

PROBI ANNUAL REPORT 2009



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ABOUT PROBI'S BRAND AND LOGOTYPE

Probiotics is composed of the Latin word pro and the Greek word bios, which together make the word probio – for life.

Probi's logotype is a large P that symbolises the stomach, the original focus area for Probi. In the P, there is also a red dot that has the form of a bacterium, Probi's patented bacterium *Lactobacillus plantarum 299v, Lp299v*.

2009 IN BRIEF

IMPORTANT EVENTS DURING 2009

- Bravo Friscus, a new probiotic juice with positive effects on the immune system, was launched in Sweden together with Skånemejerier.
- A business partnership was entered with Bringwell regarding the launch of Probi's dietary supplement for gastrointestinal health and the immune system with Probi's own brands in the Nordic market during 2010.
- Jarrow Formulas will launch Probi's dietary supplement for gastrointestinal health in the US health market through a new contract with Institut Rosell.
- Probi's supply contract with Kraft was terminated during 2009, resulting in a decline in Probi's net revenues, compared with 2008, but providing non-recurring income of MSEK 5.4.
- Probi's US business partner NextFoods expanded its product range with the launch of Good-Belly BigShot 50.
- Royalty revenues from ProViva continued to increase and rose 7 per cent during 2009.
- Per Lundin became new Chairman of the Probi Board of Directors.

EVENTS AFTER THE CLOSING DATE

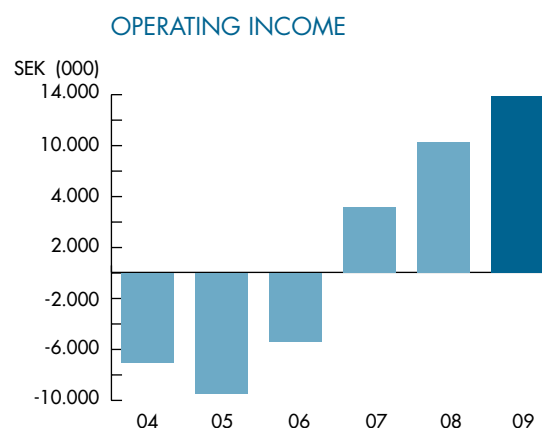
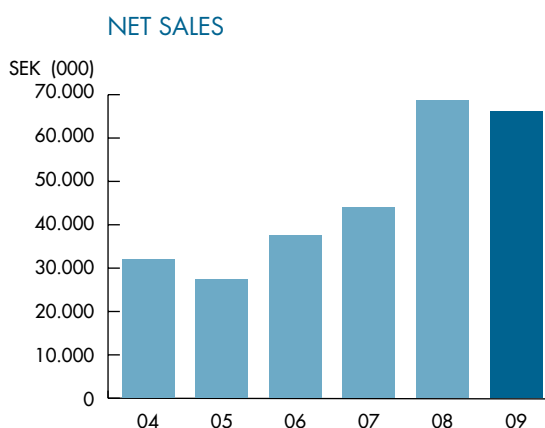
- Merck KgaA will launch Probi's dietary supplement for gastrointestinal health in 13 Latin American markets through a new contract with Institut Rosell signed in January 2010.

NEW EMPLOYEES DURING 2009

- Cecilia Wallentin-Lindberg, L.Sc, Quality manager
- Jenny Olofsson, M.Sc., Probi's product development
- Josefine Hiller, M.Sc., Probi's laboratory

FINANCIAL INFORMATION 2009

- Net sales amounted to MSEK 65.5 (68.0), a decline of 4 per cent.
- Operating profit before depreciation, amortisation and impairment (EBITDA) increased by 24 per cent and amounted to MSEK 18.9 (15.3).
- Cash flow from operations improved 35 per cent and amounted to MSEK 17.7 (13.1).
- Earnings per share after tax amounted to SEK 1.15 (0.85).



WELL PREPARED FOR THE FUTURE

Probi can sum up 2009 as a year without growth but with a pronounced increase in profit and improved positions for the future. We have shown that Probi's business model functions even in times of crisis and that the investments made in recent years to expand the company's offering are beginning to bear fruit.

During recent years, Probi has undergone a transition that step by step created a significantly better position for the company. We are no longer an ingredient company with a niche in the area of gastrointestinal health but rather a considerably broader company with several offerings and initiatives in own brands in the Nordic region.

World-class research is at the core of Probi's offering. Our products are based on clinical research according to the same fundamental principles that apply for pharmaceuticals. It was our focused research initiatives that during 2009 resulted in the launch of a completely new product concept that strengthens the immune system.

MILESTONES ON THE WAY

Skånemejerier's launch of the Bravo Friscus juice in September was the first launch of the immune product and was therefore a milestone for Probi. We thus broadened our offering to a market that is larger globally than gastrointestinal health. The historically strong relations and proven successes that we share with Skånemejerier with respect to ProViva create a strong base and security for the future also with respect to this product.

In December, we presented a new strategic partnership with the Nordic region's largest player in self-care products, Bringwell. Together, we are now launching both our well-established gastrointestinal health product and our new immune product in the Nordic region, starting in Sweden. These products will be launched under our own brands ProbiMage and ProbiFrisk. ProbiMage is sold as a capsule and ProbiFrisk in tablet form that give the consumer an opportunity to easily keep the stomach in trim and protect against colds. Clinical studies and consumer tests show that both products result in health improvements that users really notice. Ensuring that users notice health improvements is Probi's most important customer promise.

Another milestone during 2009 is that we now have a contract for sales in more than 40 countries around the world. This is a great increase from the 14 countries that were covered in mid-2007. Much remains to be done, however, and Probi has only begun work with international expansion and penetration of the most important markets in a forceful manner.

ATTRACTING THE MAJOR PLAYERS

Probi has advanced its positions as a leading international player within well-documented and effective probiotics. This is also reflected in that we in several cases have entered partnerships with major international companies. Merck, Kraft and Danone are some specific examples from recent years. During 2009, we expanded the dialogue to include most of the leading companies within foods and dietary supplements that are interested in probiotics. These increased efforts in marketing and network building should give us an opportunity to realise the global potential in our product portfolio over the coming years.

SALES DECLINED

As I sum up 2009, I am particularly pleased that we have strengthened our position for the future by expanding the product offering and relations with the best international companies. It is also very gratifying that operating income increased 35 per cent to MSEK 13.8, despite somewhat lower sales of MSEK 65.5 (68.0). The decline in sales was attributable to two factors:

The most important was that we experienced a sharp drop in income when Kraft stopped sales of the LiveActive probiotic muesli bars in the US. Profitability was not negatively affected compared with 2008 in that Probi received non-recurring income in conjunction with the discontinuation in 2009. On the other hand, this did not provide compensation in terms of revenue for Probi's very large raw materials deliveries to Kraft in conjunction with the launch in 2008.

The other reason was that the recession at the end of 2008 and the beginning of 2009 delayed new contracts and thus also new revenue opportunities. However, consumer interest for health products was not negatively affected during the recession. Probi's revenues from existing contracts thus showed a positive trend during the year, with a 9 per cent increase in revenues after elimination of Kraft revenues. Toward the end of the year, a positive swing in the economy was noted that also contributed to a more positive attitude towards new initiatives. This resulted in several new contracts around the turn of the year 2009/2010.

FANTASTIC EFFORTS

One of the most important reasons for Probi's positive development in recent years is definitely our team, which did a fantastic job also during 2009. Although we are a small organisation, we are able to manage many projects simultaneously, while maintaining high quality and efficiency in both business development and research. Probi can respond swiftly and resolutely to business opportunities that arise



by having short decision paths and maintaining a constant pressure in business discussions. We have a clear strategy with respect to the type of business that we prioritise and with which companies we most prefer to partner.

Constantly developing the personnel we have and attracting new employees of top class is a key factor for Probi. It is most important that Probi continues to be successful, but we also take a number of initiatives to develop the group, as well as individuals. One example in 2009 within research and development is that we began to introduce the method for conducting projects that is used by the best Japanese companies and which is usually called Knowledge Innovation Visual Planning.

There are thus many signs that are pointing in the right direction for Probi. This also applies to the market and external factors. The health trend is growing stronger throughout the world, meaning that both food companies and players within dietary supplements are seeking products with potent health benefits that can provide higher margins.

DIVIDEND TO SHAREHOLDERS

The Board of Directors' decision to propose a dividend to shareholders for the first time in Probi's history shows that the company is well prepared for the future. Probi's financial position remains strong, meaning that we can invest in research and act forcefully when new business opportunities arise.

The greatest pleasure and challenge for me and all of Probi's employees is nonetheless that much remains to be accomplished. We are well prepared going into 2010 and have great opportunities to make Probi even better.

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

Michael Oredsson, President

PROBI'S BUSINESS

VISION

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

MISSION

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

BUSINESS CONCEPT

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

STRATEGY

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

BUSINESS MODEL

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

Every market has unique conditions in terms of competition, population and price levels, as well as acceptance and traditions in terms of probiotics. A thorough analysis is therefore carried out prior to

every new investment. This leads to a unique marketing strategy for specific markets in order to optimise profitability and minimise risks.

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

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

FINANCIAL OBJECTIVES 2005 TO 2009

The following objectives were set for the business from 2005 onwards in conjunction with the introduction on the Stockholm Stock Exchange in December 2004.

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

FINANCIAL OBJECTIVES AS OF 2010

Probi's financial objectives for the coming three to five years are:

- At least 25 per cent average annual organic growth.
- A net margin exceeding 25 per cent.
- Positive cash flow amounting to at least 50 per cent of operating income.

Objectives	2005	2006	2007	2008	2009	Objective	Goal attainment
Organic growth (sales), per cent	-14	+37	+17	+56	-4	avg. 25	
Operating margin, excl. R&D costs, per cent	+21	+27	+44	+41	+43	> 60 %	
R&D costs as per cent of operating income	56	40	31	25	22	< 30 %	V
Profit before tax, SEK 000s	-8,833	-4,834	+6,427	+12,426	+14,662	Positive as of 2007	V
Net margin, per cent	-32	-13	+15	+18	+22	> 25 %	
Cash flow, SEK 000s	-7,222	-5,266	+12,984	+13,922	+10,365	Positive as of 2007	V



ProViva

ProViva

female

female

female

Mango

Jordgubb Açaí

1650

ProViva female mang
SKÅNEMEJERIER 350 ml

44.29

1550

ProViva female
SKÅNEMEJERIER 350 ml

ORGANISATION

Research is by tradition the foundation for Probi's business and continues to characterise the organisation, which conducts R&D-intensive operations. Of the company's 22 employees, 15 work with research and product development. Quality Assurance, Regulatory Affairs and patent protection are also handled within the research organisation. To quickly turn research results into commercial products, Probi has a product development function that is responsible for establishing external production of tablets and drinks, for example. These functions support the two business areas, Functional Food and Dietary Supplements.

Probi's operative management consists of the President, CFO and Marketing and Sales director. Each business area is headed by a marketing and sales manager.

HISTORY

Probi's origin can be traced back to 1986, when a research project was conducted at Lund University. The objective was to identify a product that would strengthen immune system in patients in intensive care. The research results included the patented probiotic strain *Lp299v*, and Probi was founded in 1991.

CUSTOMERS

Probi's customers include food, health and pharmaceutical companies in the global market for health products. The company offers probiotics for functional food, meaning fruit drinks, juices and dry foods, such as bars, biscuits and flakes, and probiotics for dietary supplements in the form of tablets and capsules.

Probi's most important customers in Functional Food are Skånemejerier and NextFoods. Among the most important within Dietary Supplements are Institut Rosell, Merck & Co. and Health World/Metagenics in Australia and the US, and Sanum Polska and Proton Systems in Poland and Serbia, respectively.

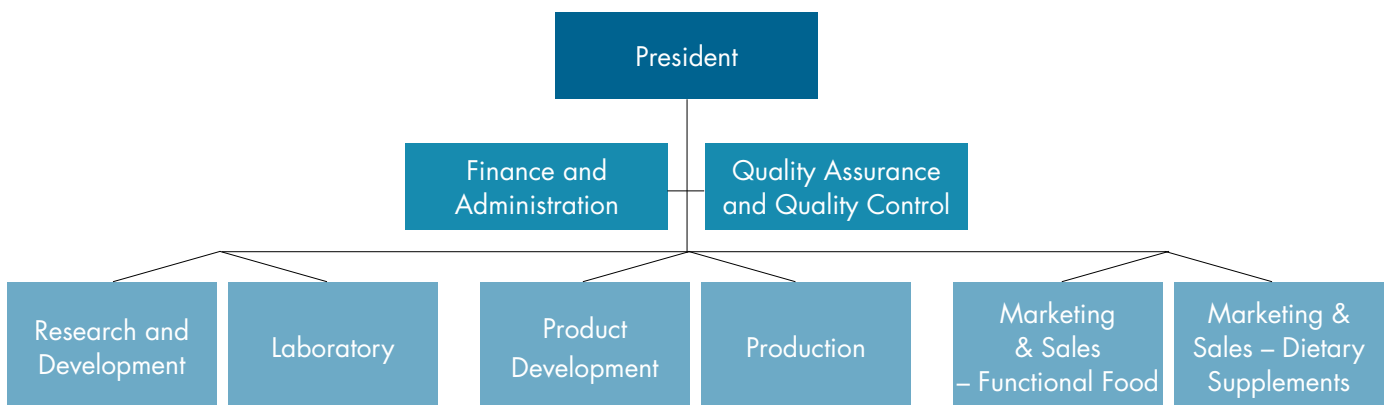
During 2009, Probi entered a business partnership with Bringwell, which with Probi's support will launch Probi's dietary supplements for immune system and gastrointestinal health in the Nordic market. The products will be marketed via pharmacies and health food stores under Probi's own brands ProbiFrisk and ProbiMage. The launch will take place during 2010.

MARKET

Probi is active in a strongly competitive market. The company faces competition at many levels of the value chain. Among competitors, there are a number of ingredient companies that produce their own probiotics based on other bacteria strains.

In addition, Probi competes with other probiotic companies that as Probi, have a mixed business model with options for own production and licensing to partners.

In addition, Probi faces competition from food companies with own probiotic research and production, such as Danone, Yakult and Nestlé. However, it is not only companies and players that work specifically with probiotics that compete with Probi, but also companies that offer products that fulfil the same or similar needs such as prebiotics and fibres, for example. Within this segment, there are a large number of global players, many of which have substantial resources.



**SKÅNE
MEJERIER**



Proviva
FRUKTDRYCK
Mango

Magens bästa värd



Proviva



Proviva
Jord
Med okth

THE SHARE

LISTING

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

SHARE CAPITAL

On 31 December 2009, Probi's share capital amounted to SEK 46,826,500 (46,826,500) divided among 9,365,300 shares. Each share carries the right to one vote and the same rights to a share in the company's assets and profit. The share capital was unchanged during the year. The quotient value of the share is SEK 5.

OWNERSHIP

The number of registered shareholders on 31 December 2009 was 4,463 compared with 4,500 on 31 December 2008. Of the total number of shares, institutional ownership accounts for about 65.9 per cent (61.6), private owners for 34.1 per cent (38.4) and foreign owners for about 28.7 per cent (28.2).

The largest proportion of shares held by foreign owners is in Europe and corresponds to 14.5 per cent (15.1). Probi's principal owners, H & B Capital, Consepio and Skånemejerier, control about 35.2 per cent (33.0) of the votes and the capital.

SHARE PERFORMANCE

Probi's share increased 63 per cent during 2009 and was listed at a closing price of SEK 61.75 (37.80) at year-end. The OMX General Index Stockholm PI increased 46.7 per cent. The highest and lowest prices in 2009 were SEK 62.00 (48.80) and SEK 31.00 (26.00), respectively. Probi's total market value was MSEK 578 (354) on 31 December 2009.

During 2009, 3,348,567 (2,969,306) Probi shares were traded on Nasdaq OMX Nordic, corresponding to 36 per cent (32) of the total number of shares. The average turnover per trading day was 13,341 (11,783). The turnover rate or liquidity was 35 per cent (31). Over the past five years, the Probi share has had an average price increase of 15.5 per cent per year.

SHARE CAPITAL DEVELOPMENT

Event	Year	Issue price	Increase in no. of shares	Total no. of shares	Par value of share	Increase in share capital	Share capital
Establishment	1991		500	500	100	50,000	50,000
Bonus issue 1:1	1997		500	1,000	100	50,000	100,000
Targeted issue ¹⁾	1997		150	1,150	100	15,000	115,000
Split 100:1	1997		113,850	115,000	1.00	0	115,000
Bonus issue 34:1	1998		3,910,000	4,025,000	1.00	3,910,000	4,025,000
Targeted issue ²⁾	1998		1,006,250	5,031,250	1.00	1,006,250	5,301,250
Bonus issue 50:10	1998		7,546,875	12,578,125	1.00	7,546,875	12,578,125
Targeted issue ³⁾	1998	12	1,721,875	14,300,000	1.00	1,721,875	14,300,000
Bonus issue 13:10	1998		18,590,000	32,890,000	1.00	18,590,000	32,890,000
Rights issue	2000	10	8,222,500	41,112,500	1.00	8,222,500	41,112,500
Reverse split 5:1	2004		-	8,222,500	5.00	-	41,112,500
New issue	2004		1,142,800	9,365,300	5.00	5,714,000	46,826,500

1) Issue targeted to founders and senior executives

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

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

DIVIDEND POLICY

The Board of Directors and the President propose that the 2010 Annual General Meeting approve that the company pay a dividend of SEK 0.50 per share, corresponding to a total dividend of MSEK 4.7, and that the remaining retained earnings of MSEK 38.6 be brought forward.

Assuming that Probi is able to maintain a suitable capital structure in the future and that it is deemed possible to maintain the company's financial goals, Probi's goal is to be able to pay a dividend of 30-50 per cent of profit after tax.

OPTIONS PROGRAMMES

Probi has no outstanding convertible loans or outstanding subscription warrants.

LIQUIDITY GUARANTEE

On 31 December 2009, Probi terminated the liquidity guarantee agreement that the company had with HQ Bank since 2004. No new liquidity guarantor has been designated.

INVESTOR RELATIONS

Probi's long-term and overriding goal is to create value growth for its shareholders. The company works continuously to improve the dissemination of information and to supply the capital market, shareholders, investors and other stakeholders with relevant documentation for a fair valuation of the company. The ambition is that financial information shall be characterised by openness and relevance to increase confidence in and interest for Probi's business.

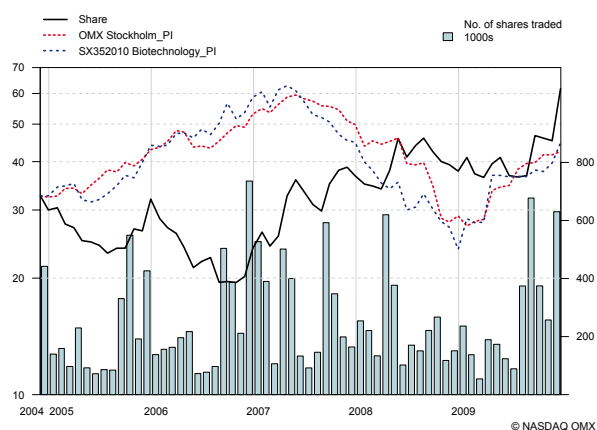
During the year, Probi launched a new website, in part with the objective of increasing interest for the company's offering and the share. See www.probi.se.

ANALYSTS WHO MONITOR PROBI:

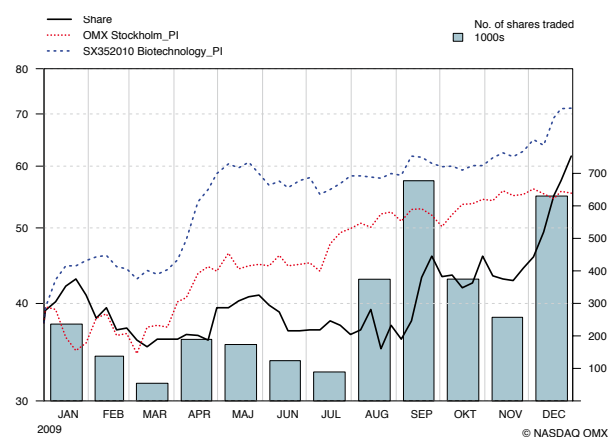
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PRICE TREND AND TURNOVER 2004-2009



PRICE TREND AND TURNOVER 2009



SHAREHOLDERS

Owner	No. of shares	Percentage of share capital and votes
H&B Capital LP	1,212,542	12.95 %
Consepio	1,125,842	12.02 %
Skånemejerier ek. för.	985,403	10.23 %
Nordea	854,000	9.12 %
KL Chem AB	566,333	6.05 %
Göran Molin w companies	373,176	3.98 %
Bengt Jeppsson	300,000	3.20 %
Avanza pension	140,700	1.50 %
Siv Ahrné	130,466	1.39 %
SEB Private Bank	121,500	1.30 %
Others	3,555,338	38.26 %
Total	9,365,300	100.00 %

HOLDING PER SHAREHOLDER

Share distribution	No. of shareholders	No. of shares	Proportion of shares, per cent
1-500	3,351	591,536	6.32 %
501-1,000	571	456,926	4.88 %
1,001-5,000	426	977,103	10.43 %
5,001-10,000	59	415,764	4.44 %
10,001-15,000	18	219,711	2.35 %
15,001-20,000	11	202,670	2.16 %
20,001-	27	6,501,590	69.42 %
Total	4,463	9,365,300	100.00 %

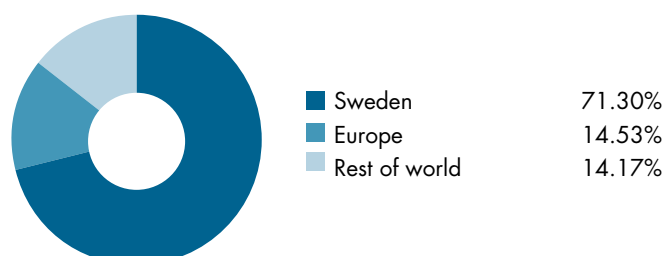
PER SHARE DATA

	2009	2008	2007	2006	2005	2004
No. of shares on 31 Dec., 000s	9,365	9,365	9,365	9,365	9,365	9,365
Earnings per share, SEK	1.15	0.85	2.62 ¹⁾	-0.52	-0.94	-0.71
Shareholders' equity per share, SEK	12.17	11.03	10.17	7.55	8.06	9.01
Cash flow per share, SEK	1.11	1.49	1.39	-0.56	-0.77	2.86
Closing share price on 31 Dec., SEK	61.75	37.80	36.80	23.90	32.00	30.00
Price/equity ratio, multiple	5.07	3.43	3.62	3.17	3.97	3.33
P/E ratio, multiple	53.70	44.47	14.05	neg.	neg.	neg.
Dividend, SEK	0.50 ²⁾	-	-	-	-	-
Market value on 31 Dec., SEK 000s	578,307	354,008	344,643	223,831	299,690	280,959

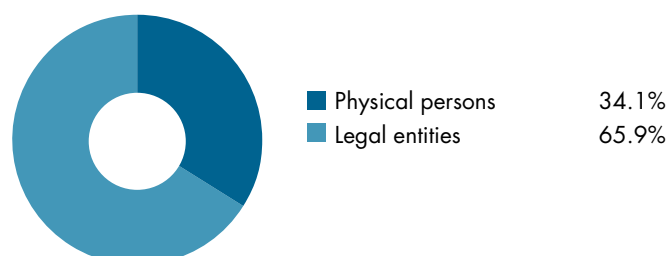
1) Earnings per share in 2007 include tax income of SEK 1.93 per share relating to capitalisation of deferred tax asset.

2) The Board of Directors' proposal to the Annual General Meeting on 22 April 2010.

DISTRIBUTION SWEDISH/FOREIGN OWNERS



DISTRIBUTION INSTITUTIONAL/LEGAL ENTITIES – PRIVATE OWNERS



RISKS

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

CONTRACTS WITH SELECTED STRATEGIC BUSINESS PARTNERS

Probi has strategic partnerships and contracts with a number of selected partners. These partners are expected to contribute to increased revenues in the future. Should one or more of these partnerships be terminated, it would have a negative impact on Probi's revenues, earnings and financial position. Royalty revenues from Skånemejerier accounted for 58 per cent (51) of Probi's revenues in 2009.

KEY PERSONS AND EMPLOYEES

Probi is dependent on a few key employees and specialists and the expertise that they possess. The company's future development is strongly dependent on being able to retain employees and recruit new employees with the required expertise.

STRATEGIC RESEARCH PARTNERSHIPS

In addition to internal expertise, a large part of Probi's research is based on partnerships with external Swedish and international researchers. Research partnerships with external partners are an important part of Probi's business model. However, there is no guarantee that these partnerships will result in new discoveries or that Probi will obtain exclusive rights to any results.

REGULATORY RISKS

Requirements and regulations regarding the use of health claims are constantly being made more stringent. Since 1 July 2007, nutritional and health claims are regulated by an EU directive (1924/2006) that applies to 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 taken a very restrictive position with respect to approval of health claims. This applies to all food-classed health products. Up until 2009, no applications relating to probiotics were approved, resulting in significant uncertainty for both Probi and other leading players in the world market.

During 2009, Probi prepared its main applications for health claims in gastrointestinal health and immune system. The applications will be submitted to the EFSA during 2010. Probi considers that the company's applications are supported by clinical data that is among the best in the industry, but this is no guarantee that the health claims will be approved by the EFSA.

DOCUMENTATION AND PATENT PROTECTION

Probi's continued commercial success is largely dependent on continued successful research and its ability to protect future revenue streams with extensive patent protection. Probi can see increased ac-

tivity and interest, as well as new regulations, in the probiotics area. It is thus important that approved patents can be maintained and that new products and applications can be patented.

SECURITY

Probi signs secrecy agreements with both employees and external consultants, and the company strives to instil a high awareness regarding sensitive information. Continuous checks of systems, firewalls and virus protection provide protection against unauthorised access to Probi's IT network and business information. Probi works actively with operational security and monitors that all security functions are correctly administered and work as intended.

COMPETITION

Probi faces increased international competition from ingredients companies and suppliers of probiotic products in both of its business areas. Competition, particularly in Functional Foods, is not only limited to probiotic products, but also involves other products that make strong health claims or that fill the corresponding needs. In Probi's view, substitutes, less serious players and trivialisation of probiotics are significant threats to market growth.

FUTURE CAPITAL REQUIREMENTS

Probi's strategy means that the company will continue to have significant expenses for research and development. Currently, these costs are covered by commercial revenues, and Probi has a sound financial position. If opportunities for faster growth arise, either through strategic acquisitions or organic growth, Probi may need to raise additional capital through new share issues or borrowing.

PRODUCT LIABILITY

Probi's insurance programme includes product liability protection in an extent that the Board of Directors deems motivated given the type of business that Probi conducts. However, Probi's business may give rise to damage claims that are not covered by the insurance. Should this occur, it would have a negative impact on Probi's earnings and financial position.

FINANCIAL RISKS

Probi's business entails various types of financial risks. Sharp and unforeseen changes in exchange rates, interest rates and raw materials prices, for example, may affect Probi's financial position and earnings. These risks are monitored constantly, and each year the Board of Directors revises and approves Probi's finance policy, which describes management of the financial risks. In its current scope, Probi's business is not dependent on external financing via the credit market, and the company has no interest-bearing liabilities. Each year, Probi performs impairment tests relating to patents, goodwill, licensing and similar rights. For further information on financial risks, refer to the Board of Directors' report.



PROBI'S HISTORY



Karl Mohlin

FROM RESEARCH IDEA TO GLOBAL LEADER IN PROBIOTICS

How did Probi take the step from a small research company in the Ideon Science Park in Lund to become a global leader in probiotics? There are certainly many different stories. But all will surely agree that enthusiasm was the bacteria that infected everyone on the way.

Karl Mohlin, responsible for Probi's production, is the person who has been with Probi the longest and therefore personifies the spirit that drives Probi forward. He is the one who has always cultivated the bacteria on which Probi's entire business is based. Today, it is an orderly and systematic process that proceeds without dramatic events, but it hasn't always been that way.

"In the beginning, it was much more of an experiment when we prepared the oat mixtures from which we cultivated bacteria, so the packages could explode during the night. We simply had to clean up and start again from scratch," relates Karl Mohlin, laughing at these fond memories.

Although the official founding date for Probi was 1991, the start dates back to the mid-1980s. At that time, a group of enthusiasts had some ideas about developing something based on fermented oats. They were all researchers who were accustomed to working systematically and documenting everything according to research criteria. This has since characterised Probi through the years and been a strength in distinguishing the company from competitors and in attracting business partners.

Nevertheless, the start was shaky to say the least and was very much based on the enthusiasm of a few individuals. One of the enthusiasts

was Ingela Marklinder, who prepared various oat mixtures that she asked colleagues in other research companies in the park to taste.

"They weren't always a hit, but she nonetheless continued and was completely convinced," recalls Karl Mohlin.

Over time, the fermenting process became increasingly exact. Tests were performed on both those involved and on other individuals. The indications that it really worked became increasingly clear. Proof upon proof was obtained, and the research-oriented approach produced results.

The partnership with Skånemejerier, which later resulted in successful launches of both ProViva and Bravo Friscus, was a critical step. But even that could have gone wrong.

"When the marketing manager smelled the mixture, he refused to drink it. His verdict was uncompromising: 'This simply cannot be sold.' And then it became such a success," laughs Karl Mohlin.

He has many other stories up his sleeve. Probi's road to success was filled with challenges of all kinds, financing, research and competition. But there was one thing that brought success: enthusiasm.

"It is just so incredibly exciting to be part of such an operation. And it still is," says Karl Mohlin, returning to his work to make his contribution to ensuring that Probi's history continues to be as successful.

1991

- Probi is founded.
- A patent application for *Lp299v* is submitted.

1994

- Probi signs a licence agreement with Skånemejerier, which launches ProViva, a fruit drink with Probi's patented *Lp299v* bacteria.

1998

- Probi is listed on NGM.

2000

- Probi implements a new share issue of MSEK 78 with the objective of commercialising the *Lp299v* bacteria within the Functional Foods and Dietary Supplements business areas.
- Positive results from treatment of irritable bowel syndrome (IBS) published.

2001

- The rights to market *Lp299v* in Europe excluding the Nordic countries and the UK are bought back from Skånemejerier.

2002

- Scientific studies within clinical nutrition are published.
- Results for risk factors for cardiovascular diseases are published.

2003

- International licence agreements are signed with world-leading distributors within Functional Food (Group Danone) and Dietary Supplements (Institut Rosell).
- ProViva becomes the first product outside Japan that may be marketed with a product-specific health claim.

2004

- Probi is listed on the O-list of the Stockholm Stock Exchange.

2005

- Dietary supplements with Probi's bacteria are launched in the US, the UK and France.
- Patents are sought for new discoveries relating to *Lp299v*'s effect on the immune system.
- Probi is recognised with the Technology Leadership Award by the international consulting company Frost & Sullivan for successful commercialisation of its bacteria.

2006

- Agreements are signed for seven new geographic markets within Dietary Supplements.

2007

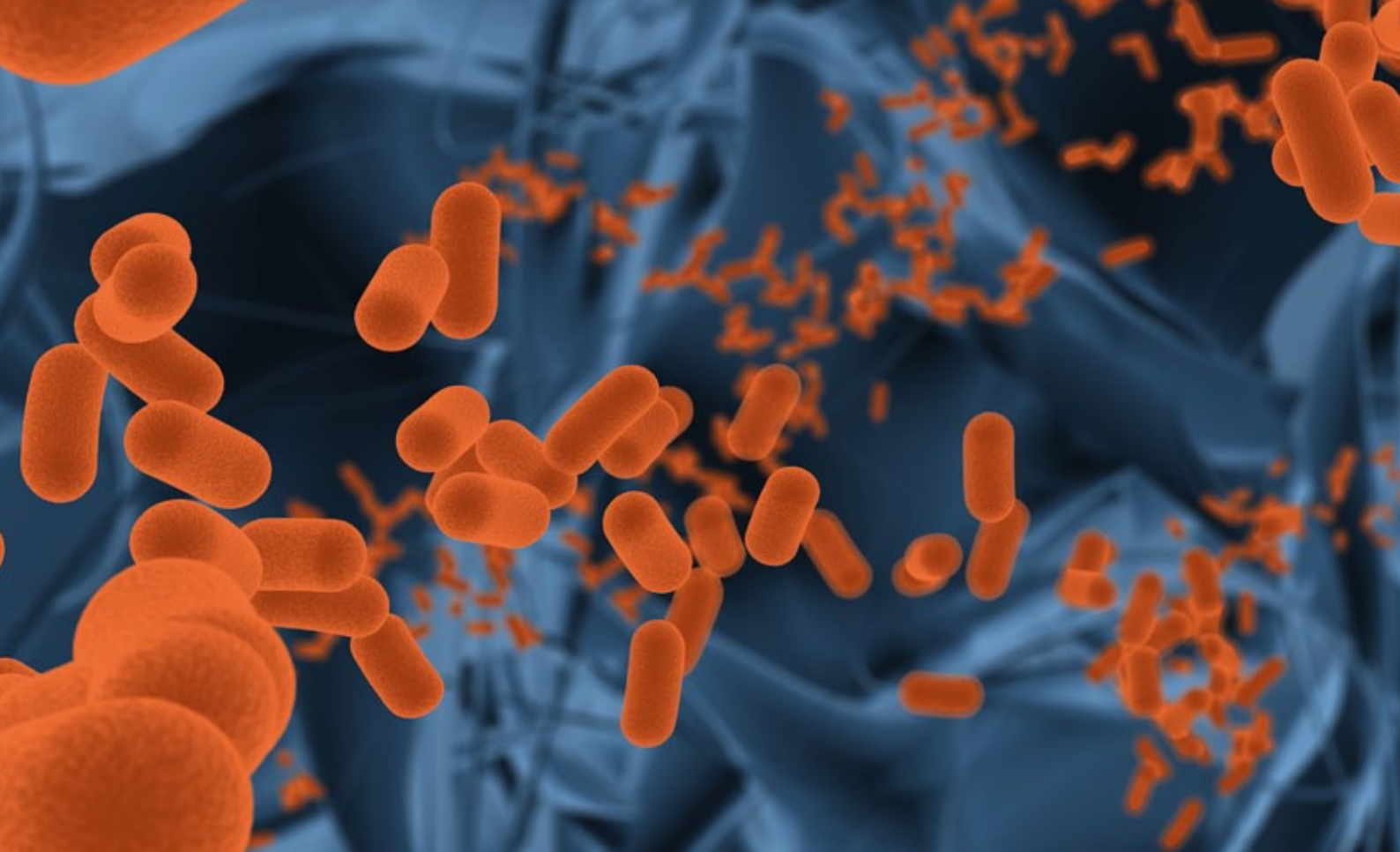
- A contract is signed with NextFoods relating to the launch of fruit drinks with Probi's bacteria in the US market.
- Agreements are signed for six new geographic markets within Dietary Supplements.

2008

- A successful common-cold clinical study with research results of world class provide an opportunity for launching an immune product.
- Agreements are signed for 12 new geographic markets within Dietary Supplements.
- The US business partner NextFoods makes a substantial investment in the launch of the GoodBelly fruit drink with Probi's probiotics in the US.
- The global food group Kraft Foods launches three types of muesli bars with probiotics in the US under the LiveActive brand.
- Research support from Vinnova of MSEK 1.8 provides partial financing of a research study of Probi probiotics' beneficial health effects in the cardiovascular field.

2009

- See page 3.



THE MARKET FOR PROBIOTICS

Probi is active in the global market for health products and offers probiotics to food, self-care and pharmaceutical companies. Probiotics is one of the foremost growth markets within the global health market as a result of increased understanding of the health effects of probiotics and successful launches of tasty products.

The global market for probiotic foods had sales of about USD 19 billion in 2008, with growth of about 15 per cent. Studies show that the market is expected to grow at the same fast rate in the future. The global market for probiotic dietary supplements amounted to about USD 1.8 billion. This market is also expected to grow by 10-15 per cent annually.

INDIVIDUAL HEALTH A DRIVING FORCE

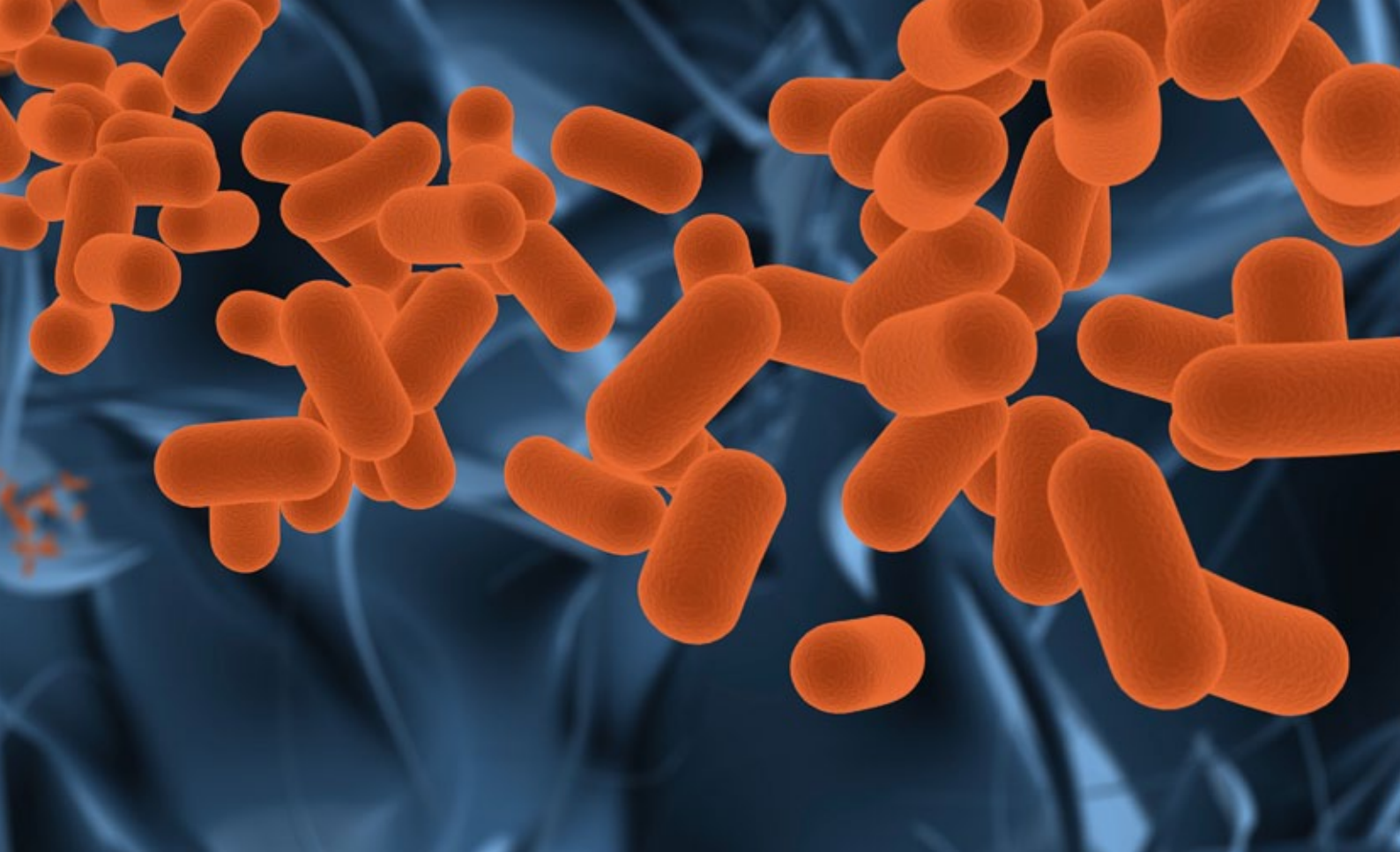
Taking interest in one's personal health is self-evident today. Preventative and individual self-care is a part of modern society. Many people can and want to take responsibility for their health through diet and exercise. This means that many consumers are open to new solutions to own health problems. New products, specially designed for these problems, age and lifestyle, are in increasing demand by curious and knowledgeable consumers.

NEW RESEARCH

Probiotics has traditionally been applied within gastrointestinal health. The stomach is of great importance for the whole body's well-being. Research shows that about 70 per cent of the body immune system is concentrated to the stomach and intestines and is affected to a great degree by the bacteria found there. Based on several studies over the past five years, Probi has developed new probiotic products to strengthen the immune system. Other research documents the health-enhancing effects of probiotics within such areas as allergies, skin conditions and cardiovascular diseases. New research will probably contribute to increased interest in probiotics and strengthening probiotics' influence also outside the traditional area of gastrointestinal health.

SUBSTANTIAL COMPETITION

There are many players in the global probiotics market that also compete with companies that provide other ingredients that address the same needs or problems as probiotics. Competitors are found at all levels of the value chain. Examples of probiotic ingredient companies are the Danish companies Danisco and Chr. Hansen, which produce and sell probiotics to the same customer group as Probi. Sweden's BioGaia and Finland's Valio have exactly the same mixed business model as Probi and offer complete product concepts and applications to customers. Apart from these companies, major food and pharmaceutical companies such as Danone, Yakult and Nestlé have their own probiotics research and production.



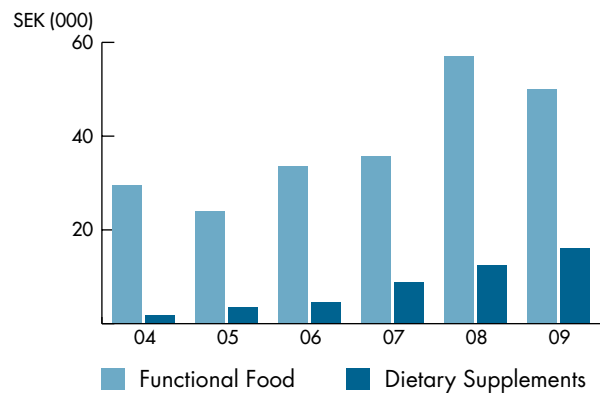
INCREASING GOVERNMENT REQUIREMENTS

The EFSA (European Food Safety Authority) is the European authority for food safety. The authority was established in 2002 and is responsible as an independent authority for providing scientific advice regarding possible risks in the food chain from producer to consumer. The EFSA performs assessment of the health effects of various food ingredients, including probiotics, for example and ensures that they are supported by scientific documentation. The EFSA is also charged with providing information to all concerned parties, including the authorities, the food industry and consumers. The EFSA issues recommendations with respect to health claims that may be permitted for various food ingredients and products within the EU, which can increase the product's added value for both the producer and the consumer.

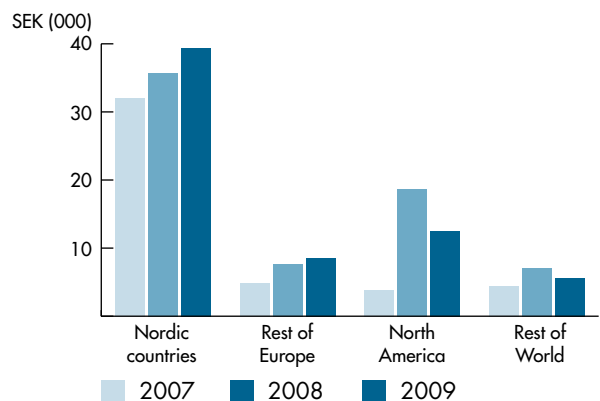
BRIGHT FUTURE

The overall picture of the global market for probiotic foods and dietary supplements is positive. There is a basic interest for health that is expressed in part by knowledge and consumer-driven demand for products with health-enhancing effects. This means that probiotics has an opportunity to establish itself within new health areas as a result of new studies and scientific documentation. This creates opportunities for developing exciting products and offering consumers effective products that make them feel good.

REVENUES PER BUSINESS AREA 2004-2009



REVENUES PER MARKET 2004-2009



FUNCTIONAL FOOD BUSINESS AREA



The Functional Food business area focuses on commercialisation of Probi's probiotics by working with food companies to develop foods that provide beneficial health effects in addition to the product's normal nutritional value.

During 2009, Probi together with Skånemejerier launched the world's first probiotic 100 per cent natural fruit juice under the brand Bravo Friscus. The juice has a documented beneficial effect on the immune system in conjunction with colds. The launch now means that Probi is expanding its operations to the immune area, where there are substantial opportunities for further development of new products. Probi also extended the collaboration with its US business partner NextFoods, which during the spring expanded its product range with GoodBelly BigShot 50.

Interest for good food with documented positive health effects is substantial around the world and demand is expected to continue increasing. There is a fundamentally positive view of probiotics and its health-enhancing effects. Interest for probiotic products will probably increase, since new research results show that probiotics have health-enhancing effects even outside the traditional gastrointestinal area. Over recent years, the global market for probiotic food products has shown strong growth of about 15 per cent annually and is expected to continue growing at the same rate in the future.

North America and Europe are prioritised markets for Probi within Functional Food. In Europe, Sweden dominates and revenues continue to increase. The Japanese market has a long tradition of probiotic foods. The market is dominated by Yakult, but is not presently prioritised by Probi.

NORTH AMERICA SHOWS STRONG GROWTH

Despite the financial crisis, the North American market showed the strongest growth. The market grew by 20 per cent during 2008, and the positive trend continued during 2009. There is an underlying demand and great interest for probiotic products.

In comparison with the European and Japanese markets, the North American market is relatively immature with respect to probiotic products. This is because the market largely lacks a developed dairy culture that offers refined dairy products, such as yoghurt, hard and moulded cheese.

The French food company Danone has succeeded in creating a market for probiotic products in North America. Danone has increased understanding of how probiotics functions and has developed the market primarily with the help of an internationally established yoghurt product called Activia, which is focused on gastrointestinal health.

Probiotics have also received support from various public opinion makers. Dr. Mehmet Oz, who through his own TV show wants to increase health awareness in the US, has a very positive view that probiotics will achieve a breakthrough in the market. In recent years, probiotics has also strengthened its position in the North American market, and many consumers are curious about the products.

At the same time as consumer interest for probiotics is increasing, there was some sluggishness during the past year due to postponed investment decisions. This was a direct consequence of the financial crisis and the resources required to launch new products and brands.

North America has a long tradition of consuming health products in the form of vitamins and minerals, rather than in foods, which is a challenge for all players in the food industry. However, growing consumer interest in combination with low penetration – about 10 per cent of all consumers have knowledge of probiotics – creates substantial opportunities for tasty health products, particularly within gastrointestinal health.

TERMINATION WITH KRAFT FOODS

The partnership with Kraft Foods initiated in 2008 was terminated during 2009. Kraft decided to discontinue the LiveActive brand in which Probi's probiotic *Lp299v* was included in a muesli bar. The LiveActive brand, which was Kraft's initiative in gastrointestinal health, did not achieve the expected sales growth, and the products were withdrawn from the market. The launch took place in the middle of the US recession with low market support, which was one of the reasons for Kraft Food's decision. However, Probi sees the partnership with Kraft as a positive experience and as a clear confirmation of quality in Probi's market offering.

At the same time, the partnership with NextFoods, which is an American food company with a focus on health products, was expanded having started in 2007. NextFoods currently sells probiotic fruit drinks under the brand GoodBelly in the US market and expanded its product range during the spring with GoodBelly BigShot 50 with 20 times higher concentration of *Lp299v*, compared with GoodBelly or ProViva. The product is intended for consumers needing fast recovery after antibiotics treatment, for example, or travel-related stomach problems.

EUROPE – TRADITION AND NEW THINKING

The European dairy tradition with manufacture of acidified milk products such as yoghurt, sour milk and cheese, means that probiotic food products are found with all large dairy producers, where well-known brands such as Activia and Actimel dominate the market.

Apart from the dairy products, a new product category – probiotic fruit drinks – has emerged over the past decade. This product category is dominated by ProViva, which is a probiotic fruit drink with an oat base containing *Lp299v*. The ProViva product range is sold by Skånemejerier in Sweden and Finland. The product range includes about ten different flavours and several different package sizes and types of product. Sales over the past five years have increased by an average of 15 per cent per year. During 2009, 25 million litres of ProViva were sold.



CUSTOMER CASE: FROM RESEARCH RESULTS TO THE WORLD'S FIRST PROBIOTIC JUICE FOR IMMUNE DEFENSE IN 12 MONTHS

During 2008, Analyze & Realize on assignment from Probi conducted an extensive cold study in Berlin with a combination of two probiotic strains, *Lactobacillus plantarum* Heal 9 and *Lactobacillus parcasei* 8700:2. The results of the study were clear. With this bacteria combination, the illness period was shorter and the symptoms fewer. The study created opportunities for Probi to develop an immune concept, which the company chose to do with its business partner Skånemejerier. One year later, in September 2009, Skånemejerier launched the world's first probiotic 100-per cent natural fruit juice in the Swedish market with documented beneficial effects in the immune system in conjunction with colds.

"It is always a challenge to launch a new retail product. A tasty juice with beneficial effects on health has excellent prerequisites for becoming a success," says Bo Öhman, Bravo brand manager at Skånemejerier.



LAUNCH OF THE WORLD'S FIRST PROBIOTIC JUICE FOR THE IMMUNE SYSTEM

Even in Europe, probiotics has primarily been associated with gastrointestinal health. During autumn 2009, however, Probi and Skånemejerier launched a new probiotic juice with documented beneficial effect on the immune system under the brand Bravo Friscus.

Several years' research at Probi resulted in a combination of two bacteria strains that have positive effects on the immune system in connection with colds. A number of studies and clinical tests were performed and evaluated to identify the optimal combination of the two probiotic strains *Lactobacillus plantarum* Heal 9 and *Lactobacillus parcasei* 8700:2.

Through its unique bacteria combination, Bravo Friscus has a preventative effect against colds and provides relief of cold symptoms and shorter sickness periods.

The Friscus brand is owned by Probi, and the juice is included in Skånemejerier's Bravo product range. Bravo Friscus was launched in two flavours, orange/acerola and apple/cranberry in the Swedish market. Bravo is the Nordic region's largest brand in the juice market and contains 100 per cent natural fruit juice.

PROBI'S STRATEGY AND OFFERING

Probi's strategy is to develop new products and solutions for the market. This often takes place with partners. Within Functional Foods, Probi focuses on licensing both bacteria and various product concepts for food applications. These partnerships often create opportunities for new products in the range or major sales volumes. One example of this type of partnership is NextFoods, which resulted in an opportunity for Probi to repeat the success of ProViva in the North American market with the GoodBelly product range.

Probi works constantly to improve its offering to customers and consumers. This work includes new applications for probiotic bacteria that are suitable for food products outside the cool chain.

Bravo Friscus is one example of how Probi's offering has been developed over time. Bravo Friscus contains a combination of bacteria that strengthens the immune system and can be used in different product concepts. This means that Probi has expanded its offering from being limited to gastrointestinal health to include the immune system. Friscus is also Probi's own brand, which means that Probi has taken an additional step from ingredient company to developing and launching own brands. This increases opportunities to build long-term value in Probi.

Q&A WITH JOHAN WAHLQUIST, MARKETING AND SALES MANAGER, FUNCTIONAL FOOD



How would you describe 2009?

It was an exciting year in which we together with our customers grew within existing product concepts. Both ProViva and GoodBelly continue to develop positively. We also launched our new immune concept together with Skånemejerier under the Bravo Friscus brand.

How do you view 2010 for your business area?

Work to expand sales internationally of both the new immune concept and the gastrointestinal product is proceeding at full speed. We also have a very close partnership with Skånemejerier to ensure that we develop ProViva and Bravo Friscus in Sweden and the Nordic countries. During 2010, we will see new launches within both ProViva and Bravo Friscus.

What are the greatest risks and opportunities for the business area?

The greatest challenge for the entire industry is the EFSA's protracted process relating to health claims for foods, which restricts product launches and creates uncertainty in the industry. At the same time, we believe that there are advantages to the EFSA's stringent assessment criteria for a research-intensive company such as Probi, since products with high-quality scientific documentation have a better chance of getting health claims approved.

Is there anything special that you would like to point out in 2009?

Definitely our successful launch of Bravo Friscus, where we so quickly transformed our research into a new and unique retail product.

What do you find best about working in this business area?

The challenge and the joy of working with food is that everyone is concerned about food. At the same time, we see increased interest and need for new, healthy foods.

DIETARY SUPPLEMENTS BUSINESS AREA



The Dietary Supplements business area focuses on commercialisation of Probi's probiotics as a supplement to normal nutrition together with pharmaceutical companies and companies specialised in dietary supplements.

During 2009, Probi developed and strengthened its offering within dietary supplements. Partnerships developed positively, particularly in Poland and the Baltic countries. Probi's partner Institut Rosell signed a new contract for launch of *Lp299v* with Jarrow Formulas for launch of a dietary supplement in health stores in the US and with Merck KgaA at the beginning of 2010 for launch in an additional 13 countries in South America. Together with Bringwell, Probi will launch two new products under its own brand in the Nordic market during 2010.

The global market for probiotic dietary supplements corresponds to about one tenth of the probiotic food market. The trend is expected to remain positive over the coming years, with growth estimated at 10-15 per cent. Probi sees continued interest for probiotic dietary supplements globally among both established and new business partners, which opens the door for additional product launches and market establishments. With the development of new products within such indication areas as the immune system, there are new opportunities to develop established partnerships, attract new partners and develop Probi's business.

Probi currently has agreements within dietary supplements covering 40 countries in North and Latin America, Europe, Australia and South Africa.

NORTH AMERICA – STRONG TRADITIONS

The North American market is the largest single market for dietary supplements. There is a long tradition of consuming dietary supplements that lacks an equivalent in Europe. The US market for dietary supplements is significantly greater than the European. The largest players are GNC, Wyeth and Pharmavite, although all of the major

pharmacy and food chains sell dietary supplements under their own brands. This means that there is also a great potential for probiotic dietary supplements.

Through the partnership with Institut Rosell, Probi's dietary supplement based on *Lp299v* will be launched during 2010 in US health food stores. This distribution channel comprises about 7,000 stores in all states. The launch will take place in cooperation with the US company Jarrow Formulas. The company is specialised in marketing and selling dietary supplements and health products that have scientifically documented effect. The intention is to market *Lp299v* primarily to consumers suffering from IBS, Irritable Bowel Syndrome. This group is estimated at about 55 million Americans. The launch will take place during the first quarter of 2010.

EUROPE – DEVELOPMENT DRIVES GROWTH

The European market is fragmented. At the same time, there are a number of large players, such as Merck. The company is one of the world's oldest pharmaceuticals companies with a large product portfolio that includes probiotic dietary supplements, and there are a number of key markets. In addition, there are nationally strong players with a strong position in their individual markets.

Probi's partnership with Institut Rosell means that Probi's *Lp299v* is available for sale in, for example, countries as France, Belgium and Latin America under Merck's brand BionTransit. France is currently the largest single market for Probi's dietary supplements within gastrointestinal health.

In addition to partnerships, Probi signs own agreements with nationally leading players intended to increase growth and the company's influence. During the preceding year, Probi began partnerships with Sanum Polska in Poland and with Proton Systems in the Baltic countries. The agreement for the Baltic countries includes eight individual markets. Both of these partnerships developed very positively during 2009.

LAUNCH OF OWN BRANDS

Together with Bringwell, a leading Nordic supplier of self-care products, Probi will launch dietary supplements during 2010 for gastrointestinal health and the immune system. The products will be marketed under Probi's own brands ProbiFrisk and ProbiMage in the Nordic market. Bringwell's Swedish subsidiary Green Medicine will launch the products in Sweden during the first half of 2010. Thereafter, launches will follow in the other Nordic markets during the autumn.

The dietary supplements will be marketed via pharmacies and health food stores. ProbiFrisk will be sold as a chewable tablet and ProbiMage as a capsule. This means that ProbiFrisk will be Probi's first launch of a dietary supplement in the immune area and that *Lp299v* will be available as a dietary supplement for the first time in the Swedish and Nordic markets.

LAUNCHES IN LATIN AMERICA

In the beginning of 2010, the partnership with Institut Rosell resulted in a new contract with Merck. Germany's Merck will begin the launch during the first half of the year of Probi's dietary supplement in a number of the 13 countries included in the contract. The product, which was previously launched by Merck in Chile, will now also

be introduced in pharmacies in the large Latin American countries Mexico, Argentina and Brazil under the BionTransit brand.

PROBI'S STRATEGY AND OFFERING

Probi's strategy is to develop new products together with suitable partners and to increase the flexibility of its offering to customers. The ambition is to move higher in the value chain with the company's partners and to move closer to the market.

The development and introduction of the own brands ProbiMage and ProbiFrisk are a part of this strategy. Prior to the launch of ProbiFrisk, which is the first launch of an immune concept as a dietary supplement, Probi developed a chewable tablet with a fresh taste of lemon and vanilla. During 2009, the product was tested for stability and shelf life with good results, which is often the most critical phase in development of new probiotic products. Probi thus has a new product of high quality to offer the global market.

The development of own product concepts and launch of own brands is part of Probi's business model. This means that the company may act more flexibly and independently under the right conditions for business in which Probi takes a large part of the responsibility.

Q&A WITH HÅKAN PETERSON, MARKETING AND SALES MANAGER, DIETARY SUPPLEMENTS



How would you describe 2009?

Initially, it was a very tough year with respect to new contracts. Potential customers postponed launches due to uncertainty in the market because of the global recession. Nonetheless, we saw growth in the market, largely driven by existing customers and products containing *Lp299v*.

How do you view 2010 for your business area?

During 2010, we will launch ProbiFrisk and ProbiMage, our first own brands in dietary supplements. International interest for probiotics is strong, and ProbiFrisk opens a whole new market for Probi in the immune area.

What are the greatest risks and opportunities for the business area?

The EFSA process is central for continued development, also within dietary supplements. A positive effect of the process is that market players to a greater extent want products with extensive scientific documentation. That benefits Probi. We have also expanded our offering within dietary supplements with the immune product, which makes Probi more attractive as a partner.

Is there anything special that you would like to point out in 2009?

Our contract with Bringwell regarding the launch of ProbiFrisk in the form of a chewable tablet means that we are expanding our offering with respect to both indication area and product format.

What do you find best about working in this business area?

Working with products that increase people's health and well-being is stimulating. We see increased interest for probiotic dietary supplements with scientific documentation. Probiotics will probably gain a stronger position in pace with research being able to show effects in other areas than gastrointestinal health and the immune system.





CUSTOMER CASE: FROM MARKET INTRODUCTION
TO RECOMMENDATION BY GASTROENTEROLOGISTS
IN LESS THAN A YEAR

In summer 2008, Probi signed a distribution agreement for a gastrointestinal product containing *Lp299v* with Sanum Polska Ltd. This is a naturopathic drug company that markets scientifically documented products in the Polish market.

Probi's partner has a strong network of more than 3,000 doctors and pharmacies, which contributed to the launch exceeding expectations. In less than 12 months, the product established itself among the top probiotic dietary supplements in the market. This is the first and only probiotic product recommended by Polish gastroenterologists for treatment of IBS symptoms.

"We knew that we had a strong clinically documented product when we signed the contract. The recommendation from doctors strengthens our offering and will open eyes among new consumers," says Igor Loniewski, MD, PhD and Chairman of Sanum Polska Ltd.

RESEARCH AND DEVELOPMENT

NEW STUDIES

During 2009, several new clinical studies were initiated within Probi. The studies are taking place primarily within the fields of gastrointestinal health and the metabolic syndrome.

The research and development also handles regulatory matters, which means handling applications to the EFSA (European Food Safety Authority). This is the authority within the EU that assesses the quality of the underlying research and decides what health claims may be communicated. During 2009, extensive preparatory work was conducted to enable Probi to submit two unique applications during 2010 for health claims in the immune and gastrointestinal areas.

IMPORTANT FOR THE MARKET

The rules for what health claims may be used in conjunction with various products have been changed since 2007, thus constituting a challenge for the entire probiotics industry to fully understand the new procedures that apply. This was something that took considerable time during 2009, but which is central from a business standpoint. It is important that Probi is able to offer its customers products that are well-documented and that the health claims can be verified by official sources. This increases the probability of new contracts and may in the end also contribute to increased sales.

During 2010, Probi intends to submit applications to the EFSA regarding specific health claims in the areas of gastrointestinal health and the immune system under section 13.5. Probi has intentionally delayed submitting applications, since new indications were received from the EFSA during 2009 in part regarding the requirements that they place on the application itself and in part how they interpret the requirements for scientific documentation on which the health claim is based. Probi considers that the company's underlying clinical documentation within gastrointestinal health and the immune system is among the best in the industry, but this is no guarantee that the health claims will be approved.

EIGHT NEW PATENTS

Probi received approval for an additional eight patents during the year in such countries as the US, Russia, China and India. This means that Probi at year-end 2009 had a total of 130 registered and approved patents around the world.

LIFESTYLE DISEASES

Probi is continuously developing the company's product portfolio within the immune and gastrointestinal areas. A new research area is the metabolic syndrome, since an increasing number of people are suffering from lifestyle diseases, such as abdominal obesity, insulin resistance, which is often a precursor to type 2 diabetes, or high blood pressure. A goal during 2010 is to initiate a new clinical study in this area.

Probi has an experienced and skilled research team. The company's most important success factor within research and development is to design and implement clinical studies with very high scientific quality that consistently achieve good results. The focus area in research during 2010 is to further strengthen the offering in the gastrointestinal and immune areas with new clinical studies. Another ambition is to strengthen documentation with respect to children.

Q&A WITH NIKLAS LARSSON, RESEARCH MANAGER



How would you describe 2009?

It was an intensive year during which we initiated a several clinical studies and focused strongly on regulatory activities.

How do you view 2010?

We hope to harvest the fruits of clinical studies from 2009. We will also focus on gastrointestinal health, the immune system and the metabolic syndrome and complete work with the regulatory activities.

What are the greatest risks for research and development?

We see it as a risk that the probiotics industry perceives the EFSA's assessments as uncertain and complicated, despite the fact that we deliver solid data of high scientific quality.

Is there anything special that you would like to point out in 2009?

Notable in 2009 was that previous research in the immune area now resulted not only in launches, such as Bravo Friscus, but also a new partnership with Bringwell for the launch of our product for gastrointestinal health and an immune-enhancing product as a dietary supplement.

What do you find best about working in this business area?

Being a pioneer in probiotics research and conducting clinical studies at a very high level is highly motivating and exciting.



ORGANISATION AND EMPLOYEES

Probi's organisation and employees are characterised by the development that the company has undergone in recent years. From being a typical research company, Probi achieved its commercial breakthrough in 2008. This development was strengthened during 2009 with the launch of such products as Bravo Friscus and the dietary supplement offering with ProbiFrisk and ProbiMage.

Probi is a research-intensive organisation, but during recent years, increasingly greater resources have been invested in product and application development and marketing and sales.

PROBI'S PERSONNEL POLICY

Probi strives to offer a dynamic environment for its employees in which the individual has great responsibility and significant development opportunities. Working with products that result in people improving their health and well-being is stimulating and involves great responsibility. Probi's business is characterised by four clear values that together comprise a platform for the company, the business concept and development.

Knowledge and competence

Knowledge and expertise help Probi to involve business partners, customers, consumers and employees.

Dedication

Working for Probi with health products entails great responsibility and commitment above the norm.

Credibility

Credibility in all areas is fundamental in order for Probi to be the natural choice for business partners, customers and consumers.

Curiosity

Probi is the result of a research discovery. Curiosity is a driving force for the company. Probi is always willing to try new approaches not only in research and development but also in the market.

FLEXIBLE AND INNOVATIVE ORGANISATION

Probi's business model is based on networks and partnerships with a number of different stakeholders: customers, business partners and research institutions.

The network in which the various business partners take responsibility for various components, such as marketing, sales and distribution, has made it possible to leverage the opportunities inherent in a small, flexible and innovative organisation. The organisation is characterised by openness, short decision paths and a great entrepreneurial ambition.

Probi has two business areas: Functional Food and Dietary Supplements. Behind these business areas there is a significant research and development department. Management consists of three persons: the President, the CFO and a Marketing and Sales director.

Within each business area, there is a Marketing and Sales manager with a separate budget. Probi's research and development organisation is headed by a research manager. Research is closely linked to the market insofar as there is a dedicated product and application development team that is responsible for transforming research results into commercial products.

EXPERTISE REQUIRES CONTINUOUS DEVELOPMENT

For Probi, offering business partners and customers high expertise is essential for the company's existence. In order to carry on the company's research heritage and develop new products, it is essential that Probi offers exciting and challenging work assignments to attract and retain qualified employees.

During 2009, Probi conducted an ambitious skills development programme with an external partner. This involved all employees and was dimensioned at the individual level in harmony with individually adapted development plans based on work assignments and function. The overall goal was to create prerequisites for long-term sustainable efficiency in the organisation. Central concepts were clear and understandable goals, motivation and balance between work and private life. Furthermore, some employees are participating in a long-term mentorship programme.

FACTS ABOUT EMPLOYEES

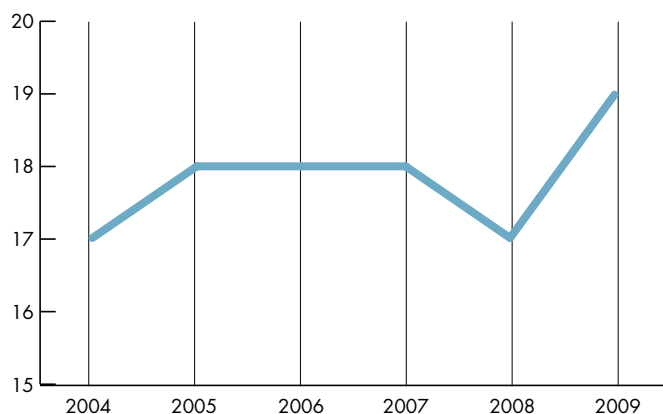
The average number of employees during 2009 amounted to 19 (17). Probi strives for an equal gender distribution, and of the total number of employees, 54 per cent (53) were women. On 31 December 2009, there were 22 (20) employees in the company. Of the company's employees, 91 per cent (90) have a university or college degree. The proportion with doctorates was 32 per cent (40).

Probi's research and development organisation consists of 10 (9) employees, of whom 3 (3) work with Regulatory Affairs and Quality Assurance. 5 (4) employees work within product and application development. Researchers at Probi have experience from medicine, microbiology and biotechnology.

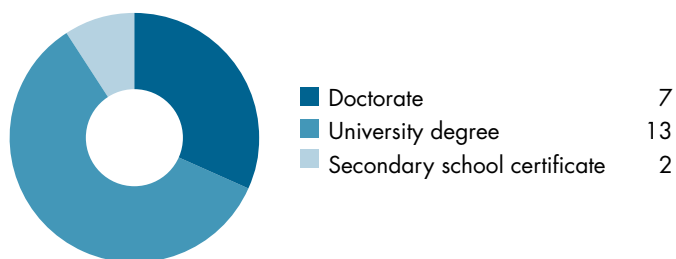
Of the total number of employees, 4 (4) persons work with marketing and sales.

The average length of employment at Probi amounted to 4.4 (4.5) years.

AVERAGE NUMBER OF EMPLOYEES



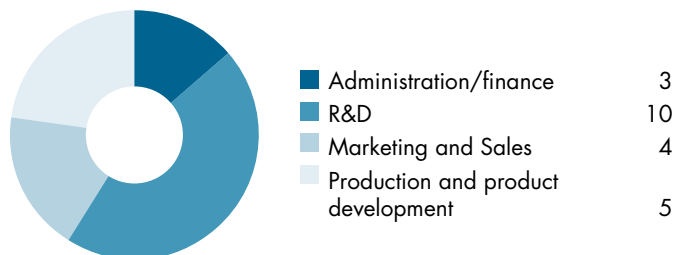
HIGHEST LEVEL OF EDUCATION



ABSENCE DUE TO ILLNESS

Total absence	1.3%
Of which more than 60 days of total sick leave	47.4%

EMPLOYEES DISTRIBUTED BY FUNCTION



EMPLOYEE COMMENTS:



KERSTIN HOLMGREN, SENIOR APPLICATION SCIENTIST

Kerstin has a Ph.D. in microbiology from Lund Technical University. She has worked with probiotics for 15 years, including positions with Chr. Hansen and Medipharm. Since autumn 2008, she has been working at Probi with product and application development. The challenge lies in developing opportunities to add probiotics to more foods than today. A milestone in this work was achieved with the development and launch of Bravo Friscus, where Probi succeeded in overcoming the problems of adding probiotic bacteria to juice.

"A flexible company such as Probi offers many opportunities. An entrepreneurial spirit is encouraged, and you can contribute to all development steps in another manner than is the case with large companies."

EMPLOYEE COMMENTS:



MARTIN ANTONSSON, PRODUCTION AND APPLICATION DEVELOPMENT DIRECTOR

Martin has an M.Sc. in chemical technology and a Ph.D. in microbiology from Lund Technical University and has worked at Probi since 2002. He is responsible for product and application development and production in the company. This means that he is responsible for the group that is the interface between research and customers or business partners. In addition to development of the stable strains for Bravo Friscus, Martin's group also developed a product for the dietary supplement market containing the same bacteria – as a chewable tablet – that will be launched in 2010 under the ProbiFrisk brand.

"Part of the explanation for Probi's success is that we are still a small, innovative company that can get things done quickly. We maintain a high level of service towards our customers and potential customers, particularly with respect to application development."

PROBI AND THE ENVIRONMENT



Sofie Forsman, Environmental Manager

During 2009, Probi conducted an environmental study with the help of an external party. The objective of the study was to identify, quantify and evaluate the company's direct and indirect environmental impact, as well as the environmental legislation that affects operations. Areas that were surveyed included goods transport, personal transport, consumable materials, use of chemicals, own production, energy consumption and waste management. The study provides a foundation for decisions regarding Probi's continued work to introduce an environmental management system.

The environmental study showed that Probi's operations affected the environment to only a limited extent. The company has no high-vol-

ume production and production consists of natural raw materials for the food industry. Within laboratory operations, consumable items and chemicals are used. This is part of normal laboratory work and, in certain cases, is difficult to eliminate or replace. Probi will conduct a review of the suppliers used to determine if there are more environmentally friendly alternatives.

Based on the results of the environmental study, Probi will formulate an environmental policy and introduce an environmental management system during 2010. This system will contain relevant and measurable goals that will enable continuous evaluation of Probi's environmental work. The environmental management system will focus on the most important environmental aspects identified in the 2009 study:

- Waste management
- Personal transport
- Energy consumption
- Chemicals handling

In the environmental study, it was concluded that Probi's handling of chemicals complies with prevailing regulations and legislation with respect to storage and waste management.

FIVE-YEAR SUMMARY

SEK (000)	2009	2008	2007	2006	2005
Income statement in summary					
Net sales	65,466	67,959	43,568	37,215	27,236
Total operating revenue	66,230	69,362	44,656	38,417	27,666
Total operating expenses	-52,421	-59,123	-39,474	-43,824	-37,165
Operating income	13,809	10,239	5,182	-5,407	-9,499
Income after financial items	14,662	12,426	6,427	-4,834	-8,833
Net income for the year	10,751	7,995	24,528	-4,834	-8,833
Total shareholders' equity	104,007	103,256	95,261	70,733	75,567
Cash and cash equivalents	71,707	61,342	47,420	34,436	39,702

Key ratios	Definition	2009	2008	2007	2006	2005
Equity/assets ratio, %	1	94.0	92.6	91.9	85.9	91.1
Debt/equity ratio, %	2	0.0	0.0	0.0	5.1	4.8
Return on capital employed, %	3	14.3	12.5	7.6	-6.1	-10.4
Return on equity, %	4	13.5	12.5	7.7	-6.6	-11.0
Acid-test ratio, %	5	1,152.0	870.0	645.0	589.0	1,161.0
Share of research costs in operating revenue, %		22	25	31	40	56
Average number of employees		19	17	18	18	18

1. Shareholders' equity as a percentage of the balance-sheet total.
2. Interest-bearing liabilities as a percentage of shareholders' equity.
3. Operating income plus financial income as a percentage of the average balance-sheet total less non-interest-bearing liabilities and provisions.
4. Profit before tax as a percentage of the average shareholders' equity.
5. Total current assets, excluding inventories, as a percentage of current liabilities.

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PROBI AB (publ) ANNUAL REPORT 2009

ADMINISTRATION 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 2009.

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

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

Probi was founded in 1991 and is a leading player in probiotics research and the development of effective, well-documented probiotics. The company's research is conducted using living microorganisms, resulting in scientifically proven health benefits. The fields of research include gastrointestinal health, immunology, the metabolic syndrome and stress and performance recovery. Probi's customers include leading companies in the field of functional food and dietary supplements.

NET SALES AND RESULTS

Probi's net sales for the year amounted to MSEK 65.5 (68.0), down 4 per cent.

Net sales in Functional Food declined MSEK 6.0 to MSEK 49.5 (55.5). During 2008, Probi had extensive raw material deliveries to Kraft in conjunction with the launch of the LiveActive muesli bars. The cooperation with Kraft was terminated during the second quarter of 2009 and a non-recurring income of MSEK 5.4 was recognised in this connection. If the revenues from Kraft were excluded for both years, net sales in Functional Foods would have increased 6 per cent. This is primarily due to the increase in royalty revenue from ProViva during the year.

Net sales in the Dietary Supplements business area increased 28 per cent to MSEK 15.9 (12.4), due primarily to deliveries to Sanum Polska and Proton Systems, with whom Probi had signed agreements in 2008. Deliveries to these two customers amounted to MSEK 5.1 in 2009.

Total operating expenses during the year declined to MSEK 52.4 (59.1). The decrease of MSEK 6.7 was mainly due to high product costs in 2008 in conjunction with raw material deliveries to Kraft. Costs for remuneration of employees increased by MSEK 2.0, since the average number of employees increased from 17 to 19 during the year.

Operating income increased from MSEK 10.2 to MSEK 13.8. Profit after tax for the year totalled MSEK 10.8 (8.0).

Tax expenses for the year totalled MSEK 3.9 (4.4). This does not involve any liquidity effect, since recognised tax is offset against deferred tax assets from previous years' loss carryforwards.

Comprehensive income per share amounted to SEK 1.15 (0.85) for the year, an increase of 35 per cent.

CASH FLOW AND FINANCIAL POSITION

Cash flow for the year was MSEK 10.4 (13.9) and cash and cash equivalents at the end of the period amounted to MSEK 71.7 (61.3). The decrease in cash flow was due to the increase of MSEK 3.9 in investments in fixed assets, compared with the preceding year. The divestment of Probi's production unit in Sösdala had a positive impact of MSEK 4.2 on cash flow in 2008. Cash flow from operating activities was MSEK 17.7 (13.1).

Investments in intangible fixed assets during the year amounted to MSEK 5.6 (3.0), of which MSEK 2.0 (1.9) related to patents and MSEK 3.6 (1.1) to capitalised development costs. Investments in tangible fixed assets during the year amounted to MSEK 1.8 (0.5).

Probi invests in prioritised research and development projects to secure long-term growth. The share of R&D costs of overall costs, excluding raw materials, inventories, goods for resale and depreciation, was 35 per cent for the year (43). This share increases to 40 per cent if the capitalised development costs during the year were included.

At 31 December 2009, the company's accumulated tax loss carryforwards was MSEK 37.1 (52.0). Probi's Board of Directors made the assessment that earnings and cash flow from operating activities will be positive in the future, therefore, the deferred tax assets of MSEK 9.8 (13.7) has been recognised in full.

There are no unrecognised commitments in relation to former Board Members or senior executives. In 2009, the company was not involved in any legal disputes.

SEGMENT INFORMATION

GENERAL INFORMATION

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

FUNCTIONAL FOOD

Revenue from Functional Food increased 4 per cent during the year, compared with 2008, if revenues from Kraft were excluded. The sales trend for ProViva remained positive during 2009 and Probi's royalty revenues from ProViva during the year increased 7 per cent to MSEK 37.9 (35.3).

During the autumn, Probi and Skånemejerier launched a new probiotic juice under the Friscus brand, which is owned by Probi. The juice is included in Skånemejerier's Bravo range and was launched

in two flavours, orange and apple, in the Swedish market. Bravo is the largest brand in the juice market in the Nordic region and contains 100 per cent natural fruit juice. The launch is a result of several years' research at Probi, which resulted in a combination of two bacteria strains that demonstrated positive effects on the immune system in connection with colds. A number of tests and clinical studies were conducted and evaluated to identify the best bacteria, *Lactobacillus Plantarum Heal 9* and *Lactobacillus paracasei 8700:2*, and to demonstrate the health benefits of the combination.

Since 2008, NextFoods has been selling *GoodBelly* and *GoodBelly Plus* probiotic fruit drinks, based on Probi's *Lp299v* bacteria, in the US market. The range was further expanded during 2009 with the launch of *GoodBelly BigShot 50*, which is a chilled fruit drink that contains 20 times higher concentration of *Lp299v* than the corresponding amount of *GoodBelly* or *ProViva*. The product is intended for consumers that need rapid recovery after, for example, antibiotic treatment or travel-related gastrointestinal problems.

In June 2008, Kraft Foods launched muesli bars containing Probi's probiotics. The products were launched under the *LiveActive* brand, which comprises several product categories and represents Kraft's programme within gastrointestinal health. The total sales trend for *LiveActive* fell short of Kraft's expectations and the range was withdrawn from the market. This means that *LiveActive* probiotic muesli bars are no longer sold, resulting in the termination of the supply agreement with Probi. In conjunction with this, Kraft paid an agreed non-recurring sum of MSEK 5.4 to Probi. This was recognised as revenue in its entirety and had a positive impact on both revenue and profits for 2009.

Probiotics are one of the main growth markets in health foods. This creates excellent prerequisites for attracting companies interested in expanding their range of probiotic products. Interest in probiotics among major food companies remains high and discussions are being held with a number of potential partners in this area.

DIETARY SUPPLEMENTS

Dietary Supplements' revenues increased 30 per cent during the year to MSEK 16.2 (12.5), of which royalties accounted for 40 per cent (53).

The revenue increase was due to product sales, while royalty revenues, for which Institut Rosell accounted for the majority, remained at the same level as 2008. The increased product sales were largely due to agreements signed over the past number of years by Probi directly with partners and distributors within the Dietary Supplements segment. The objective was to increase revenue and profitability and to rapidly increase the number of markets. The main share of the increase in 2009 was from agreements signed with Proton System and Sanum Polska in 2008. Total deliveries to these customers amounted to MSEK 5.1 (1.9). Volumes to Health World in Australia also increased and are 16 per cent higher than 2008.

In December, Probi signed a long-term partnership agreement with Swedish Bringwell, pertaining to the launch of Probi's dietary supplement for the immune system and gastrointestinal health in the Nordic

market. Bringwell is the leading supplier of self-care products in the Nordic region and the agreement will represent Probi's first launch of a dietary supplement within the immunology area. The launch will commence in Sweden during the first half of 2010, followed by the rest of the Nordic market during the third quarter of 2010. The products will be marketed through pharmacies and health food stores under Probi's proprietary brands *ProbiFrisk* and *ProbiMage*. *ProbiFrisk* will be sold as a chewing tablet and *ProbiMage* as a capsule.

The number of geographic markets included in Probi's cooperation with Institut Rosell with respect to products for gastrointestinal health was expanded. In December, Institut Rosell signed an agreement that provides Jarrow Formulas the rights to sell a dietary supplement for gastrointestinal health based on Probi's *Lp299v* bacteria, exclusively in health food channels in the US. During the first quarter, the product will be launched in this market, which comprises about 7,000 health food stores.

After the end of the period, Probi also reported that Institut Rosell signed an agreement that provides the German pharmaceutical company, Merck KgaA, exclusive rights to sell dietary supplements based on *Lp299v* in 14 Latin American countries. The product will be sold in pharmacies and the first launches are scheduled for the second half of 2010. The number of markets will gradually increase as approvals are received from regulatory authorities in the 13 countries covered by the agreement.

Negotiations are in progress with a number of potential partners in different markets with respect to both gastrointestinal and immunology products.

RESEARCH AND DEVELOPMENT

In 2009, several new pre-clinical and clinical studies were initiated by Probi. The studies focused primarily on gastrointestinal health and metabolic syndrome areas. The studies were conducted mainly to further strengthen the scientific documentation for existing products and to establish a basis for potential new products.

During the fourth quarter, Probi's previously presented Swedish common-cold survey underwent a careful statistical analysis. The analysis showed that – in addition to reducing the number of sick days – the combination of *Lactobacillus plantarum HEAL 9* and *Lactobacillus paracasei 8700:2* had a statistically significant preventive effect against colds and thus reduced the risk of contracting a cold. According to Probi's standard procedures, the study will be sent for publication in a scientific journal in 2010.

In 2009, Probi also initiated a long-term project to further improve its offering to customers primarily in the food industry. This project comprises the development of new formulations for the company's probiotic bacteria that are suitable in food applications outside the cool chain and can also further improve the shelf-life of dietary supplement products.

During 2009, Probi invested major resources in preparing its main applications for health claims within gastrointestinal health and immunology under Article 13.5 of the European Food Safety Authority

(EFSA). The applications will be submitted to the EFSA in 2010. Probi is of the opinion that the company's applications are substantiated with clinical data that is among the best in the industry and, consequently, has an optimistic view of receiving approval for its health claims from the EFSA. However, there is significant uncertainty at Probi and among other leading players in the global market pertaining to this issue. The EFSA has adopted a highly restrictive attitude with respect to the approval of health claims. This pertains to all types of food-classed health products and to date, no applications regarding probiotics have been approved.

Probi has intentionally delayed submitting applications, since new indications were received from the EFSA during 2009 in part regarding the requirements that they place on the application itself and in part how they interpret the requirements for scientific documentation on which the health claim is based.

The EFSA's publication of the final version of the so-called 13.1 list, containing approved health claims of a more general nature, has been delayed and it is doubtful whether it will include any approvals for probiotics.

With respect to Probi's health claim application for improved iron intake, the European Commission decided in the fourth quarter not to amend the negative statement made earlier by the EFSA. Probi will initiate further contact with the EFSA and the Commission on this issue, since there are still uncertainties in the EFSA's statement. The Commission's decision has no direct impact on any of Probi's current products and is considered to have very limited impact on future sales potential. The sale of ProViva Female, which accounts for a small portion of the brand's total sales, will not be impacted by the Commission's decision, since it is classified as foods prepared for particular nutritional purposes (PARNUTS), which is not covered by EFSA's rules and regulations for health claims.

PERSONNEL

At year-end, Probi had 22 employees, of whom 13 were women and 9 were men. The average number of employees during the year was 19 (17). Of the company's employees, 7 (8) have defended their doctoral thesis.

During 2009, Probi's organisation was strengthened with the recruitment of a new Quality Assurance Manager. In addition, a food chemist and a molecular biologist have joined Probi's Research and Development organisation.

OWNERSHIP

At 31 December 2009, Probi had 4,463 (4,500) shareholders according to Euroclear Sweden AB. The company currently has no outstanding convertible loans or any outstanding warrants.

EVENTS AFTER THE BALANCE-SHEET DATE

After the end of the period, Probi reported that Institut Rosell signed an agreement that provides the German pharmaceutical company, Merck KgaA, exclusive rights to sell, through pharmacies, dietary supplements based on *Lp299v* in 13 Latin American countries. The

product will be sold in pharmacies, and the first launches have been scheduled for the second half of 2010. The number of markets will increase gradually as approvals are received from regulatory bodies in the countries covered by the agreement.

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

RISKS AND UNCERTAINTIES

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

Contracts with selected strategic business partners

Probi has strategic partnerships and contracts with a number of selected partners. These partners are expected to contribute to increased revenues in the future. Should one or more of these partnerships be terminated, it would have a negative impact on Probi's revenues, earnings and financial position. Royalty revenues from Skånemejerier accounted for 58 per cent (51) of Probi's revenues in 2009.

Key persons and employees

Probi is dependent on a few key employees and specialists and the expertise that they possess. The company's future development is strongly dependent on being able to retain employees and recruit new employees with the required expertise.

Strategic research partnerships

In addition to internal expertise, a large part of Probi's research is based on partnerships with external Swedish and international researchers. Research partnerships with external partners are an important part of Probi's business model. However, there is no guarantee that these partnerships will result in new discoveries or that Probi will obtain exclusive rights to any results.

Regulatory risks

Requirements and regulations regarding the use of health claims are constantly being made more stringent. Since 1 July 2007, nutritional and health claims are regulated by an EU directive (1924/2006) that applies to 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 taken a very restrictive position with respect to approval of health claims. This applies to all food-classed health products. Up until 2009, no applications relating to probiotics were approved, resulting in significant uncertainty for both Probi and other leading players in the world market.

During 2009, Probi prepared its main applications for health claims in gastrointestinal health and immune system. The applications will be submitted to the EFSA during 2010. Probi considers that the company's applications are supported by clinical data that is among the best in the industry, but this is no guarantee that the health claims will be approved by the EFSA.

Documentation and patent protection

Probi's continued commercial success is largely dependent on continued successful research and its ability to protect future revenue streams with extensive patent protection. Probi can see increased activity and interest, as well as new regulations, in the probiotics area. It is thus important that approved patents can be maintained and that new products and applications can be patented.

Product liability

Probi's insurance programme includes product liability protection in an extent that the Board of Directors deems motivated given the type of business that Probi conducts. However, Probi's business may give rise to damage claims that are not covered by the insurance. Should this occur, it would have a negative impact on Probi's earnings and financial position.

Financial risks

Probi's business entails various types of financial risks. Sharp and unforeseen changes in exchange rates, interest rates and raw materials prices, for example, may affect Probi's financial position and earnings. These risks are monitored constantly, and each year the Board of Directors revises and approves Probi's finance policy, which describes management of the financial risks. In its current scope, Probi's business is not dependent on external financing via the credit market, and the company has no interest-bearing liabilities. Each year, Probi performs impairment tests relating to patents, goodwill, licensing and similar rights. For further information on financial risks, refer to Note 3 "Financial risks."

FUTURE DEVELOPMENT

Probi's business concept is based on research and development, patenting and documentation of probiotic bacteria and product concepts and the production of probiotic bacteria. Probi offers licenses to companies that produce, distribute and market products based on Probi's patented bacteria and product concepts. The company will continue its activities in accordance with the established plan. Probi expects that earnings and cash flow from operating activities will be positive in 2010.

ENVIRONMENTAL IMPACT

During 2009, Probi conducted an environmental study with the help of an external party. The objective of the study was to identify, quantify and evaluate the company's direct and indirect environmental impact, as well as the environmental legislation that affects operations. Areas that were surveyed included goods transport, personal transport, consumable materials, use of chemicals, own production, energy consumption and waste management. The environmental study showed that Probi's operations affected the environment to only a limited extent.

Based on the results of the environmental study, Probi will formulate an environmental policy and introduce an environmental management system during 2010. This system will contain relevant and measurable goals that will enable continuous evaluation of Probi's environmental work. The environmental management system will focus on the most important environmental aspects identified in the 2009 study:

- Waste management
- Personal transport
- Energy consumption
- Chemicals handling

In the environmental study, it was concluded that Probi's handling of chemicals complies with prevailing regulations and legislation with respect to storage and waste management.

The Group conducts no operations that require permits according to the Environmental Code.

SUBSIDIARIES

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

PROPOSED ALLOCATION OF PROFIT IN THE PARENT COMPANY

The following profits in the Parent Company are at the disposal of the AGM (TSEK):

Profit brought forward	32,523
Profit for the year	10,751
Total	43,274

The Board of Directors and CEO propose that profits at the disposal of the Annual General Meeting be allocated as follows:

that a dividend of SEK 0.50 per share be paid to shareholders	4,683
to be carried forward	38,591
Total	43,274

The Group's accumulated loss totalled TSEK 30,110 according to the consolidated balance sheet.

The Board of Directors anticipate a continued positive trend in 2010. The Board's assessment is that the proposed dividend will not prevent the company from fulfilling its commitments in the short or long term, or implementing the necessary investments.

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

Currency: TSEK	Note	Group		Parent Company	
		2009	2008	2009	2008
Operating revenue					
Net sales	6	65,466	67,959	65,466	67,959
Other revenue		764	1,403	764	1,403
Total operating revenue	5, 28	66,230	69,362	66,230	69,362
Operating expenses					
Change in inventories		-437	-34	-437	-34
Raw materials and consumables		-176	-156	-176	-156
Goods for resale		-4,481	-12,966	-4,481	-12,966
Employee benefit expenses	9	-19,447	-17,454	-19,447	-17,454
Other external costs	7, 8	-22,735	-23,386	-22,735	-23,386
Depreciation and impairment of fixed assets	10, 16, 17, 18, 19	-5,114	-5,029	-5,114	-5,029
Other operating expenses		-31	-98	-31	-98
Total operating expenses		-52,421	-59,123	-52,421	-59,123
Operating income		13,809	10,239	13,809	10,239
Result from financial investments					
Financial income	11	1,282	2,195	1,282	2,195
Financial expenses	11	-429	-8	-429	-8
Total result from financial investments		853	2,187	853	2,187
Profit before tax		14,662	12,426	14,662	12,426
Tax on profit for the year	12	-3,911	-4,431	-3,911	-4,431
Income for the year		10,751	7,995	10,751	7,995
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		10,751	7,995	10,751	7,995
Number of shares		9,365,300	9,365,300		
Earnings per share based on comprehensive income before and after dilution, SEK		1.15	0.85		

Income for the year and comprehensive income are attributable in their entirety to the Parent Company's shareholders. The company currently has no outstanding convertible loans or outstanding warrants.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (NOTE 5)			
Currency: TSEK	Note	2009	2008
Fixed assets			
Intangible fixed assets	15, 16, 17	23,524	22,426
Tangible fixed assets	18, 19	2,752	1,705
Deferred tax assets	13	9,759	13,670
Total fixed assets		36,035	37,801
Current assets			
Inventories		1,238	1,621
Accounts receivable	21	10,679	6,598
Other current receivables		115	19
Prepaid expenses and accrued income	22	1,528	4,161
Cash and cash equivalents	23	71,707	61,342
Total current assets		85,267	73,741
Total assets		121,302	111,542

EQUITY AND LIABILITIES (NOTE 5)			
Currency: TSEK	Note	2009	2008
Equity			
Share capital	24	46,827	46,827
Other contributions received		97,290	97,290
Loss brought forward		-30,110	-40,861
Total equity		114,007	103,256
Current liabilities			
Accounts payable - trade		3,623	3,266
Other current liabilities		1,925	2,653
Accrued expenses and deferred income	26	1,747	2,367
Total current liabilities		7,295	8,286
Total equity and liabilities		121,302	111,542

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

ASSETS (NOTE 5)			
Currency: TSEK	Note	2009	2008
Fixed assets			
Intangible fixed assets	15, 16	20,762	19,664
Tangible fixed assets	18, 19	2,752	1,705
Participations in Group companies	20	4,031	4,031
Deferred tax assets	13	9,759	13,670
Total fixed assets		37,304	39,070
Current assets			
Inventories		1,238	1,621
Accounts receivable – trade	21	10,679	6,598
Other current receivables		115	19
Prepaid expenses and accrued income	22	1,528	4,161
Cash and cash equivalents	23	71,707	61,342
Total current assets		85,267	73,741
Total assets		122,571	112,811
EQUITY AND LIABILITIES (NOTE 5)			
Currency: TSEK	Note	2009	2008
Equity	24		
Restricted equity			
Share capital		46,827	46,827
Statutory reserve		21,140	21,140
Total restricted equity		67,967	67,967
Non-restricted equity			
Income brought forward		32,523	24,528
Income for the year		10,751	7,995
Total non-restricted equity		43,274	32,523
Total equity		111,241	100,490
Long-term liabilities			
Liabilities to Group companies		4,035	4,035
Total long-term liabilities	25	4,035	4,035
Current liabilities			
Accounts payable - trade		3,623	3,266
Other current liabilities		1,925	2,653
Accrued expenses and deferred income	26	1,747	2,367
Total current liabilities		7,295	8,286
Total equity and liabilities		122,571	112,811

CHANGES IN SHAREHOLDERS' EQUITY – GROUP

Currency: TSEK	Share capital	Other contributions received	Loss brought forward	Total equity
Opening balance, 1 Jan 2008	46,827	97,290	-48,856	95,261
Income for the year	-	-	7,995	7,995
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	7,995	7,995
Transactions with shareholders	-	-	-	-
Opening balance, 1 Jan 2009	46,827	97,290	-40,861	103,256
Income for the year	-	-	10,751	10,751
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	10,751	10,751
Transactions with shareholders	-	-	-	-
Closing balance, 31 Dec 2009	46,827	97,290	-30,110	114,007

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

CHANGES IN SHAREHOLDERS' EQUITY – PARENT COMPANY

Currency: TSEK	Share capital	Statutory reserve	Non-restricted equity	Total equity
Opening balance, 1 Jan 2008	46,827	21,140	24,528	92,495
Income for the year	-	-	7,995	7,995
Opening balance, 1 Jan 2009	46,827	21,140	32,523	100,490
Income for the year	-	-	10,751	10,751
Closing balance, 31 Dec 2009	46,827	21,140	43,274	111,241

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

STATEMENT OF CASH FLOWS

Currency: TSEK	Note	Group		Parent Company	
		2009	2008	2009	2008
Operating activities					
Income before tax		14,662	12,426	14,662	12,426
Depreciation/amortisation		5,114	5,029	5,114	5,029
Disposals of tangible fixed assets		-	98	-	98
Capital gains from disposal of tangible fixed assets		31	-559	31	-559
Cash flow from operating activities before changes in working capital		19,807	16,994	19,807	16,994
Change in inventories		382	34	382	34
Change in operating receivables		-1,544	-3,760	-1,544	-3,760
Change in operating liabilities		-991	-155	-991	-155
Cash flow from operating activities		17,654	13,113	17,654	13,113
Investing activities					
Acquisition of intangible fixed assets		-5,566	-2,975	-5,566	-2,975
Acquisition of tangible fixed assets		-1,813	-463	-1,813	-463
Disposal of tangible fixed assets		90	4,247	90	4,247
Cash flow from investing activities		-7,289	809	-7,289	809
Financing activities					
Cash flow from financing activities		-	-	-	-
Change in cash and cash equivalents	23	10,365	13,922	10,365	13,922
Cash and cash equivalents at the beginning of the year		61,342	47,420	61,342	47,420
Cash and cash equivalents at year-end		71,707	61,342	71,707	61,342

Interest paid and received	2009	2008	2009	2008
Interest income according to profit and loss	552	2,058	552	2,058
Interest expenses according to profit and loss	-1	-8	-1	-8

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 GENERAL INFORMATION

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

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

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

These consolidated accounts were approved by the Board of Directors for publication on 8 March 2010.

NOTE 2 ACCOUNTING AND MEASUREMENT POLICIES

The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act, RFR 1.2, Supplementary accounting regulations for Groups as well as the International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), approved by the European Commission.

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

New and revised standards applied by the Group

The following new and revised IFRS have been applied by Probi from 1 January 2009.

- IAS 1 (Revised), "Presentation of Financial Statements". The revised standard will prohibit the presentation of income and expense items (meaning changes in shareholders' equity that do not pertain to transactions with shareholders) in the statement of changes in equity and will require that "changes in equity that do not pertain to transactions with shareholders" be recognised separately from changes in equity pertaining to transactions with shareholders in a statement of comprehensive income. Consequently, Probi presents all owner-related changes in equity in the "Consolidated statement of changes in equity," while all changes in equity that do not pertain to transactions with shareholders are recognised in the "Consolidated statement of comprehensive income". Comparable information has been restated to match the revised standard. This amendment to the accounting policies only affects the presentation and thus has no impact on earnings per share.

- IFRS 8, "Operating segments" IFRS 8 replaces IAS 14, "Segment reporting". The new standard requires segment information to be presented from a management perspective, implying that this information must be presented in the same manner as for internal reporting. This amendment of the accounting policies has not resulted in any significant changes to Probi's segment reporting.
- IFRS 23 (Amendment), "Borrowing costs". Borrowing costs that are directly attributable to the purchase, construction or production of qualifying assets shall represent part of the asset's cost, while other borrowing costs shall be expensed. This amendment has not had any impact on Probi's financial statements.
- IFRS 7 (Amendment) "Financial instruments – Disclosure". This amendment requires expanded disclosure relating to fair-value measurement and liquidity risks. The amendment only affects the disclosure requirement and thus has no impact on earnings per share.

Standards, amendments and interpretations of existing standards that have not yet come into force

The following standards and interpretations of existing standards have been published but have not been applied in advance. These standards will be applied by Probi starting on 1 January 2010. However, based on the current business concept and accounting policies, these standards will not have an effect on the financial reporting

- IFRIC 17, Distributions of Non-cash Assets to Owners" (pertains to financial years beginning 1 July 2009 or later).
- IAS 27 (Amendment), "Consolidated and Separate Financial Statements" (applies from 1 July 2009). The Group will apply IAS 27 (Amendment) in advance for transactions with owners with no controlling influence from 1 January 2010.
- IFRS 3 (Revised), "Business Combinations" (applies from 1 July 2009). The Group will apply IFRS 3 (Revised) in advance for all business combinations from 1 January 2010).
- IAS 38 (Amendment) "Intangible Assets" (applies from 1 January 2010).
- IFRS 5 (Amendment) "Non-current Assets Held for Sale and Discontinued Operations" (applies from 1 January 2010).
- IAS 1 (Amendment), "Presentation of Financial Statements" (applies from 1 January 2010).
- IFRS 2 (Amendment) "Group Cash-settled and Share-based Payment Transactions".

2.1 BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

The most important accounting policies applied during the preparation of these consolidated financial statements are stipulated below. These policies have been applied consistently for all years presented,

unless otherwise indicated. The Parent Company applies the same accounting policies with the exceptions and supplements stipulated in RFR 2.2. The accounting policies for the Parent Company are stipulated in the section entitled "The Parent Company's accounting policies".

2.2 CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

2.3 SEGMENT REPORTING

As from 2009, Probi has applied IFRS 8 "Operating Segments". Operating segments are reported in a manner that corresponds with the internal reporting, which is submitted to the highest chief operating decision-maker. The highest chief operating decision-maker is the function that is responsible for the allocation of resources and assessing the results of the operating segments. At Probi, this function has been identified as the Management Group.

2.4 REVENUE

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

Probi recognises revenue when the amount can be reliably measured, when it is likely that future economic benefits will accrue to the company and when special criteria have been met for each of the company's operations, as described below. The amount of revenue is deemed not to be measurable in a reliable manner until which time the obligations with regard to the sale have been met, or have

expired. Probi bases its assessments on historical results and takes into account, in connection herewith, the type of customer, nature of the transaction and special circumstances, on a case-by-case basis.

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

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.

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

2.5 BORROWING COSTS

Borrowing costs directly attributable to the purchase, construction or production of a qualifying asset are capitalised as a part of the asset's cost. Other borrowing costs are expensed in the periods to which they relate.

2.6 INCOME TAX

Income taxes recognised comprise tax payable or recoverable in respect of the year in question, together with adjustments made in respect of current tax for previous years. The measurement of all tax liabilities/receivables is based on nominal amounts, and is undertaken in accordance with the tax regulations and tax rates determined or announced, and which are likely to be adopted.

Tax is recognised in profit and loss, except when the tax pertains to items recognised in other comprehensive income or directly in shareholders' equity. In such cases, tax is also recognised in other comprehensive income and shareholders' equity.

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

2.7 INTANGIBLE ASSETS

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

Accounting policies related to research and development expenses:

Research expenses are capitalised on an ongoing basis. Development expenses are recognised as assets from the date on which it is deemed that the project or activity to which they relate will lead to a technically and commercially viable product, and for which Probi has decided to seek a partner or in some other manner will attempt to launch the product.

Probi conducts research and development work in the probiotics field. The majority of Probi's customers are licensees that use Probi's probiotics in their own products, which in turn, are further developed for launch and commercial use. In these cases, Probi assists the customer, but is not the entity that completes the development of the end-product. Probi has developed, in certain cases, proprietary product solutions, but even here does not entirely control the launch.

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

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

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

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

2.8 TANGIBLE FIXED ASSETS

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

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

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

Profit and loss on the divestment of tangible fixed assets are recognised under Other operating income and Other operating expenses, respectively.

2.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

2.10 LEASING

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

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

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

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

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

2.11 FINANCIAL INSTRUMENTS

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

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

Accounts payable: Accounts payable are commitments to pay for goods or services acquired in operating activities from suppliers. Accounts payable are classified as current liabilities if they fall due within one year, otherwise they are recognised as long-term liabilities.

2.12 INVENTORIES

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

2.13 ACCOUNTS RECEIVABLE

Accounts receivable are recognised at fair value. A provision for the depreciation of accounts receivable is made when there is objective proof that the Group will be unable to obtain the full amount due in accordance with the original terms of the receivable. The amount of the provision is determined on the basis of the difference between the carrying amount of the asset and the current value of the estimated future cash flows, discounted applying the effective interest rate. The provision is recognised in profit and loss.

2.14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and bank balances. Cash and cash equivalents do not include any current investments.

2.15 FOREIGN CURRENCIES

Transactions in foreign currencies are translated into the functional currency at the exchange rate applying on transaction date. Monetary assets and liabilities in foreign currencies are converted at the rate prevailing on the balance-sheet date. Exchange-rate differences arising in conjunction with the translation are recognised in profit and loss. Non-monetary assets and liabilities recognised at historical costs are converted at the exchange rate on the transaction date.

2.16 PROVISIONS

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

2.17 REMUNERATION TO EMPLOYEES

Pensions

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

Redundancy payments

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

A redundancy payment is recognised when there is an obligation

that employees be made redundant in accordance with set rules, without the option of re-employment, or when there is an obligation to provide remuneration upon termination of employment based on an offer made to encourage the individual to take voluntary redundancy.

Bonus plans

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

2.18 STATEMENT OF CASH FLOWS

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

2.19 PARENT COMPANY ACCOUNTING POLICIES

The Parent Company's financial statements have been prepared in accordance with the Swedish Annual Accounts Act (ÅRL) and RFR 2.2, which implies that the Parent Company's financial statements apply International Financial Reporting Standards (IFRS) as adopted by the EU when this is possible within the framework of the Swedish Annual Accounts Act and with regard to the relationship between reporting and taxation. No differences between the reporting of the Parent Company and the Group have been identified.

NOTE 3 FINANCIAL RISKS

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

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

MARKET RISK

Currency risks

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

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

A sensitivity analysis shows that the effect on the operating income in 2009 of a 5 per cent change in the USD/SEK exchange rate would have been MSEK +/- 0.6 (2008: MSEK 1.1). In terms of costs in EUR, these corresponded to the same amount of revenue, which is the reason no equivalent effect is shown here.

Interest risks

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

Price risks

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

CREDIT RISKS

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

LIQUIDITY RISKS

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

For surplus liquidity – meaning the portion of cash and cash equivalents that exceeds MSEK 20.0 – alternative investment types may be considered if a higher return is expected. According to Probi's financial policy, investments may be made in Nordic banks or Swedish government bonds. The fixed period must be between 3 and 12 months and investments may only be made after approval by Probi's Chairman. To date, Probi has not utilised alternative investment forms for its surplus liquidity.

NOTE 4 IMPORTANT ESTIMATES AND ASSESSMENTS FOR ACCOUNTING PURPOSES

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

Deferred tax asset

Probi's Board of Directors considers that income and cash flow from operating activities will be positive in the future, which is the reason the deferred tax asset of MSEK 9.8 has been recognised in its entirety. Probi's deferred tax asset refers to taxable loss carry-forwards. The company's accumulated taxable deficit on 31 December 2009 was MSEK 37.1 (MSEK 52.0).

Testing of impairment requirements for patents, licences and similar rights

Probi carried out testing of impairment requirements in 2009 to ensure the value of its patents, licences and similar rights at 31 December 2009. Probi closely monitors its partners' launches and development work. The information obtained from this material forms the basis for the information used when the company carries out testing of impairment requirements. The executed tests have indicated that no impairment requirement exists.

Impairment testing of goodwill

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

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

The recoverable value for cash-generating units has been determined by calculating the value in use. A rate of 12 per cent (12) has been applied as the discount rate and growth has been estimated at 10 per cent (10). Probi has carried out impairment testing to determine the value of goodwill on 31 December 2009. These tests did not indicate any impairment requirement.

Impairment testing of capitalised development expenses

During 2008 and 2009, Probi capitalised development expenses pertaining to the development of immunology products in dietary supplements. There were no indications of an impairment requirement, since the projects that were capitalised, with reasonable certainty, can be expected to generate revenue for Probi in the near future.

NOTE 5 SEGMENT INFORMATION

Probi's business operations are organised in two main operating segments: Functional Food (FF) and Dietary Supplements (DS). The FF business area has existed since the first licensing agreement was signed in 2003. DS became an independent business area in 2002. "Other" comprises unallocated research and business development costs, general administrative costs and other central costs. Information under Other for 2008 pertains primarily to Clinical Nutrition. Probi is currently not conducting any sales or research in this area.

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

Operating income per operating segment

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

Group	2008			
	FF	DS	Other	Total
Total operating revenue	56,770	12,499	93	69,362
Total operating expenses	-47,354	-10,896	-873	-59,123
Operating income	9,416	1,603	-780	10,239

Statement of financial position per business segment

The category "Other" comprises assets and liabilities attributable to Group-wide activities, with the exception of depreciation/amortisation for 2008, which related to Clinical Nutrition.

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

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

Operating revenue, assets and investments per geographic area

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

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

NOTE 6 DISTRIBUTION OF NET SALES

	Group		Parent Company	
	2009	2008	2009	2008
Goods	10,922	17,891	10,922	17,891
Royalties, licenses, etc.	54,544	50,068	54,544	50,068
Total	65,466	67,959	65,466	67,959

NOTE 7 AUDITORS' FEES

	Group		Parent Company	
	2009	2008	2009	2008
Audit assignment and audit-related services (PricewaterhouseCoopers)	360	338	360	338
Other assignments (PricewaterhouseCoopers)	91	84	91	84
Total	451	422	451	422

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

NOTE 8 RESEARCH AND DEVELOPMENT

	Group		Parent Company	
	2009	2008	2009	2008
Expensed research and development expenses	14,635	17,424	14,635	17,424

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

	Group		Parent Company	
	2009	2008	2009	2008
Average no. of employees				
Women	10	9	10	9
Men	9	8	9	8
Total	19	17	19	17

	2009	2008	2009	2008
Salaries and remuneration				
Board of Directors:				
Per Lundin	133	-	133	-
Jan Barchan	50	-	50	-
Annika Espander	75	-	75	-
Hilde Furberg	100	100	100	100
Mats Lidgard	113	100	113	100
Hans Wigzell	100	100	100	100
Former Board Members:				
Lars Backsell	25	100	25	100
Ola Erici	-	25	-	25
Lena Åsheim	25	75	25	75
Peter Zakrisson	13	150	13	150
CEO, Michael Oredsson	1,666	1,609	1,666	1,609
Other management (2 (3))	2,269	2,991	2,269	2,991
Other employees	8,386	6,834	8,386	6,834
Total	12,955	12,084	12,955	12,084

	Group		Parent Company	
	2009	2008	2009	2008
Social security contributions, total:	7,459	6,313	7,459	6,313
Of which pension costs:	2,794	1,960	2,794	1,960
Board Members	-	-	-	-
CEO, Michael Oredsson	433	360	433	360
Other management (2 (3))	576	706	576	706
Other employees	1,785	894	1,785	894

The CEO and two senior executives are entitled to bonuses if certain goals, established annually by the Board, are met. If the goals are met in full, a bonus shall be paid of 30 per cent of the annual salary. However, bonuses shall never be paid in an amount totalling more than 50 per cent of the annual salary. In 2009, no variable remuneration was paid to the Board, CEO or other senior executives.

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

The CEO's remuneration is determined by the Board of Directors and that of other management personnel by the CEO and the Chairman of the Board. The company has no outstanding and unrecognised pension undertakings, as all pensions are defined premium pensions. There is no share-based remuneration in the company. There are no women serving within the company's Management Group.

	Parent Company	
	2009	2008
Absence due to illness		
Total absence due to illness	1.3 %	5.2 %
Of which absence due to illness of more than 60 days as a percentage of total absence due to illness	47.4 %	85.4 %

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

NOTE 10 DEPRECIATION/AMORTISATION AND IMPAIRMENT OF FIXED ASSETS

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

	Group		Parent Company	
	2009	2008	2009	2008
Depreciation/amortisation	5,114	5,029	5,114	5,029

NOTE 11 FINANCIAL INCOME AND EXPENSES

	Group		Parent Company	
	2009	2008	2009	2008
Interest income	552	2,058	552	2,058
Exchange rate differences	302	137	302	137
Interest expenses	-1	-8	-1	-8
Total	853	2,187	853	2,187

NOTE 12 INCOME TAX

	Group		Parent Company	
	2009	2008	2009	2008
Current tax for the year	-	-	-	-
Deferred tax	-3,911	-4,431	-3,911	-4,431
Total	-3,911	-4,431	-3,911	-4,431
		2009		2008
Profit before tax		14,662		12,426
Nominal tax rate 26.3 (28.0) %		-3,856		-3,479
Tax effect on other non-taxable or tax-deductible income		-55		-68
Remeasurement of deferred tax asset		-		-884
Tax cost		-3,911		-4,431

As a result of the reduction in Swedish corporate tax effective 2009, from 28 per cent to 26.3 per cent, the carrying amounts for deferred tax assets were remeasured in 2008.

NOTE 13 DEFERRED TAX

	Group		Parent Company	
	2009	2008	2009	2008
Opening balance	13,670	18,101	13,670	18,101
Recognised in profit and loss	-3,911	-4,431	-3,911	-4,431
Closing balance	9,759	13,670	9,759	13,670

Probi's Board of Directors is of the opinion that both earnings and cash flow from the operating activities will be positive in the future and the deferred tax asset of MSEK 9.8 has consequently been recognised in its entirety. Probi's deferred tax asset is attributable to taxable loss carryforwards. As of 31 December 2009, the company's accumulated taxable deficit was MSEK 37.1 (MSEK 52.0).

NOTE 14 OPERATIONAL LEASING AGREEMENTS

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

	Group		Parent Company	
	2009	2008	2009	2008
Leasing costs for the year	2,111	2,041	2,111	2,041
Falls due for payment within one year	2,735	2,040	2,735	2,040
Falls due for payment after one year but within five years	9,950	200	9,950	200
Falls due for payment after more than five years	-	-	-	-

NOTE 15 CAPITALISED EXPENDITURE FOR DEVELOPMENT

	Group		Parent Company	
	2009	2008	2009	2008
Opening cost	1,064	-	1,064	-
New acquisitions	3,633	1,064	3,633	1,064
Closing accumulated cost	4,697	1,064	4,697	1,064
Opening amortisation	-	-	-	-
Amortisation for the year	-54	-	-54	-
Closing accumulated amortisation	-54	-	-54	-
Closing residual value	4,643	1,064	4,643	1,064

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

NOTE 16 PATENTS, LICENSES AND SIMILAR RIGHTS

	Group		Parent Company	
	2009	2008	2009	2008
Patents and licenses	57,223	55,311	57,223	55,311
Opening cost	57,223	55,311	57,223	55,311
New acquisitions	1,934	1,912	1,934	1,912
Closing accumulated cost	59,157	57,223	59,157	57,223
Opening amortisation	-38,624	-34,314	-38,624	-34,314
Amortisation for the year	-4,414	-4,310	-4,414	-4,310
Closing accumulated amortisation	-43,038	-38,624	-43,038	-38,624
Closing residual value	16,119	18,599	16,119	18,599

Patents, licenses and similar rights are primarily attributable to the repurchase of the European rights from Skånemejerier for MSEK 40 in 2001. The carrying amount on 31 December 2009 was MSEK 10.2. The remaining MSEK 5.9 refers to patents.

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

Probi carried out testing for impairment requirements to determine the value of patents, licenses and similar rights on 31 December 2009. Probi closely monitors its partners' development work and launches. This material forms the basis when the company performs testing of impairment requirements. The discount rate used was 12 per cent (12).

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

NOTE 17 GOODWILL

	Group	
	2009	2008
Goodwill	2,762	2,762
Opening cost	2,762	2,762
Closing residual value	2,762	2,762

The goodwill item refers to the strategic acquisition in 1998 of outstanding shares in Probi Food AB and is therefore recognised under the Functional Food segment. As of the 2004 financial year, goodwill is tested each year with regard to any impairment requirement according to the accounting policies described in Note 2.9. Such tests are also carried out when there are indications of an impairment requirement.

The recoverable value of cash-generating units has been determined by calculating the value in use. A rate of 12 per cent (12) has been used as the discount rate and growth has been calculated at 10 per cent (10), which is lower than the growth for the licensing agreement in question in 2009.

Probi has carried out testing of impairment requirements to determine the goodwill value as at 31 December 2009. These tests have not indicated any impairment requirement.

No goodwill was recognised in the Parent Company.

NOTE 18 BUILDINGS AND LAND

	Group		Parent Company	
	2009	2008	2009	2008
Buildings and land	-	4,642	-	4,642
Opening cost	-	4,642	-	4,642
Divestments for the year	-	-4,642	-	-4,642
Closing accumulated cost	-	-	-	-
Opening depreciation	-	-1,008	-	-1,008
Depreciation for the year	-	-54	-	-54
Divestments for the year	-	1,062	-	1,062
Closing accumulated depreciation	-	-	-	-
Closing residual value	-	-	-	-

Divestments in 2008 refer to the company's production unit in Sösdala.

NOTE 19 EQUIPMENT, TOOLS, FIXTURES AND FITTINGS

Equipment	Group		Parent Company	
	2009	2008	2009	2008
Opening cost	4,369	14,351	4,369	14,351
Purchases	1,813	463	1,813	463
Sales	-120	-341	-120	-341
Disposals	-	-10,104	-	-10,104
Closing accumulated cost	6,062	4,369	6,062	4,369
Opening depreciation	-2,664	-11,342	-2,664	-11,342
Depreciation for the year	-646	-666	-646	-666
Depreciation on sold equipment	-	231	-	231
Depreciation on disposed equipment	-	9,113	-	9,113
Closing accumulated depreciation	-3,310	-2,664	-3,310	-2,664
Opening impairment losses	-	-893	-	-893
Disposals	-	893	-	893
Closing accumulated impairment losses	-	-	-	-
Closing residual value	2,752	1,705	2,752	1,705

In 2008, the company's fixed asset register was updated. In conjunction with this, fully depreciated equipment that had not been removed from the register in conjunction with divestments and disposals in previous years was identified. This resulted in corrections being recognised under disposals for 2008. The corrections made in the fixed assets register in 2008 had no impact on earnings.

NOTE 20 PARTICIPATIONS IN GROUP COMPANIES

Parent Company	2009	2008
Carrying amount	4,031	4,031

Specification of Parent Company's shareholding in Group companies

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

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

NOTE 21 FINANCIAL INSTRUMENTS

	Group		Parent Company	
	2009	2008	2009	2008
Accounts receivable	10,679	6,598	10,679	6,598
Cash and cash equivalents	71,707	61,342	71,707	61,342
Total	82,386	67,940	82,386	67,940

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

Maturity structure of accounts receivable

	Group		Parent Company	
	2009	2008	2009	2008
Not fallen due	7,125	6,115	7,125	6,115
Falling due within 0-45 days	3,554	483	3,554	483
Total	10,679	6,598	10,679	6,598

Accounts receivable due for payment at year-end were settled before the end of January 2010. No impairments of accounts receivable took place in 2009.

NOTE 22 PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
	2009	2008	2009	2008
Royalty revenue	-	2,507	-	2,507
Prepaid rent	642	442	642	442
Other items	886	1,212	886	1,212
Total	1,528	4,161	1,528	4,161

NOTE 23 CASH AND CASH EQUIVALENTS

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

NOTE 24 SHAREHOLDERS' EQUITY

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

No. of shares	Class A shares	Class B shares	Common share class	Total
No. on 31 Dec 2008	-	-	9,365,300	9,365,300
No. on 31 Dec 2009	-	-	9,365,300	9,365,300

The quotient value of the shares is SEK 5.

NOTE 25 LONG-TERM LIABILITIES

	Group		Parent Company	
	2009	2008	2009	2008
Liabilities to Group Companies, > 5 years	-	-	4,035	4,035
Total	-	-	4,035	4,035

NOTE 26 ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
	2009	2008	2009	2008
Accrued holiday pay, including social security contributions	638	651	638	651
Social security contributions	363	340	363	340
Royalty expenses	97	216	97	216
Other items	649	1,160	649	1,160
Total	1,747	2,367	1,747	2,367

NOTE 27 PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Group		Parent Company	
	2009	2008	2009	2008
Chattel mortgages	800	800	800	800
Total pledged assets	800	800	800	800

The company has no contingent liabilities.

NOTE 28 TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties recognised in the statement of comprehensive income:

	Group		Parent Company	
	2009	2008	2009	2008
Skånemejerier, royalty revenue	274	35,306	274	35,306
Skånemejerier, sales	360	-	360	-
Skånemejerier, other	-	10	-	10
ProViva AB, royalty revenue	37,862	-	37,862	-
Total revenue	38,496	35,316	38,496	35,316
Skånemejerier, royalty expenses	-270	-45	-270	-45
H&B Capital Advisors AB	-	-46	-	-46
Dacke Group, related party: Peter Zakrisson (former Chairman of the Board)	-	-66	-	-66
Lavindia AB, related party: Mats Lidgard (Board Member)	-144	-37	-144	-37
Milifa redovisning & administration, related party: Per-Ola Forsberg (former deputy CEO)	-	-247	-	-247
Total costs	-414	-441	-414	-441

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

	Group		Parent Company	
	2009	2008	2009	2008
Operating receivables				
Skånemejerier	74	3,233	74	3,233
ProViva AB	3,805	-	3,805	-
Total operating receivables	3,879	3,233	3,879	3,233
Operating liabilities				
Skånemejerier	-135	-2	-135	-2
Total operating liabilities	-135	-2	-135	-2

H&B Capital and Skånemejerier are Probi's largest and third largest shareholders, respectively, at 31 December 2009. Transactions have been carried out on market terms and at market values. Probi AB has licensing and delivery agreements with Skånemejerier pertaining to Bravo Friscus, and with Skånemejerier's wholly owned subsidiary, ProViva AB, pertaining to ProViva. Royalties from Skånemejerier and its subsidiaries are based on these long-term agreements.

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

NOTE 29 EVENTS AFTER BALANCE-SHEET DATE

After the end of the period, Probi reported that Institut Rosell signed an agreement providing the German pharmaceutical company, Merck KgaA exclusive rights to sell dietary supplements based on *lp299v*, through pharmacies, in 13 Latin American countries. The product will be sold in pharmacies and the first launches are scheduled for the second half of 2010. The number of markets will increase gradually as approval is received from regulatory authorities in the countries covered by the agreement.

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

The statement of comprehensive income and the statement of financial position will be presented to the AGM for adoption on 22 April 2010.

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 Administration 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, 8 March 2010

Per Lundin
Chairman

Jan Barchan

Annika Espander

Hilde Furberg

Mats Lidgard

Hans Wigzell

Michael Oredsson
CEO

Our auditors' report was submitted on 8 March 2010.
PricewaterhouseCoopers

Lars Helgesen
Authorised Public Accountant
Auditor-in-Charge

Eva Carlsvi
Authorised Public Accountant

AUDITORS' REPORT

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

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the CEO of Probi AB (publ) for 2009. The company's annual accounts and consolidated accounts can be found on pages 33-51 of this document. The Board of Directors and the CEO are responsible for these accounts and the administration of the company as well as for the application of the Swedish Annual Accounts Act when preparing the annual accounts and the application of the International Financial Reporting Standards (IFRS) as adopted by the EU and the Swedish Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

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

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

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

Malmö, 8 March 2010

PricewaterhouseCoopers AB

Lars Helgesen
Authorised Public Accountant
Auditor-in-Charge

Eva Carlsvi
Authorised Public Accountant

CORPORATE GOVERNANCE REPORT

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

Probi's Corporate Governance is based on applicable legislation, resolutions by the Annual General Meeting, Articles of Association, listing agreement, the Swedish Code of Corporate Governance (the "Code") and work by the Board of Directors and Group Management.

This Corporate Governance Report was prepared in accordance with the Code's regulations and pertains to the 2009 financial year. The report has not been reviewed by the company's auditors.

Probi's Articles of Association and additional information about Probi's Corporate Governance are available at www.probi.se, under "Investors".

APPLICATION OF THE CODE

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

SHAREHOLDERS

At 31 December 2009, Probi had 4,463 (4,500) shareholders according to Euroclear Sweden AB.

The ten largest shareholders are specified on page 11 of this Annual Report.

ANNUAL GENERAL MEETING

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

NOMINATION COMMITTEE

The Nomination Committee's principle tasks are to:

- Evaluate the Board's structure and duties,
- prepare proposals to the Annual General Meeting for election of Board Members and Chairman of the Board and their remuneration,
- prepare proposals to the AGM, when appropriate, concerning auditors and their remuneration.

On 6 May 2009, the AGM resolved that the Nomination Committee should consist of four owner representatives. Lars Gatenbeck (convener) (GZ Group), and Anders Olsson (Skånemejerier) were re-elected to the Nomination Committee and newly elected members were Ragnild Wi-

borg (Consepio) and Göran Molin (Professor of food hygiene at the Lund University and a member of the group of scientists that founded Probi AB). None of the Nomination Committee's members are dependent in relation to the company or the Management Group.

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

BOARD OF DIRECTORS

According to Probi's Articles of Association, the Board of Directors shall consist of no fewer than three and not more than seven members, with not more than three deputies. The Annual General Meeting on 6 May 2009 elected a Board consisting of six members with no deputies according to the following:

(Figures in parentheses pertain to attendance at Board meetings in 2009).	
Per Lundin, Chairman, newly elected	(11 of 11)
Annika Espander, newly elected	(9 of 11)
Hilde Furberg, re-elected	(15 of 17)
Mats Lidgard, re-elected	(16 of 17)
Hans Wigzell, re-elected	(16 of 17)
Jan Barchan, newly elected	(0 of 11)

At the Annual General Meeting in May 2009, Lars Backsell (5 of 6) and Lena Åsheim (4 of 6) resigned.

Jan Barchan did not participate in any Board meetings in 2009. The reason is that the prosecutor at the Swedish National Economic Crimes Bureau took out a summons against him in June 2009 pertaining to suspicion of insider trading in Studsvik AB, and Jan Barchan decided not to participate in Probi's Board work during the period the matter is being processed.

All Board Members are independent in relation to the company and the Management Group. A presentation of the Board members is available on pages 56-57.

The AGM decides on principles and monetary limits for Board fees.

For 2009 the Board's fees were fixed at TSEK 700, of which TSEK 200 refers to the Chairman of the Board and TSEK 100 refers to each of the other Board Members.

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

For information regarding Board fees, see Notes 9 and 28.

CHIEF EXECUTIVE OFFICER

A presentation of the CEO is available on page 58 of the Annual Report for 2009.

WORK OF THE BOARD AND ITS FORMAL

WORK PROCEDURES

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

The Board annually prepares procedures and rules regulating the division of the work and responsibilities between the Board, Chairman and CEO. This formal work procedure is established in connection with the Board's statutory meeting.

The Chairman of the Board is responsible for continuously monitoring the company and ensuring that all Board members continuously receive the relevant information in order to make decisions and evaluate Probi. The Chairman must consult with the CEO on strategic issues, supervise Board meetings and ensure that Board matters are not in contravention of the regulations regarding conflicts of interest stipulated by the Swedish Companies Act. The Board annually establishes instructions for the CEO with guidelines for the ongoing administration, accounting and asset management and internal control of the company. These instructions also cover the CEO's authorisation and disclosure requirements towards the Board.

The Board shall meet not fewer than four times distributed equally during the year and one statutory meeting. In addition to regular items, the scheduled meetings in 2009 focused primarily on strategic and structural issues. Aside from the scheduled meetings, a number of shorter meetings were held, mostly telephone meetings, and these meetings addressed primarily commercial issues in conjunction with the launch of Probi's immunology product.

AUDIT COMMITTEE

Probi's audit committee comprises the Board in its entirety. The Board is continuously in contact with the auditors, who personally report their findings and observations at least twice annually. The auditors also provide information regarding the areas which future reports will specifically address, while the Board informs the auditors about issues or areas that the Board wishes to highlight.

REMUNERATION COMMITTEE

Probi's Remuneration Committee comprises the Board in its entirety. The Remuneration Committee determines salaries and the CEO's remuneration. Salaries and remuneration of senior executives are decided by the CEO in consultation with the Chairman of the Board. Policies for remuneration and other terms and conditions of employment for the CEO and senior executives are decided by the Annual General Meeting.

For information regarding salaries and remuneration to the CEO and other senior executives, see Note 9.

AUDITORS

PricewaterhouseCoopers AB was appointed as the company's auditors at the 2006 AGM, with Authorised Public Accountant Lars Helgesen as Auditor-in-Charge until the 2010 AGM. At the 2010 Annual General Meeting, auditors for the coming four-year period will be elected.

THE BOARD'S INTERNAL CONTROL REPORT

The Board is responsible for internal control of financial reporting.

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

Authorisation and responsibility is documented and reported in the internal guidelines and instructions. This includes the division of responsibilities between the Board and CEO, attestation instructions and accounting and reporting instructions. The instructions in this document aim at minimising the risk of irregularities and improper benefits to other parties at the expense of the company.

The Board monitors the financial development partly through reporting at Board meetings and partly through monthly reports.

The CEO is responsible for preparing and presenting reports to the Board at each Board Meeting, with the following principal content for the reporting of the period in question:

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

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

QUALITY OF FINANCIAL REPORTING

The Board is responsible for ensuring the quality of the company's financial reporting. This is partly done through ongoing contact with the company's auditors and partly through continuous evaluation of the information submitted by company management. Central to this work is ensuring that measures are undertaken to remedy any discrepancies arising in conjunction with audit and to ensure that proposed quality improvements are implemented. Furthermore, the Board has decided that the company's auditors shall conduct a limited review of all quarterly reports.

Considering the size of the company, it has not been deemed reasonable to establish a specific internal audit function. The issue regarding the establishment of a specific internal audit function shall be addressed annually by the Board.



BOARD OF DIRECTORS



Hans Wigzell, Hilde Furberg, Mats Lidgard, Annika Espander and Per Lundin.
Jan Barchan was not available when the photograph was taken.

PER LUNDIN

Born 1947. Chairman of the Board since 2009. Board member since 2009.
Senior Advisor in the food industry. Formerly Director of Sales,
Kraft Foods Nordic, Vice President of ICA Meny and President of Arvid Nordquist.
Other Board assignments: Kinnan AB, Gastronomi Sverige AB and M3Bygg AB.
Shares in the company: 0 shares.
Independent in relation to the company: Yes
Independent in relation to major shareholders: Yes

JAN BARCHAN

Born 1946. Board member since 2009.
President of Briban Invest. Formerly President of AudioDev AB.
Other Board assignments: Chairman of the Board of AudioDev AB and connectBlue AB.
Board member of Studsvik AB and Arcam AB.
Shares in the company: 0 shares.
Independent in relation to the company: Yes
Independent in relation to major shareholders: Yes

ANNIKA ESPANDER

Born 1964. Board member since 2009.

President of Esperio AB. Formerly Managing Partner of Catella Healthcare, Head of Equity and Credit Research SHB, Sector Head of Healthcare Enskilda Securities.

Other Board assignments: Board member of Stille AB, Attana AB and Cellartis AB.

Shares in the company: 0 shares.

Independent in relation to the company: Yes

Independent in relation to major shareholders: Yes

HILDE FURBERG

Born 1958. Board member since 2005.

Qualifications: B.Sc. in Medical Technology, University of Oslo.

Vice President & General Manager of Nordic/Benelux Genzyme.

Other Board assignments: Copenhagen Capacity.

Shares in the company: 0 shares.

Independent in relation to the company: Yes

Independent in relation to major shareholders: Yes

MATS LIDGARD

Born 1954. Board Member since 2004.

Qualifications: LL.B., Lund University.

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

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

Shares in the company: 1,000 shares.

Independent in relation to the company: Yes

Independent in relation to major shareholders: Yes

HANS WIGZELL

Born 1938. Board Member since 2007.

Qualifications: Doctor of Medicine at Karolinska Institutet.

Professor Emeritus in Immunology, and actively involved in research at Karolinska Institutet. Principal at KI between 1995–2003 and Scientific Advisor to the Swedish Government between 1999–2007.

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

Shares in the company: 21,000 shares.

Independent in relation to the company: Yes

Independent in relation to major shareholders: Yes

MANAGEMENT GROUP AND AUDITORS



NIKLAS BJÄRUM

Born 1963

Vice President of Marketing and Sales

Qualifications: Degree in International Business Administration from Lund University.

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

Shares in the company: 2,000 shares

AUDITORS

PricewaterhouseCoopers AB

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

Authorized Public Accountant: Eva Carlsvi, Malmö

NIKLAS BRANDT

Born 1959

CFO

Qualifications: Business Administration Degree from Lund University.

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

Shares in the company: 1,000 shares

MICHAEL OREDSSON

Born 1960

CEO

Qualifications: Degree in International Business Administration from Lund University.

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

Shares in the company: 2,000 shares

ANNUAL GENERAL MEETING

The AGM will be held at 3 p.m. on Thursday 22 April 2010 at the Edison Park, Emdalavägen 16, Lund.

RIGHT TO PARTICIPATE

To be entitled to participate in the Annual General Meeting, shareholders must be registered in the shareholders' register maintained by Euroclear Sweden AB as at Friday 16 April 2010, and shall have notified the company of their intention to participate not later than 4 p.m. on Friday, 16 April 2010.

Shareholders whose shares are registered with a trustee must temporarily re-register their shares in their own name with Euroclear Sweden AB in order to participate in the Meeting. Such registration must be effected not later than Friday, 16 April 2010. This means that shareholders must notify of their intention to temporarily re-register these shares with the trustee in ample time before this date.

NOTIFICATION OF PARTICIPATION

Notification of participation in the meeting can be made:

- in writing to: Probi AB, Ideon Gamma 1, SE-223 70 Lund
- by fax to: +46 (0)46 286 89 28
- by e-mail to: probi@probi.se
- by calling +46 (0)46 286 89 70.

The notification should include the following:

- Name
- Civic registration number or corporate registration number
- Number of shares
- Daytime telephone number
- Where applicable, the number of advisors (max. two) intending to participate in the meeting.

If shareholders intend to be represented by proxy, a power of attorney and other authorisation documents must be included with the application in addition to the representatives' names.

A power of attorney form is available upon request.

CALENDAR FOR 2010

Interim Report, Q1	22 April 2010
Annual General Meeting 2009	22 April 2010 at 3:00 p.m.
Interim Report, Q2	20 July 2010
Interim Report, Q3	20 October 2010
Year-end Report 2010	26 January 2011



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