industry from his various executive positions within strategy, marketing and sales at GE Healthcare Life Science. Peter Nählstedt was previously employed at Trelleborg Marine Systems, where he was responsible for operations in Europe, South America and North Africa. Peter Nählstedt assumed his position on 7 January 2014. Gun-Britt Fransson, who has been Interim CEO since the end of May 2013 when Michael Oredsson stepped down, will continue as Vice President of Research and Development and a member of Probi's Management Group.

Net sales and results

Net sales for 2013 rose MSEK 2.6, or 3%, to MSEK 102.2 (99.6). The year-on-year comparison was impacted by two contractual changes pertaining to NextFoods and Danone, which are described below. When the comparative figures for the year-earlier period are adjusted for these changes, which totalled MSEK 7.0, net sales increased MSEK 9.6, from MSEK 92.6 to MSEK 102.2. All growth is attributable to Consumer Healthcare, which increased 24% compared with the full-year 2012.

Net sales for 2012 included royalties of MSEK 3.8 from NextFoods under the agreement that was applicable at the time, which entitled NextFoods to retain the rights to *Lactobacillus plantarum* 299v (DSM 9843) in the North American market. Under the new agreement signed with NextFoods in the first quarter of 2013, the minimum royalty amount has been replaced by an exit fee, which will be payable should NextFoods terminate the agreement prior to 2020. The new agreement also entails that Probi's royalty rates will increase in mid-2014.

The calculation of royalties for ProViva sales in Sweden was changed at the end of 2012, in accordance with the agreements signed with Danone in 2010. Probi's royalty revenue from ProViva for the full-year 2013 was MSEK 3.2 lower than it would have been with the royalty rate previously applied.

Net sales in the Functional Food business area totalled MSEK 41.3 (50.5). The comparative figure for the year-earlier period would have been MSEK 43.5 had the impact of the contractual changes pertaining to Danone and NextFoods described above been excluded. Royalty revenue from ProViva totalled MSEK 38.3 (42.7). Some MSEK 3.2

of this decline was due to a change in the royalty rate calculation, which became applicable at the end of 2012. The remaining portion of the decline was attributable to changes in the product mix.

Net sales in the Consumer Healthcare business area rose MSEK 11.8, or 24%, to MSEK 60.9 (49.1). This growth was primarily due to deliveries to Pharmavite in the US, which has reported a very positive sales trend, and to Vifor in Switzerland and Wakunaga in the US, which launched Probi's digestive health capsules during autumn 2013.

Operating expenses rose MSEK 2.2 and amounted to MSEK 85.4 (83.2). Deliveries rose 30% compared with 2012, entailing a corresponding increase of MSEK 7.3 in product costs. Personnel expenses rose MSEK 2.0 due to such factors as strengthening the organisation, which was implemented during the year. Other costs were MSEK 5.7 lower than in 2012, and the decline was mainly attributable to sales and management costs. Operating profit for 2013 was MSEK 18.1 (17.2).

Tax expense amounted to MSEK 4.4 (4.8), of which MSEK 5.5 (3.7) was current tax. Deferred tax on appropriations accounts for the difference between recognized tax expense and current tax.

Profit for the year was MSEK 15.0 (13.5), corresponding to earnings per share of SEK 1.65 (1.48) before and after full dilution.

Cash flow and financial position

Cash and cash equivalents at year-end amounted to MSEK 91.3 (87.3), representing an increase of MSEK 4.0 (11.1). In 2013, Probi capitalised MSEK 10.9 (3.1) pertaining to development expenses and paid dividends of MSEK 6.8 (6.8) to shareholders. Cash flow from operating activities increased to MSEK 24.7 (24.2).

During the year, investments in intangible fixed assets amounted to MSEK 13.4 (5.5), of which patents accounted for MSEK 2.5 (2.4) and capitalisation of development expenses for MSEK 10.9 (3.1). Capitalised development expenditure primarily pertains to clinical trials in the area of immune and gastrointestinal health, which are intended to provide supplementary information for health claim applications to the EFSA. Investments in tangible fixed assets totalled MSEK 0.5 (1.1).

Segment information

General information

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

The Functional Food segment focuses on developing food that provides beneficial health effects. This development is conducted in partnership with leading food companies in order to commercialise and market products with a high volume potential.

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

No business transactions are conducted between the two segments.

Functional Food

Net sales in the Functional Food business area totalled MSEK 41.3 (50.5). The comparative figure for the year-earlier period would have been MSEK 43.5 had the previously described impact of the contractual changes pertaining to Danone and NextFoods been excluded. Royalty revenue from ProViva totalled MSEK 38.3 (42.7). Some MSEK 3.2 of this decline was due to a change in the royalty rate calculation, which became applicable at the end of 2012. The remaining portion of the decline resulted from changes in the product mix.

Since its launch in 1994, the ProViva range has been continuously developed with new flavours and product varieties. In May 2013, Danone/ProViva AB launched ProViva 50 to meet the growing demand for products with a low sugar content. The new ProViva fruit beverages do not contain any added sugar, only the natural sugars found in the beverage's berries and fruits. Stevia is used as a sweetener to maintain a pleasant flavour. ProViva 50 contains 50% less sugar than juice and other fruit juice drinks. The products received a positive consumer response and are available in the following flavours: Orange and Mango, Raspberry and Blackberry, and Tropical.

Probi has collaborated with NextFoods in the North American market since 2007. In 2013, this partnership was further strengthened by a revised agreement that was signed during the first quarter. The new agreement will remain valid until 2020, with a renewal option. For Probi, the agreement entails higher royalty rates from mid-2014, and clear exposure of the Probi brand on packaging and in advertising in one of the most exciting markets in the world. During 2007-2012, Probi generated revenue from NextFoods in the form of minimum royalty payments. As of 2013, minimum royalty payments have been replaced by an exit fee,

which is paid if NextFoods terminates the agreement prior to 2020. NextFoods' sales of the Good Belly range in the North American market continue to show a positive trend. Sales revenue in local currency rose 20% compared with the full-year 2012.

During the fourth quarter of 2013, Heinz in Australia discontinued sales of the probiotic juice Golden Circle Healthy Life, which is based on Probi's product platform Probi Defendum. Probi's revenue was only marginally impacted by this decision.

Consumer Healthcare

Net sales in the Consumer Healthcare business area rose MSEK 11.8, or 24%, to MSEK 60.9 (49.1). This growth was primarily due to deliveries to Pharmavite in the US, which has reported a very positive sales trend, and to Vifor in Switzerland and Wakunaga in the US, which launched Probi's digestive health capsules during the autumn.

In 2013, Probi reported a very positive trend in the growing and key Consumer Healthcare market in North America. Pharmavite, which launched Probi's digestive health capsules in 2012, accounted for a significant portion of this growth. In 2012, Probi signed a business development agreement with the US-based probiotics specialist Viva 5. In September 2013, the first launch within the framework of this agreement was implemented. Wakunaga, a leading player in the Health Food channel, launched digestive health capsules under the ProBiata brand at the Natural Products Expo East convention in Baltimore in the US. At the end of 2013, Probi made additional deliveries through the Viva 5 partnership to a number of new distributors, prior to launches scheduled for early 2014 in North America.

In 2010, Probi entered into partnership with Bringwell concerning marketing and sales of Probi Mage® and Probi Frisk® in the Nordic market. These products now hold a market share of about 50% in the Swedish market for probiotic dietary supplements. Probi's revenue from this partnership declined marginally during 2013 in pace with a total market decline driven by lower levels of activity primarily in the various pharmacy channels. Probi assesses that activity in the various sales channels will increase in 2014, due to a number of major campaigns. In early 2014, Probi Mage was also launched in a new packaging size, Travel Pack, containing 20 digestive health capsules in a blister pack.

In September 2013, Probi's digestive health capsules based on *Lactobacillus plantarum* 299v (DSM 9843) were launched in Switzerland, which was a result of the agree-

ment signed in 2012 with Vifor Pharma, one of the leading consumer healthcare companies in the Swiss market. The product is marketed under the Vitafor® brand, with Probi Intestis® as the product name. The launch was successful and Probi received new orders for deliveries.

In 2013, Probi signed three agreements in Consumer Healthcare concerning launches in new markets:

In June, Probi signed a distribution agreement with AlenMed Promotion SIA, Latvia, for the launch of Probi Digestis and Probi Defendum in Belarus. The products will be registered under the Probi brands Probi Digestis and Probi Defendum and the launch is scheduled for 2014. The agreement with AlenMed is considered highly strategic for Probi's future expansion into other markets in the region.

In July, an agreement was signed with BiO-LiFE Marketing Sdn. in Malaysia. The launch was conducted in leading pharmacies throughout Malaysia in the second half of 2013, under the BiO-LiFE brand with the product name PROBI LP299V®. BiO-LiFE is an expansive healthcare company with extensive experience of the introduction of probiotic products. The company is part of the Swiss DKSH Group, a leading global player with a focus on market expansion in Asia in multiple product areas. This will provide conditions for expanding launches of Probi's products to additional markets throughout Southeast Asia at a later stage.

In August, Probi also signed an agreement with Botanic Pharma, with a plan to launch Probi Digestis in Morocco during 2014. The market for gastrointestinal-health products in Morocco is growing and amounts to some MEUR 35. The launch will be directed toward general practitioners, gastroenterologists and consumers through pharmacies and health food stores.

Probi has a long-standing partnership with Health World Ltd., one of the leading probiotic players in Australia. Health World has successfully marketed Probi Digestis over the past eight years. In September, the companies signed an agreement to expand their partnership with Probi's immunity booster product, Probi Defendum. The launch is scheduled for 2014 under the Inner Health Immune brand.

In addition, the agreement that Probi signed with Sanum Polska in Poland in 2008 was renegotiated and extended. The revised agreement with Sanum Polska also includes broadening the range that is marketed in Poland.

Research and development

Regulatory confidence in the clinical effects of Probi Digestis® increased during the first half of the year, when Bundesamt für Gesundheit (BAG), the authority responsible for health claims in Switzerland, approved a specific health claim for Probi Digestis. This approval is highly significant for Probi, since BAG largely complies with the same regulations as the EU and in addition to the approval of Probi Digestis, has thus far only approved two other health claims for probiotics, both related to probiotic food.

New technology and major international research strategies are helping to explain the role of the intestinal microflora in various diseases. Research has shown that low microbial diversity is associated with increased risk for various diseases and is also a side effect of antibiotic treatment. This has also led to growing interest in how probiotics can influence/increase this diversity.

Probi submitted one of the first patent applications in this area. The application, based on observed effects following the intake of *Lactobacillus plantarum* 299v (DSM 9843), pertains to increased bacterial diversity of this strain for the treatment, or prophylactic treatment, of low bacterial diversity, small and large intestinal bacterial overgrowth and translocation – the movement of bacteria across intestinal tissue into other tissue. The results are unique, and this was also confirmed during the year when patent authorities in both Europe and the US approved the patent.

In 2013, the main focus of Probi's research and development was to continue strengthening the clinical documentation for Probi Digestis and Probi Defendum.

Early in the year, considerable resources were dedicated to the identification of suitable Contract Research Organisations (CRO) and to approaches for clinical trial designs in areas related to the immune system and gastrointestinal health. The main objectives were to design trials that could, should the results be positive, provide supplementary documentation for health claim applications for the European market, and to design trials that strengthen clinical documentation for children and subsequently broaden Probi's market offering.

An initiation and implementation period was introduced during the second half of the year, when the practical work involved in the scheduled trials commenced. A project to define Probi's long-term research focus was also initiated. Resources in the R&D organisation were strengthened in conjunction with this initiative.

The partnership with Symrise in the field of oral health, which commenced at the end of 2012, progressed according to plan.

Employees

At the end of the period, Probi had 26 (24) employees, of whom 18 (15) were women and 8 (9) men. The average number of employees was 25 (23).

In 2013, Probi recruited Peter Nählstedt as the company's new CEO. Peter Nählstedt assumed his position on 7 January 2014. Gun-Britt Fransson, who had been Interim CEO since the end of May 2013 when Michael Oredsson stepped down, will continue as Vice President of Research and Development and a member of Probi's Management Group.

During the year, Probi's research and development organisation was bolstered by the employment of Anna-Karin Robertson, who is leading the project to define the company's long-term research focus. Anna-Lena Karlsson has been appointed Head of Regulatory Affairs and will manage the registration of Probi's products in connection with launches in new markets.

Events after the balance-sheet date

On 10 January 2014, Probi's largest owner, German Symrise, acquired additional shares in Probi, whereby the company's shareholding now exceeds 30% of the share capital and voting rights. Symrise was thus required to make a mandatory offer to acquire all of Probi's shares. Symrise made their mandatory offer public on 6 February 2014.

Risks and uncertainties

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

Agreements with strategically selected business partners

Probi has agreements with a number of partners in various countries that market Probi's products and technologies, or plan to do so. Should one or more of these partnerships be discontinued or not lead to launches, this would have a negative impact on Probi's revenue, earnings and financial position. Probi's agreements with Danone and Bringwell, for example, contain provisions whereby each

party may be entitled to terminate the agreement should control over Probi be changed.

Competition

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

Regulatory risks

Requirements and regulations regarding the use of health claims are regularly tightened. Since 1 July 2007, nutritional and health claims have been regulated by an EU directive (1924/2006) that applies in all EU countries. This means that all applications for new health claims must be approved by the EFSA (European Food Safety Authority). The EFSA has thus far adopted a very restrictive position in regard to the approval of health claims. This applies to all types of food-grade health products. Up until the end of 2013, no applications for probiotics had been approved, which has entailed a great deal of uncertainty for Probi and other leading players in the global market.

Probi's continued expansion is contingent on product launches in a greater number of geographic markets, also outside Europe. Regulatory processes in various markets could entail risks for deferred launches and entail costs for Probi.

Patents and intellectual property rights

Probi's continued development is largely dependent on continued successful research and the ability to protect future revenue streams with extensive patent protection. Accordingly, it is important that granted patents can be maintained and that newly developed products and applications can be patented or otherwise protected.

Probi works continuously to strengthen the intellectual property rights and commercial protection of its products. In addition to new patents for existing and new products, this work encompasses the following:

- Development of know-how in relation to technology and products.
- Regulatory protection in the form of government approval pertaining to health claims and sales of products.
- Legal protection for Probi's brands and determined efforts to raise brand awareness.

- Long-term commercial agreements with Probi's key customers.

Product supply

A significant portion of Probi's future growth will derive from the delivery of ready-made products in the form of powder, capsules and tablets. Probi is therefore dependent on a relatively limited number of suppliers meeting the agreed requirements concerning quality, volumes and delivery times.

Product liability

Probi could be subject to product liability claims should the company's products be alleged to have caused personal injury or property damage. Although Probi's insurance programme includes product liability protection, Probi's business could give rise to claims for damages that are not covered by the insurance. Should this occur, the impact on Probi's earnings and financial position will be negative.

Strategic research and development

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

Key individuals and employees

Probi is dependent on a number of key individuals and specialists, and the skills they possess. The company's future development is highly dependent on being able to retain employees, and to recruit and introduce new employees with the required skills.

Future capital requirements

Probi's strategy entails that the company will continue to invest considerable resources in research and development. These investments are currently covered by cash flow from operating activities and Probi's financial position is sound. Should opportunities for faster growth arise, through strategic acquisitions for example, Probi may need to acquire additional capital by issuing shares or borrowing.

Financial risks

Probi's business is exposed to various types of financial risks. These risks and how they are managed are described in Note 3 Financial risk factors.

Future development

Probi's business model is based on conducting research and development, obtaining patents and documenting probiotic bacteria and developing ready-made probiotic consumer products. Probi's strategy is based on complementary business models for the two business areas Functional Food and Consumer Healthcare. Operations in Functional Food, which are primarily based on royalty revenue, generate favourable profitability and strong cash flow. Over the past few years, this has enabled a greater focus on development of the Consumer Healthcare business area. The company's long-term objective is to continue creating profitable growth by expanding and advancing its sales in the global market for products in both business areas. Probi assesses that both earnings and cash flow from operating activities will be positive in 2014.

The environment and quality

Probi's environmental management system has been certified according to ISO 14001:2004 since 2012, with the SP Technical Research Institute of Sweden as the external certification body.

The environmental management system comprises all operations at Probi and includes an environmental manual, environmental policy and a list of environmental aspects.

Environmental initiatives in 2013 included a survey of the environmental performance of key suppliers and inspections of the various packaging materials that are used for the products manufactured by Probi.

The significant environmental aspects of Probi's business are:

- Energy consumption in Probi's own operations.
- Selection of suppliers for products and services.
- Selection of packaging materials for products.

Since Probi's business is international, business travel by air is unavoidable. Probi has decided to climate compensate for the CO₂ emissions arising in connection with all business travel by air. For 2013, Probi's climate compensation corresponded to 160 tonnes of CO₂ equivalents in the Trees of Hope forestry project in Malawi, in partnership with the ZeroMission in accordance with the PlanVivo standard.

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

Since 1998, Probi's laboratory operations have been accredited according to ISO 17025 "General requirements for the competence of testing and calibration laboratories." This means that a number of procedures and improvement systems have been developed to fulfil the objectives outlined in a quality handbook that is revised annually. SWEDAC is the supervisory authority for the accreditation process.

Subsidiaries

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

Proposed allocation of profit in the Parent Company

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

Profit brought forward	41,196,025
Profit for the year	18,628,566
Total	59,824,591

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

that a dividend of SEK 0.75 per share be paid to shareholders	6,836,475
that the following amount be carried forward	52,988,116
Total	59,824,591

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

The earnings brought forward by the Group totalled TSEK 12,620 according to the consolidated balance sheet and other contributions received amount to TSEK 71,578.

The Board of Directors anticipates a continued positive trend in 2014. The Board's assessment is that the proposed dividend will not prevent Probi from fulfilling its commitments in the short or long term, or from implementing the necessary investments.

Corporate governance report

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

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

This Corporate Governance Report was prepared in accordance with the Swedish Annual Accounts Act and the Code's regulations and includes the 2013 financial year. Probi's Articles of Association and additional information about Probi's Corporate Governance are available at www.probi.se, under "Investors."

Application of the code

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

Ownership structure and share capital

At 31 December 2013, Probi had 4,188 (4,980) shareholders, according to Euroclear Sweden AB. On that date, Probi had one owner with a shareholding representing at least one-tenth of the voting rights for all shares in the company: Symrise AG, Germany, with 29.7% of the votes.

At year-end, the company's share capital amounted to SEK 46,826,500 represented by 9,365,300 shares with a quotient value of SEK 5.00. All shares are of the same type and entitle their holder to one vote and equal rights to the company's assets and earnings. The Articles of Association include no limitations related to share assignability.

At year-end, Probi held 250,000 treasury shares, corresponding to 2.7% of the total number of shares, with a quotient value of SEK 5 per share. These shares carry no voting rights and do not qualify for dividends.

General Meeting of Shareholders

Shareholders exercise their influence over the company at the General Meeting of Shareholders, which is Probi's highest decision-making body. The Annual General Meeting is held within six months of the end of the financial year. Official notification of the Meeting is sent not earlier than six weeks and not later than four weeks prior to the

Meeting. All shareholders listed in the shareholder registry and who have registered their interest are entitled to participate in the Annual General Meeting and vote. Each share carries one vote.

The Annual General Meeting was held in Lund on 24 April 2013. The Nomination Committee and Board of Directors were elected at the Annual General Meeting, which also resolved on guidelines for the remuneration of senior executives, as described in the following. The Board of Directors was also authorised during the period prior to the 2014 Annual General Meeting, on one or more occasions, to:

- make decisions regarding acquisition of own shares. This authorisation includes acquisitions on NASDAQ OMX Stockholm of own shares in an amount that at no time exceeds 10% of all outstanding shares. According to the authorisation, any acquisition will take place at a price within the registered price interval on NASDAQ OMX Stockholm at the time of acquisition, meaning the spread between the highest and lowest selling price. The Board did not exercise this authorisation in 2013.
- make decisions regarding a transfer of treasury shares. This authorisation includes a transfer of not more than the number of outstanding shares held by the company at the time of transfer. Any transfer may only take place at a price within the registered price span on NASDAQ OMX Stockholm on each occasion, meaning the spread between the highest and lowest selling price. The Board did not exercise this authorisation in 2013.
- make decisions regarding a new rights issue of up to a total of 936,530 shares. This authorisation includes the right to disapply the shareholders' pre-emptive rights provided that the new share issue is paid for in kind in connection with acquisitions. The issue price for the new shares is to be determined on the basis of the prevailing market price at the time of issue. If the authorisation is exercised in its entirety, it will give rise to approximately 9% dilution of the share capital and voting rights. The Board did not exercise this authorisation in 2013.

Remuneration of senior executives

The 2013 Annual General Meeting (AGM) resolved on guidelines for remuneration of senior executives as follows: Probi is to offer

market-aligned total remuneration that enables the recruitment and retention of senior executives. Remuneration of executive management is to comprise a fixed salary, variable salary, pension and other remuneration. Combined, these comprise components of the employee's total remuneration. The fixed salary is to take into account the employee's areas of responsibility and experience. The variable salary is to depend on the employee's fulfilment of quantitative and qualitative goals and is not to exceed 50% of the fixed annual salary. Other remuneration and benefits are to be market aligned and contribute to facilitating the senior executive's ability to complete his/her work tasks. Executive management's employment agreements include stipulations concerning periods of notice. Under these agreements, termination initiated by the employee entails a notice period of three to six months, and a period of six to 12 months when initiated by the company. Unchanged salary is paid during the notice period. The Remuneration Committee is entitled to deviate from the aforementioned guidelines if the Board finds specific reasons to motivate this in isolated cases. Ahead of the 2014 AGM, the Board proposes that the Meeting resolve that these guidelines remain the same.

The 2011 AGM also resolved to introduce a share-price-related incentive programme for executive management to apply during the 2011 and 2012 financial years. The outcome is based on the company's share-price trend during the years 2011-2014. The CEO and other senior executives participated in the incentive programme during the years 2011 and 2012, when the profitability and sales targets that had been established at the beginning of each year were achieved. The programme for 2011, in which the outcome was based on a comparison between the company's share price and a general index on Nasdaq OMX Stockholm in 2013 compared with 2010, was concluded without entitling any bonus payment.

The programme for year 2012 is based on a comparison between the company's share price and a general index on Nasdaq OMX Stockholm. The company's share price must have outperformed the general index by at least 25% in 2014 compared with 2011 to entitle a bonus payment. Any remuneration will be paid in 2015. The outcome of the incentive programme is maximised to an amount corresponding to 1.44 monthly salaries for those covered by the programme. Probi's former CEO, Michael Oredsson, who resigned in 2013, is not participating in the programme.

The share-based incentive programme is to fall within the framework of the variable salary described above.

Nomination Committee

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

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

On 24 April 2013, the AGM resolved that the Nomination Committee should consist of three owner representatives. Heinz-Jürgen Bertram (CEO Symrise AG) (convenor) and Bengt Jeppsson (Professor at the Department of Surgery at Lund University) were re-elected. Jimmy Bengtsson (Skandia Liv) was elected a new member.

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

Board of Directors

According to Probi's Articles of Association, the Board of Directors shall consist of no fewer than three and no more than seven members, with no more than three deputies, and be elected at the AGM. The company's Articles of Association lack specific stipulations concerning the appointment and dismissal of Board Member and on amendments to the Articles of Association. The AGM on 24 April 2013 resolved to elect a Board consisting of six Members with no deputies as follows: (Figures in parentheses pertain to attendance at Board meetings in 2013)

Per Lundin, Chairman (re-elected) (11 of 12)
Mats Lidgard (re-elected) (12 of 12)
Jan Nilsson (re-elected) (12 of 12)
Benedicte Fossum (re-elected) (12 of 12)
Eva Redhe Ridderstad (re-elected) (10 of 12)
Declan MacFadden (new) (6 of 8)

All Board Members are independent in relation to the company and senior executives. A presentation of the Board Members is available on pages 74-75 of the Annual

Report for 2013 and on the company's website www.probi.se.

The AGM resolves on principles and monetary limits for Board fees. For 2013, the Board's fees were fixed at SEK 1,050,000, of which SEK 300,000 was paid to the Chairman of the Board and SEK 150,000 to each of the other Board members.

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

For information regarding Board fees, see Notes 10 and 26.

CEO

A presentation of the CEO is available on page 76 of the Annual Report for 2013 and on the company's website www.probi.se.

Auditors

The 2010 Annual General Meeting elected the registered accounting firm Deloitte AB with Authorised Public Accountant Per-Arne Pettersson as auditor-in-charge for the period up to the 2014 Annual General Meeting.

Work of the Board and its formal work procedures

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

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

The Board annually prepares procedures that regulate the division of work and responsibilities between the Board, Chairman and CEO. This work procedure is established in connection with the Board's statutory meeting, which is held in conjunction with the AGM.

The Chairman of the Board is responsible for continuously monitoring the company and ensuring that all Board Members continuously receive the relevant information for making decisions and evaluating Probi. The

Chairman must consult with the CEO on strategic issues, supervise Board meetings and ensure that Board matters do not contravene the regulations regarding conflicts of interest stipulated by the Companies Act. The Board annually establishes instructions for the CEO with guidelines for the ongoing administration, accounting and asset management and internal control of the company. These instructions also cover the CEO's authorisations and disclosure requirements towards the Board.

The Board shall convene no fewer than four times distributed equally during the year and hold one statutory meeting. In addition to regular items, the scheduled meetings in 2013 focused primarily on Probi's long-term development in the form of strategic and structural issues. A number of brief telephone conferences were also held, mainly to address commercial issues in connection with agreement negotiations.

Audit Committee

Probi's Audit Committee comprises the Board in its entirety. The Board maintains continuous contact with the auditors, who personally report their findings and observations at least twice annually. The auditors also provide information regarding the specific areas that future audits will address, while the Board informs the auditors about issues or areas that the Board wishes to highlight. In 2013, the Audit Committee held two meetings. Four of five members attended one meeting, while all six members attended the other meeting.

Remuneration Committee

Probi's Remuneration Committee comprises the Board in its entirety. The Remuneration Committee determines the salary and remuneration of the CEO. Salaries and remuneration of other senior executives are decided by the CEO in consultation with the Chairman of the Board. Policies for remuneration and other terms and conditions of employment for the CEO and senior executives are decided by the AGM. In 2013, the Remuneration Committee held two meetings. All members attended both meetings.

For information regarding salaries and remuneration to the CEO and other senior executives, see Note 10.

The Board's internal control report

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

Authorisation and responsibility are documented and communicated in internal guidelines and instructions. This includes the division of responsibilities between the Board and the CEO, attestation instructions and accounting and reporting instructions. The instructions in these documents aim to minimise the risk of irregularities and improper benefits to other parties at the expense of the company.

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

- Marketing and sales development, and the status of R&D projects.
- Balance sheets, income statements and financing analyses.
- Investments and tied-up capital
- Key ratios.
- Forecasts for current quarters and full-year.

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

Quality of financial reporting

The Board is responsible for ensuring the quality of the company's financial reporting, which is achieved by continuously evaluating the information submitted by executive management. A key element of this work is to ensure that actions are taken concerning potential shortcomings that are detected and implementing the adopted quality improvements. In addition, continuous contact is maintained with the company's auditors who also conduct a review of all quarterly reports in accordance with the Board's decision. Considering the size of the company, it has not been deemed reasonable to establish a specific internal audit function. The issue regarding the need to establish a specific internal audit function is to be addressed annually by the Board.

**Financial
statements**

Statement of comprehensive income

Currency SEK 000s	Note	GROUP		PARENT COMPANY	
		2013	2012	2013	2012
Operating revenue					
Net sales	7	102,210	99,562	102,210	99,562
Other revenue		1,344	830	1,344	830
Total operating revenue	6, 25	103,554	100,392	103,554	100,392
Operating expenses					
Goods for resale		-25,792	-18,477	-25,792	-18,477
Employee benefit expenses	10	-27,639	-25,659	-27,639	-25,659
Other external costs	8, 9, 15	-27,046	-32,696	-27,046	-32,696
Depreciation of non-current assets	11, 16, 18, 19	-4,934	-6,351	-4,934	-6,351
Total operating expenses	6, 25	-85,411	-83,183	-85,411	-83,183
Operating income		18,143	17,209	18,143	17,209
Financial income	12	1,645	2,000	1,645	2,000
Financial expenses	12	-297	-887	-297	-887
Result from financial income and expenses		1,348	1,113	1,348	1,113
Allocation to tax accrual reserve		-	-	4,570	-4,570
Difference between book depreciation and depreciation according to plan		-	-	25	-623
Profit before tax		19,491	18,322	24,086	13,129
Tax for the period	13	-4,446	-4,817	-5,457	-3,675
Profit for the year		15,045	13,505	18,629	9,454
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		15,045	13,505	18,629	9,454
Number of shares at end of reporting period (excl. treasury shares)		9,115,300	9,115,300		
Average number of shares (excl. treasury shares)		9,115,300	9,115,300		
Earnings per share based on income for the year, SEK		1.65	1.48		

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

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

Consolidated statement of financial position

Assets			
	Note	2013	2012
<i>Currency: KSEK</i>			
Fixed assets			
Capitalised development expenses	15	16,611	7,969
Patents and licenses	16	8,818	7,888
Goodwill	17	2,762	2,762
Equipment, tools and fixtures	18, 19	2,359	3,021
Total fixed assets		30,550	21,640
Current assets			
Inventories		2,679	2,466
Accounts receivable – trade	21	22,943	23,570
Other current receivables		754	368
Prepaid expenses and accrued income	22	1,488	1,399
Cash and cash equivalents		91,301	87,285
Total current assets		119,165	115,088
Total assets		149,715	136,728

Equity and liabilities			
	Note	2013	2012
<i>Currency: KSEK</i>			
Equity			
Share capital		46,827	46,827
Other contributions received		71,578	71,578
Profit brought forward		12,620	4,411
Total equity		131,025	122,816
Long-term liabilities			
Deferred tax		132	1,142
Total long-term liabilities		132	1,142
Current liabilities			
Accounts payable – trade		10,678	7,319
Tax liabilities		1,318	13
Other current liabilities		1,941	1,731
Accrued expenses and deferred income	24	4,621	3,707
Total current liabilities		18,558	12,770
Total equity and liabilities		149,715	136,728

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

Parent Company's balance sheet

Assets			
Currency: KSEK	Note	2013	2012
Fixed assets			
Capitalised development expenses	15	16,611	7,969
Patents and licenses	16	8,818	7,888
Equipment, tools and fixtures	18, 19	2,359	3,021
Participations in Group companies	20	4,031	4,031
Total fixed assets		31,819	22,909
Current assets			
Inventories		2,679	2,466
Accounts receivable – trade	21	22,943	23,570
Other current receivables		754	368
Prepaid expenses and accrued income	22	1,488	1,399
Cash and cash equivalents		91,301	87,285
Total current assets		119,165	115,088
Total assets		150,984	137,997

Equity and liabilities			
Currency: KSEK	Note	2013	2012
Share capital			
Restricted equity			
Share capital		46,827	46,827
Statutory reserve		21,140	21,140
Total restricted equity		67,967	67,967
Non-restricted equity			
Profit brought forward		41,196	38,578
Profit for the year		18,629	9,454
Total non-restricted equity		59,825	48,032
Total equity		127,792	115,999
Long-term liabilities			
Liabilities to Group companies		4,035	4,035
Total long-term liabilities	23	4,035	4,035
Untaxed reserves			
Tax-accrual reserve		–	4,570
Accumulated depreciation/amortisation		599	623
Total untaxed reserves		599	5,193
Current liabilities			
Accounts payable – trade		10,678	7,319
Tax liabilities		1,318	13
Other current liabilities		1,941	1,731
Prepaid expenses and accrued income	24	4,621	3,707
Total current liabilities		18,558	12,770
Total equity and liabilities		150,984	137,997

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

Consolidated statement of changes in shareholders' equity

Currency: KSEK	Share capital	Other contributions received	Profit brought forward	Total equity
Opening balance, 1 Jan. 2012	46,827	71,578	-2,256	116,149
Profit for the year	-	-	13,505	13,505
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	13,505	13,505
Dividends for 2011	-	-	-6,837	-6,837
Total transactions with shareholders	-	-	-6,837	-6,837
Opening balance, 1 Jan 2013	46,827	71,578	4,411	122,816
Profit for the year	-	-	15,045	15,045
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	15,045	15,045
Dividends for 2012	-	-	-6,836	-6,836
Total transactions with shareholders	-	-	-6,836	-6,836
Closing balance, 31 Dec 2013	46,827	71,578	12,620	131,025

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

Parent Company's statement of changes in shareholders' equity

Currency: KSEK	Share capital	Total equity	Income for the year	Total equity
Opening balance, 1 Jan. 2012	46,827	21,140	45,416	113,383
Profit for the year	-	-	9,454	9,454
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	9,454	9,454
Dividends for 2011	-	-	-6,837	-6,837
Total transactions with shareholders	-	-	-6,837	-6,837
Opening balance, 1 Jan 2013	46,827	21,140	48,032	115,999
Profit for the year	-	-	18,629	18,629
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	18,629	18,629
Dividends for 2012	-	-	-6,836	-6,836
Total transactions with shareholders	-	-	-6,836	-6,836
Closing balance, 31 Dec 2013	46,827	21,140	59,825	127,792

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

Statement of cash flows

Currency: KSEK	Note	GROUP		PARENT COMPANY	
		2013	2012	2013	2012
Operating activities					
Profit before tax		19,491	18,322	19,491	18,322
Depreciation/amortisation	15, 16, 18, 19	4,934	6,351	4,934	6,351
Capital gains/losses from disposal of tangible fixed assets		-	-31	-	-31
Income tax paid		-4,151	-4,264	-4,151	-4,264
Cash flow from operating activities before changes in working capital		20,274	20,378	20,274	20,378
Change in inventories		-213	1,938	-213	1,938
Change in operating receivables		152	1,808	152	1,808
Change in operating liabilities		4,483	77	4,483	77
Cash flow from operating activities		24,696	24,201	24,696	24,201
Investing activities					
Acquisition of intangible fixed assets		-13,373	-5,446	-13,373	-5,446
Acquisition of tangible fixed assets		-471	-1,102	-471	-1,102
Divestment of tangible fixed assets		-	267	-	267
Cash flow from investing activities		-13,844	-6,281	-13,844	-6,281
Financing activities					
Dividend		-6,836	-6,837	-6,836	-6,837
Cash flow from financing activities		-6,836	-6,837	-6,836	-6,837
Change in cash and cash equivalents		4,016	11,083	4,016	11,083
Cash and cash equivalents at the beginning of the year		87,285	76,202	87,285	76,202
Cash and cash equivalents at the end of the period		91,301	87,285	91,301	87,285
		2013	2012	2013	2012
Interest received		1,196	1,615	1,196	1,615
Interest paid		-	-	-	-

Notes

Note 1 General information

Probi Aktiebolag (publ) with its registered office in Lund, Sweden, was founded 1991 and is a leading player in the field of probiotics research and the development of effective and well-documented probiotics.

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

The Group comprises the Parent Company, Probi AB, and two dormant subsidiaries, Probi Food AB and Probi Feed AB. Probi's shares are listed on the NASDAQ OMX Stockholm.

Note 2 Accounting and measurement policies

The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act, "RFR 1, Supplementary accounting regulations for Groups – January 2014" as well as the International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU.

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

New and revised standards

A number of new or revised standards have come into force and applied for the 2013 financial year. However, none of these could have any impact on the company's reporting. In respect of the amendments to IFRS 13, executive management is of the opinion that it only affects the presentation and the disclosures in the financial statements. The amendments have had no impact on the company's financial statements for the 2013 financial year.

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

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

None of these new or amended standards are applied or are expected to be applied. Executive management is of the opinion that application of IFRS 9, which will become effective in 2015, or later, could have an impact on carrying amounts in the financial statements in respect of the Group's financial assets and liabilities. Executive management has yet to conduct a detailed analysis of the effects resulting from application.

Executive management is of the opinion that the other new and revised standards and interpretations will not have a material impact on the Group's financial statements during the period for which they are applied for the first time.

2.1 Basis of preparation of the consolidated financial statements

The Parent Company's functional currency is the Swedish krona (SEK), which is also the reporting currency for both the Parent Company and the Group. All amounts stated have been rounded to the nearest thousand kronor, unless otherwise stated. The valuation basis is the cost, unless otherwise stated.

The most important accounting policies applied during the preparation of these consolidated financial statements are stipulated below. These policies have been applied consistently for all years presented, unless otherwise indicated. The Parent Company applies the same accounting policies as the Group, with the exceptions and supplements stipulated in "RFR 2, Accounting for Legal Entities – January 2014." The accounting policies for the Parent Company are stipulated in section 2.17 entitled "The Parent Company's accounting policies".

2.2 Consolidated financial statements

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

2.3 Segment reporting

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

2.4 Revenue

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

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

- *Royalty revenue:* Royalty revenue is recognised as revenue on a percentage basis, based on the licensee's reporting of the sales

value of consumer products containing Probi's products and ingredients. If the percentage is connected to various levels of the sales value, and thus changes when these are achieved, an estimated average percentage for the year is used each quarter, if this complies with the economic intent of the agreement. Such a check will be undertaken at the end of the year to ensure that royalty revenue actually matches royalty received from customers.

- *Income from goods sold:* Income from goods sold is recognised upon delivery of the goods in accordance with the sales and delivery conditions in each individual case.
- *Nonrecurring revenue:* Probi may receive a lumpsum down payment in conjunction with the signing or completion of a contract. Certain contracts contain clauses in respect of minimum royalties that can give rise to nonrecurring amounts. These transactions are recognised in their entirety as revenue in conjunction with the actual event under the prerequisite that the actual agreement is not, in any way, connected with any remaining consideration, which carries costs for Probi, or contains revenue elements that must be amortised.
- *Interest income:* Interest income is recognised as revenue over the duration of the contract, applying the effective interest method.

2.5 Income tax

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

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

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

2.6 Intangible assets

- *Goodwill:* Goodwill is tested annually to identify any impairment requirements and is recognised at cost less accumulated impairments. Goodwill impairments are not reversed. Profit or losses on the sale of a unit include the residual carrying amount of the goodwill referring to the divested unit. Goodwill is allocated among the smallest cash-generating units in connection with the impairment testing.
- *Research and development expenditure:* Research expenses are expensed on an ongoing basis. Development expenses are recognised as assets from the date on which it is deemed that the project or activity to which they relate will lead to a technically and commercially viable product or lead in some other way to future economic value for the company. When Probi deems that the criteria with regard to identifiability, control, future economic benefit and the ability to reliably measure the cost have been met, it capitalises these development expenses. Capitalised development expenses consist of direct costs for materials, services and personnel costs, with a supplementary charge for a reasonable share of

indirect costs. Development expenses recognised as an asset are amortised over the expected useful lifetime. Amortisation is initiated when the asset is ready for use. Capitalised assets not ready for use are tested annually for possible impairment requirements.

- *Patents:* Patent expenses are recognised at cost and are amortised on a straight-line basis over their useful lifetime. The amortisation period for patents is 10 years. Annual fees and other additional fees are expensed on an ongoing basis.

2.7 Tangible fixed assets

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

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

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

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

2.8 Impairment of non-financial assets

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

2.9 Leasing

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

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

2.10 Financial instruments

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

- *Cash and cash equivalents:* Cash and cash equivalents include cash and bank balances. Cash and cash equivalents do not include any current investments.
- *Accounts receivable:* Accounts receivable are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. These items are distinguished by the fact that they arise when the Group supplies goods or services directly to a customer without intending to trade in the receivable. Accounts receivable are recognised at nominal value less any decline in value. A provision for the depreciation of accounts receivable is made when there is objective proof that the Group will be unable to obtain the full amount due in accordance with the original terms of the receivable. In such cases, the provision is recognised in profit or loss.
- *Accounts payable:* Accounts payable are commitments to pay for goods or services acquired in operating activities from suppliers. Accounts payable are classified as current liabilities if they fall due within one year; otherwise they are recognised as long-term liabilities.
- *Severance payments:* Severance payments are made when an employment contract is terminated by Probi prior to pensionable age or when an employee accepts voluntary redundancy in exchange for such payment. A severance payment is recognised when there is an obligation that employees be made redundant in accordance with set rules, without the option of re-employment, or when there is an obligation to provide remuneration upon termination of employment based on an offer made to encourage the individual to take voluntary redundancy.
- *Bonus plans and variable remuneration:* Probi recognises a liability and a cost for bonus plans when there is a legal obligation to do so according to the employment agreement and in other cases by special decision of the Remuneration Committee.

2.11 Inventories

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

2.12 Foreign currencies

Transactions in foreign currencies are translated into the functional currency at the exchange rate applying on transaction date. Monetary assets and liabilities in foreign currencies are converted at the rate prevailing on the balance-sheet date. Exchange-rate differences of an operational character are recognised as operating revenue/expense with differences of a financial character recognised as financial income or expense.

2.13 Provisions

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

2.14 Remuneration of employees

- *Pensions:* Pensions are classified as defined-contribution or defined-benefit plans. Obligations resulting from the defined-contribution plans are fulfilled by paying premiums to independent authorities or companies that administrate the plans. A number of Probi employees are covered by the ITP plan via continuous payments to Collectum. In accordance with IFRS, this should be classified as a defined-benefit multi-employer plan. Since there is insufficient information to recognise these as defined-benefit plans, they are recognised as defined-contribution plans covering the period during which the employees performed the service to which the contribution relates.

The Group also offers a share-price related incentive programme whereby settlement is reached through cash payment. The results of the programme depend on a comparison between the company's share price and a general index on NASDAQ OMX Stockholm in 2014 compared with 2011. Any remuneration will be paid in 2015. The value of any debt is remeasured at the end of each reporting period. The change in debt compared with revenue at the end of the reporting period is recognised in profit or loss.

2.15 Acquisition and sale of treasury shares

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

2.16 Statement of cash flows

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

2.17 Parent Company's accounting policies

The Parent Company's financial statements have been prepared in accordance with the Swedish Annual Accounts Act (ÅRL) and "RFR 2, Accounting for legal entities – January 2014". This implies that the Parent Company's financial statements apply the IFRSs and IFRICs that have been adopted by the EU when this is possible within the framework of the Swedish Annual Accounts Act and with regard to the relationship between reporting and taxation.

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

Amended accounting policies

The amendments in RFR 2 "Reporting for legal entities" that affect the company and that have become effective and apply for the 2013 financial year pertain to IAS 19 and IAS 27. The amendments have had no impact on the Parent Company's financial statements for 2013.

Amendments in RFR 2 that have yet to take effect

The Swedish Financial Reporting Board has issued a number of amendments to RFR 2, which will become effective in financial years beginning on 1 January 2014 or later. The assessment of executive management is that none of these new or amended standards will have a material impact on the Parent Company's financial statements.

Note 3 Financial risk factors

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

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

3.1 Market risks

- **Currency risk:** Since Probi is active on the international market, income and expenses arise in varying currencies affected by exchange-rate fluctuations. Most of Probi's revenue comprises SEK-denominated revenue based on agreements with ProViva AB and Bringwell. In 2013, revenue from these two agreements accounted for approximately 60% of total revenue. Revenue in foreign currencies primarily involves USD and EUR. The proportion of foreign currencies could increase as a result of new agreements being signed or an increase in sales based on existing agreements.

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

A sensitivity analysis shows that the effect on the operating income in 2013 of a 5% change in USD/SEK exchange rate would have been MSEK ± 0.9 (0.7). In connection with changes in the EUR/SEK exchange rate, the corresponding change would have been MSEK ± 0.7 (0.1).

- **Interest-rate risks:** Probi has no interest-bearing liabilities and thus no interest risks.

3.2 Credit risks

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

3.3 Liquidity risk

Cash-flow forecasts are established regularly to ensure that the Group has sufficient cash funds to satisfy requirements in operating activities. Cash and cash equivalents are invested in interest-bearing accounts with special terms for deposits.

For surplus liquidity – meaning the portion of cash and cash equivalents that exceeds MSEK 20.0 – alternative investment types may be

considered if a higher return is expected. According to Probi's Financial Policy, investments may be made in Nordic banks or Swedish government bonds. The fixed period must be between three and 12 months and investments may only be made after approval by Probi's Chairman. Surplus liquidity is currently deposited in accounts in various Nordic banks.

Note 4 Important estimates and assessments for accounting purposes

Estimates and assessments are measured on an ongoing basis and are based on historical experience and other factors, including expectations in relation to future events, considered reasonable under current circumstances. The estimates and assessments that could involve a risk of considerable adjustments in the carrying amounts of assets and liabilities in the coming financial years are addressed below.

Impairment testing of capitalised development expenses

Probi carried out impairment tests in 2013 to determine the value of the projects that had been capitalised at 31 December 2013. The value in use, meaning the present value of the anticipated future cash flow from the products encompassed by the capitalised development costs, did not indicate any impairment requirement. Accordingly, with reasonable assurance, these costs will generate revenues for Probi in the years ahead.

Note 5 Management of capital

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

The managed capital, defined as the total of the Group's net liabilities (interest-bearing liabilities less interest-bearing assets and cash and cash equivalents) and shareholders' equity, amounted to MSEK 39.7 (35.5) at year-end 2013. On that date, Probi had cash and cash equivalents of MSEK 91.3 (87.3) and no interest-bearing liabilities. Accordingly, the company's financial position is strong and scheduled initiatives are currently covered by cash flow from operating activities.

If the opportunity for faster growth were to arise, through strategic acquisitions, for example, it may be appropriate to secure additional capital through a share issue or external borrowing.

Note 6 Segment information

Probi's business operations are organised into two operating segments: Functional Food (FF) and Consumer Healthcare (CHC).

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

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

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

OPERATING INCOME PER OPERATING SEGMENT

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

Group 2012	FF	CHC	Total
Total operating revenue	50,573	49,819	100,392
Goods for resale	-711	-17,766	-18,477
Salaries and other external costs	-25,403	-32,952	-58,355
Depreciation	-5,382	-969	-6,351
Operating income	19,077	-1,868	17,209

Probi has three customers who each account for more than 10% of the company's sales. The largest customer, with sales of TSEK 38,283 (42,657), is recognised in the Functional Food segment and the next two largest, with sales of TSEK 20,296 (20,910) and TSEK 11,277 (5,768) are recognised in the Consumer Healthcare segment.

OPERATING REVENUE DISTRIBUTED BY GEOGRAPHIC AREAS

Group	2013	2012
Sweden	59,073	64,749
Rest of Europe	14,585	11,347
North America	18,250	12,969
Rest of the world	11,646	11,327
Total	103,554	100,392

Note 7 Distribution of net sales

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Goods	53,446	41,120	53,446	41,120
Royalties, licenses, etc.	48,764	58,442	48,764	58,442
Total	102,210	99,562	102,210	99,562

Note 8 Auditors' fees

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Deloitte				
Audit assignments	260	222	260	222
Audit-related services	63	24	63	24
Tax consultancy	63	14	63	14
Other services	15	65	15	65
Total	401	325	401	325

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

Note 9 Research and development

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Expensed research and development expenses	19,484	18,274	19,484	18,274

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

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Women	16	14	16	14
Men	9	9	9	9
Total	25	23	25	23

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Board of Directors				
Benedicte Fossum	150	150	150	150
Mats Lidgard	150	150	150	150
Per Lundin (Chairman)	300	300	300	300
Declan MacFadden	113	-	113	-
Jan Nilsson	150	150	150	150
Eva Redhe Ridderstad	150	150	150	150
Former CEO				
Michael Oredsson	1,503	2,010	1,503	2,010
Interim CEO				
Gun-Britt Fransson	941	-	941	-
Other management (3)	3,119	3,719	3,119	3,719
Other employees	11,582	10,875	11,582	10,875
Total	18,158	17,504	18,158	17,504

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Social security contributions, total	8,834	8,830	8,834	8,830
Of which pension costs	2,922	2,881	2,922	2,881
Board Members	-	-	-	-
Former CEO				
Michael Oredsson	415	517	415	517
Interim CEO				
Gun-Britt Fransson	186	-	186	-
Other management (3)	772	860	772	860
Other employees	1,549	1,504	1,549	1,504

Probi's former CEO, Michael Oredsson, left the company in 2013. His employment ceased in August 2013. Gun-Britt Fransson served as Interim CEO during the period June–December 2013.

The CEO and an additional three senior executives are entitled to bonuses if certain goals, established annually by the Board, are met. If the goals are met in full, a bonus shall be paid of 30% of the annual salary. However, bonuses shall never be paid in an amount totalling more than 50% of the annual salary.

At 31 December 2013, TSEK 2,391 (586) including social security contributions, was reserved for bonuses to personnel. The amount will be paid in 2014 and distributed as follows: the CEO, TSEK 387 (168); senior executives (2) (3) TSEK 648 (192), and other employees, TSEK 1,356 (226).

The 2011 AGM adopted a share-price-based incentive plan for executive management. The outcome is dependent on a comparison between the company's share price and the general index of the NASDAQ OMX Stockholm in 2013 compared with 2010, and 2014 compared with 2011, whereby the share price must have exceeded the general index by at least 25% in 2013 compared with 2010, and by at least 25% in 2014 compared with 2011 for any right to remuneration to apply. The programme pertaining to the 2010–2013 period concluded without entitling any bonus payments. Any remuneration pertaining to the programme for the period 2011–2014 will be paid year in 2015. No provisions were made for the share-based incentive programmes in 2013 or 2012 since the criteria for the lowest payment were not met.

The notice period for the CEO is six months if given by the CEO. If notice is given by the company, the notice period is 12 months. The retirement age for the CEO is 65. The notice period for other senior executives varies between six and nine months if given by Probi, and between three and six months if given by the employee. There are no other severance pay or pension agreements within the company other than those described above.

The CEO's remuneration is determined by the Board of Directors and that of other management personnel by the CEO and the Chairman of the Board. The company has no outstanding and unrecognised pension commitments, as all pensions are defined-benefit pensions. Executive management comprises three men and one woman.

Note 11 Depreciation of fixed assets

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Depreciation	-4,934	-6,351	-4,934	-6,351
Total	-4,934	-6,351	-4,934	-6,351

Note 12 Financial income and expenses

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Interest income	1,417	1,615	1,417	1,615
Exchange-rate gains	228	385	228	385
Exchange-rate losses	-297	-887	-297	-887
Interest expenses	-	-	-	-
Total	1,348	1,113	1,348	1,113

Note 13 Income tax

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Current tax for the year	-5,457	-3,606	-5,457	-3,606
Tax attributable to previous years	-	-69	-	-69
Deferred tax	1,011	-1,142	-	-
Total	-4,446	-4,817	-5,457	-3,675
Income before tax	19,491	18,322	24,086	13,129
Nominal tax rate 22.0% (26.3%)	-4,288	-4,818	-5,299	-3,453
Tax effect on other non-taxable or tax deductible income	-158	-153	-158	-153
Adjustment previous years	-	-69	-	-69
Effect of changed tax rate	-	223	-	-
Total	-4,446	-4,817	-5,457	-3,675

Note 14 Operational leasing agreements

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

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Leasing costs for the year	3,165	2,993	3,165	2,993
Falls due for payment within one year	2,596	3,117	2,596	3,117
Falls due for payment after one, but within five years	328	2,592	328	2,592
Falls due for payment after more than five years	-	-	-	-

Note 15 Capitalised development expenses

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Opening cost	9,198	6,149	9,198	6,149
New acquisitions	10,832	3,049	10,832	3,049
Closing accumulated cost	20,030	9,198	20,030	9,198
Opening depreciation/amortisation and discarding	-1,229	-813	-1,229	-813
Amortisation for the year	-2,190	-416	-2,190	-416
Closing accumulated depreciation/amortisation and discarding	-3,419	-1,229	-3,419	-1,229
Closing residual value	16,611	7,969	16,611	7,969

Note 16 Patents and licenses

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Opening cost	59,340	56,943	59,340	56,943
New acquisitions	2,542	2,397	2,542	2,397
Closing accumulated cost	61,882	59,340	61,882	59,340
Opening amortisation	-51,452	-46,627	-51,452	-46,627
Amortisation for the year	-1,612	-4,825	-1,612	-4,825
Closing accumulated amortisation	-53,064	-51,452	-53,064	-51,452
Closing residual value	8,818	7,888	8,818	7,888

Closing residual value at 31 December 2013 pertain entirely to patents. The licenses related to the European rights that were repurchased from Skånemejerier for MSEK 40 in 2001 were amortised on a straight-line basis from the year of acquisition until 2012 and are now fully depreciated.

Note 17 Goodwill

	GROUP	
	2013	2012
Opening cost	2,762	2,762
Closing residual value	2,762	2,762

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

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

Probi carried out impairment tests to determine the goodwill value at 31 December 2013. These tests did not indicate that any impairment requirements exist. No goodwill was recognised in the Parent Company.

Note 18 Improvements to leased property

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Expenditure on leased property				
Opening cost	1,398	1,398	1,398	1,398
Acquisitions for the year	-	-	-	-
Closing accumulated cost	1,398	1,398	1,398	1,398
Opening amortisation	-703	-324	-703	-324
Amortisation for the year	-379	-379	-379	-379
Closing accumulated amortisation	-1,082	-703	-1,082	-703
Closing residual value	316	695	316	695

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

Note 19 Equipment and tools

EQUIPMENT	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Opening cost	7,784	7,090	7,784	7,090
Purchases	471	1,102	471	1,102
Sales	-	-127	-	-127
Discarding	-427	-281	-427	-281
Closing accumulated cost	7,828	7,784	7,828	7,784
Opening amortisation	-5,459	-4,900	-5,459	-4,900
Amortisation for the year	-753	-730	-753	-730
Amortisation on sold equipment	-	-	-	-
Amortisation on disposed equipment	427	171	427	171
Closing accumulated amortisation	-5,785	-5,459	-5,785	-5,459
Closing residual value	2,043	2,325	2,043	2,325

Note 20 Participations in Group companies

	2013	2012
Carrying amount	4,031	4,031

Specification of the Parent Company's shareholding in Group companies

	Share of equity	Share of votes	No. of shares	Carrying amount	Equity
Probi Food AB 556354-1951, Lund	1	1	10,000	3,931	3,935
Probi Feed AB 556540-4364, Lund	1	1	1,000	100	100

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

Note 21 Accounts receivable

Carrying amount corresponds to the fair value of accounts receivable. Probi's accounts receivable primarily refer to a few major licensing partners. The company does not consider these partners to constitute a significant credit risk. No accounts receivable were impaired in 2013 or 2012. Most of the accounts receivable that had fallen due by year-end had been settled at the end of January 2014.

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Not fallen due	17,603	16,977	17,603	16,977
Fallen due 0–45 days	5,224	6,593	5,224	6,593
Fallen due >45 days	116	–	116	–
Total	22,943	23,570	22,943	23,570

Note 22 Prepaid expenses and accrued income

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Prepaid rent	643	659	643	659
Insurance premiums	83	294	83	294
Accrued interest income	222	–	222	–
Other items	540	446	540	446
Total	1,488	1,399	1,488	1,399

Note 23 Other long-term liabilities

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Liabilities to Group Companies, > five years	–	–	4,035	4,035
Total	–	–	4,035	4,035

Note 24 Accrued expenses and deferred income

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Accrued holiday pay including social security contributions	956	1,188	956	1,188
Social security contributions	427	428	427	428
Accrued administration and selling expenses	102	1,058	102	1,058
Accrued variable remuneration to employees	2,391	586	2,391	586
Other accrued personnel costs	20	140	20	140
Other items	725	307	725	307
Total	4,621	3,707	4,621	3,707

Note 25 Pledged assets and contingent liabilities

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Chattel mortgages	800	800	800	800
Bank guarantee, Swedish Customs	165	–	165	–
Total pledged assets	965	800	965	800

The company has no contingent liabilities.

Note 26 Related-party transactions

Transactions with related parties recognised in statement of comprehensive income:

	GROUP		PARENT COMPANY	
	2013	2012	2013	2012
Lavindia AB, related party:				
Mats Lidgard (Board member)	–39	–	–39	–
Atherioco AB, related party:				
Jan Nilsson (Board member and Chairman Probi Scientific Advisory Board)	–90	–60	–90	–60
Total costs	–129	–60	–129	–60

The transactions above relate to consulting fees for Probi Scientific Advisory Board and legal issues. At 31 December 2013, Probi had a liability of SEK 30,000 (–) to Atherioco AB, which was recognised in the statement of financial position.

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

Note 27 Events after the balance-sheet date

On 10 January 2014, Probi's largest owner, German Symrise, acquired additional shares in Probi, whereby the company's shareholding now exceeds 30% of the share capital and voting rights. Symrise was thus required to make a mandatory offer to acquire all of Probi's shares. Symrise made their mandatory offer public on 6 February 2014.

Signatures for the annual report

The Annual Report and consolidated financial statements were approved by the Board on 12 March 2014. The consolidated statement of comprehensive income and the statement of financial position, as well as the Parent Company's income statement and balance sheet will be presented to the Annual General Meeting on 29 April 2014 for adoption. The Board of Directors and CEO affirm that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and that they provide a true and fair view of the Group's financial position and earnings. The Annual Report has been prepared in accordance with generally accepted accounting standards and provides a true and fair view of the Parent Company's financial position and earnings.

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

Lund, 12 March 2014

Per Lundin
Chairman

Benedicte Fossum

Mats Lidgard

Jan Nilsson

Eva Redhe Ridderstad

Declan MacFadden

Peter Nählstedt
CEO

Our auditor's report was submitted on 12 March 2014
Deloitte AB

Per-Arne Pettersson
Authorised Public Accountant

Auditors' Report

To the annual meeting of the shareholders of Probi AB (publ), Corporate Registration Number 556417-7540

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of PROBI AB (publ) for the financial year from 1 January 2013 to 31 December 2013, with the exception of the corporate governance report on pages 55-57. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 50-72.

Responsibilities of the Board of Directors and the CEO for the annual accounts and consolidated accounts

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

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the annual accounts and consolidated accounts are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The auditor chooses such procedures based on

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

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

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2013 and its financial performance and cash flows for the year in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The Director's Report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the Parent Company and the Group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the CEO of Probi AB (publ) for the financial year from 1 January 2013 to 31 December 2013. We also conducted a statutory review of the corporate governance report.

Responsibilities of the Board of Directors and the CEO

The Board of Directors is responsible for the proposal concerning the appropriation of the company's profit or loss, and the Board of Directors and the CEO are responsible for

administration under the Companies Act and for ensuring that the corporate governance report on pages 55-57 has been prepared in accordance with the Annual Accounts Act.

Auditor's responsibility

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

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

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

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

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

Opinions

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

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

Malmö, 12 March 2014
Deloitte AB

Per-Arne Pettersson, Authorised Public Accountant

Board of Directors



Per Lundin

Chairman of the Board, born 1947.

History

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

Other board assignments

Kung Markatta AB, M3 Bygg AB, Gastronomi Sverige AB, Kinnan Holding AB and Senior-life AB.

Shares in the company

–

Independent in relation to the company

Yes.

Independent in relation to major shareholders

Yes.



Benedicte Fossum

Board member, born 1962

Education

Veterinarian, Norway School of Veterinary Science.

History

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

Other board assignments

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

Shares in the company:

–

Independent in relation to the company

Yes.

Independent in relation to major shareholders

Yes.



Mats Lidgard

Board member, born 1954

Education

LLB, Lund University 1980.

History

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

Other board assignments

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

Shares in the company

1,000 shares.

Independent in relation to the company

Yes.

Independent in relation to major shareholders

Yes.



Eva Redhe Ridderstad

Board member, born 1962

Education

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

History

Board member since 2011. Former Executive Chairperson and CEO of Erik Penser Fondkommission AB, founder and President of Mercurius Financial Communications AB and Investor AB.

Other board assignments

Chairperson of Spago Imaging AB and Ftrack AB, Board member of Pled Pharma AB, Protector Forsikring ASA, TAM Group AB, Axel Christiernsson International AB and AP1.

Shares in the company

4,000 shares.

Independent in relation to the company

Yes.

Independent in relation to major shareholders

Yes.



Jan Nilsson

Board member, born 1953

Education

Medical programme and Doctor of Medicine, Karolinska Institutet.

History

Board member since 2010. Professor of Experimental Cardiovascular Research at Lund University. Formerly held such positions as Dean of the Faculty of Medicine at Lund University, 2000–2005, and Assistant Head Secretary for the Medical Research Council, 1993–1996.

Other board assignments

Atherioco AB and MedScientia AB

Shares in the company

–

Independent in relation to the company

Yes.

Independent in relation to major shareholders

Yes.



Declan MacFadden

Board member, born 1954

Education

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

History

Board member since 2013. CEO of Symrise, Asia and the Pacific Region, Flavour and Nutrition business based in Singapore since 1998. Has previously held executive positions in various companies, including ICI, Unilever, Bicon, Guinness and Warner Lambert.

Other board assignments

Chairman of the UWCSEA Foundation Board. Former Chairman and Board member of Esterol Malaysia.

Shares in the company

–

Independent in relation to the company

Yes.

Independent in relation to major shareholders

No.

Management



Peter Nählstedt

CEO, born 1974

Education

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

History

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

Shares

2,000 shares.



Gun-Britt Fransson

Vice President of Research and Development, born 1953

Education

PhD in Nutrition from Uppsala University.

History

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

Shares

2,000 shares.



Niklas Brandt

CFO, born 1959

Education

Business Administration degree from Lund University.

History

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

Shares

1,000 shares.



Niklas Bjärum

Vice President of Marketing and Sales, born 1963

Education

Degree in International Business Administration from Lund University.

History

Niklas Bjärum was employed in February 2001 and was given responsibility for the company's Marketing and Sales Department. After receiving his degree in 1988, Niklas held a number of positions in marketing, sales and business development of both an operational and strategic nature at international food companies, such as Nestlé and Masterfoods (Mars Inc.) In 1998, he changed industries and worked at Ericsson Mobile Communications for three years, where he was responsible for business development for the European market.

Shares

4,000 shares.

Annual General Meeting

The Annual General Meeting for 2014 will be held in Lund on Tuesday 29 April 2014 at 3:00 p.m. at Elite Hotel, Ideon Gateway, Scheelevägen 27, Lund, Sweden.

Right to participate

To be entitled to participate in the Annual General Meeting, shareholders must be registered in the shareholders' register maintained by Euroclear Sweden AB as of Wednesday, 23 April 2014 and shall have notified the company of their intention to participate not later than Wednesday, 23 April 2014 at 4:00 p.m.

Shareholders whose shares are registered with a trustee must temporarily re-register their shares in their own name with Euroclear Sweden AB in order to participate in the Meeting. Such registration must be completed not later than Wednesday, 23 April 2013. This means that shareholders must notify the trustee of their intention to temporarily re-register these shares in ample time before this date.

Notification of participation

Notification of participation in the Meeting can be made:

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

The notification should include the following:

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

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

A power of attorney form is available upon request.

Financial calendar for 2014

Interim report Q1, 2014

29 April 2014

Annual General Meeting

29 April 2014, 3:00 p.m.

Interim report Q2, 2014

19 August 2014

Interim report Q3, 2014

29 October 2014

Year-end report 2014

28 January 2015

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