



*probi is here!*



# This is Probi

**Probi is a growth company and a world-leader in probiotic research and development. Probi offers effective and well-documented probiotic product concepts licensed out to companies in the fields of food and dietary supplements.**

Probi's customers include Skane Dairy, Institut Rosell, Metagenics, Health World, NextFoods, etc.

The global markets for products targeting the health and well-being segments continued to grow strongly in 2007, and the rate of growth in the subsidiary market for probiotic products is continuing to outstrip that of the total market. Increased global prosperity, a greater focus on personal health care and well-being, and new insights into the benefits offered by probiotics are all trends that benefit Probi and the sector as a whole. And as probiotic usage increases, media interest increases, and helps to further boost the market by educating and informing people about the positive health effects of probiotics.

Probi has been offering probiotics on a commercial basis since the mid-1990's. Our product offering is based on probiotic research and development, an area in which Probi is a pioneer and one of the world's leading companies. The main areas on which Probi's research focuses are gastrointestinal disorders, the immune system, metabolic disorders, as well as stress and performance recovery.

Probi's research is well-regarded internationally and our offering is of a documented high standard. Probi's bacteria are robust and well-suited for industrialisation. Collectively, these factors allow Probi to charge higher licensing fees than those charged by the industry as a whole.

Probi is based in Lund and has 18 employees. The Probi share is quoted on the Nordic list of the Stockholm Stock Exchange.

## THE YEAR IN BRIEF

- 2007 saw a financial turnaround for Probi. Not only did the royalty revenues from Skane Dairy increase, but sales to other customers also grew, generating a better revenue balance and risk diversification.
- Agreements to launch dietary supplements based on Probi's probiotics were signed for the Chinese, Indian, Greek, Czech, Slovak and Chilean markets.
- Royalty revenues from the sales of ProViva's fruit drinks continued to grow strongly in 2007 and totalled SEK 31 million (SEK 24 m), corresponding to a net growth rate of 30 per cent (21).
- Agreement with NextFoods opens up the American food market.
- Michael Oredsson took over as CEO.
- Agreements for the development of dry applications were signed with major players.
- The clinical study of probiotic usage in conjunction with colds that started in late 2006 ended during the year. A second study started in early 2008 with the results expected during the third quarter of the year.

# Probi's business concept and motivation

## BUSINESS CONCEPT

Probi is a leading research and development company that supplies industrial players with commercially interesting product concepts based on bacterial cultures with a probiotic effect.

## VISION

Probi shall, through its research, be the most attractive partner and supplier of probiotic concepts for leading producers of probiotic products.

## FUNDAMENTAL VALUES

Probi aims to create health-promoting product concepts that enable people to feel better, stay healthy and live longer.

## BUSINESS MODEL

Probi signs agreements with a variety of players for the commercialisation of bacterial cultures. The probiotics are licensed in return for royalties on ongoing sales, or are sold as semi-finished goods or consumer products. The business model is based on Probi's ability to patent the results of its research in order to protect fields of use for bacterial discoveries in a variety of functional areas.

Probi's research aims to identify, evaluate and clinically document commercially interesting bacteria and probiotic product concepts. Probi's probiotics shall have a high level of survival in their end-products and the probiotics shall be thoroughly documented, effective and clinically tested, in order to ensure that they are always regarded as the leading products in the field.

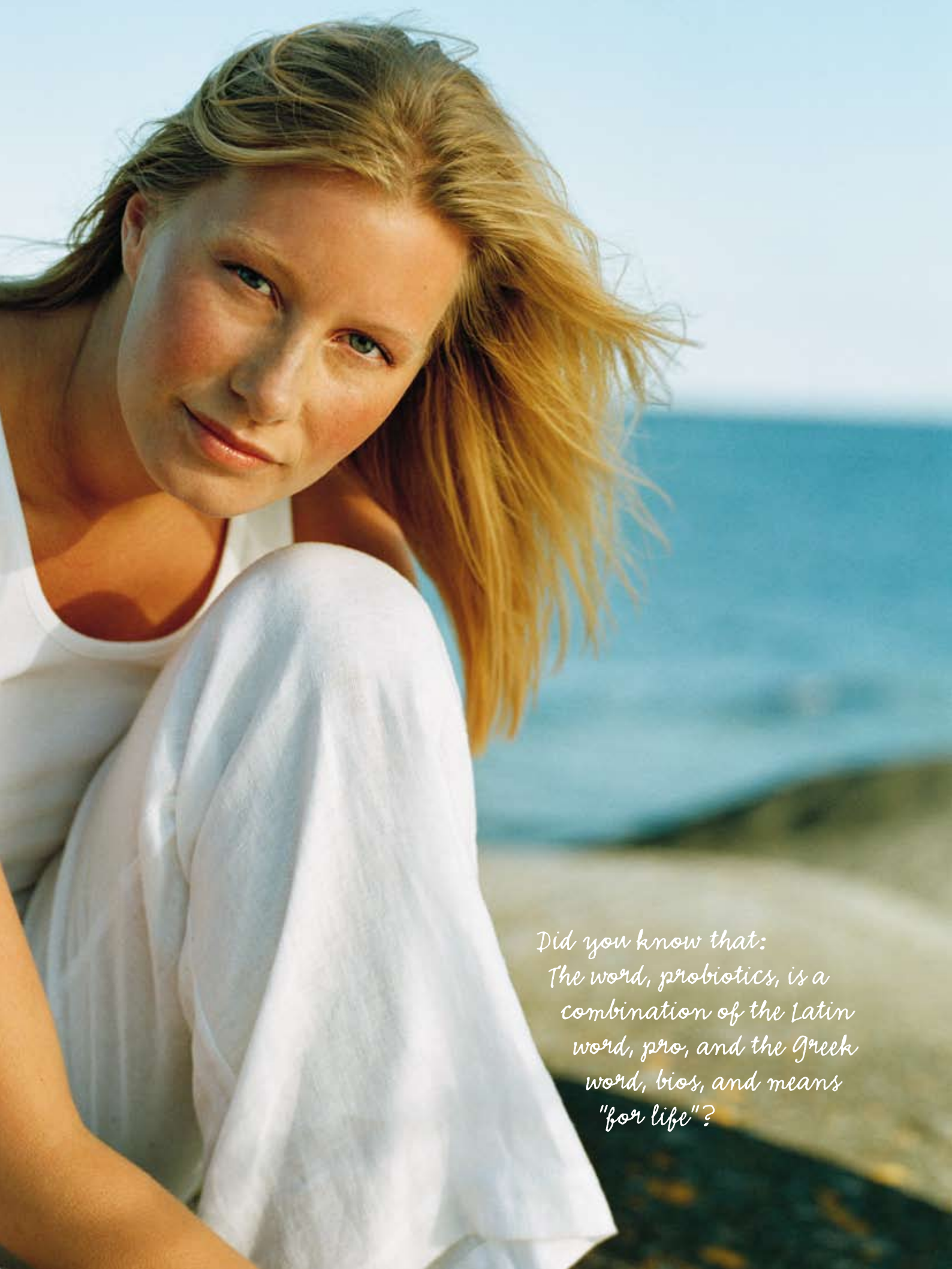
## OPERATIONAL GOALS

- Probi shall, within the next year, develop and commercialise additional product concepts for the food and nutrition market.
- Probi shall strengthen its position as a successful supplier of clinically documented probiotics.
- Probi shall, through high-quality documentation and extensive patent protection, endeavour to receive higher royalty revenues for its probiotics than the industry as a whole.

## FINANCIAL GOALS (SET IN CONJUNCTION WITH THE STOCK MARKET FLOTATION IN 2004)

- Probi's organic growth in terms of net turnover during the next five years shall reach an average of 25 per cent per year.
- Probi's operating margin, excluding R&D expenses, shall be a minimum of 60 per cent. R&D shall not, after a five-year period, exceed 30 per cent of income.
- Probi's full-year result before tax shall be positive by 2007. The long-term net margin shall exceed 25 per cent.
- Probi's cash flow for 2007 shall be positive and shall subsequently total at least 50 per cent of the operating result.
- Probi's operations shall be financed over the next three years using shareholders' equity.





*Did you know that:  
The word, probiotics, is a  
combination of the Latin  
word, pro, and the Greek  
word, bios, and means  
"for life"?*

# What are probiotics?



## *Gastrointestinal disorders*

Gastrointestinal disorders affect many people in their day-to-day lives. They can involve everything from a stomach upset caused by the helicobacter pylori bacterium to irritable bowel syndrome, known as IBS. Probiotic research in this area is still relatively young, but is gradually making progress. Probiotics can be used to alleviate both symptoms of disease and the negative side-effects of treatment with antibiotics, for example.

## **WHAT ARE PROBIOTICS?**

Probiotics are live microorganisms whose health effects have been scientifically demonstrated and which, when consumed in specific amounts, have positive health effects on an individual's health. Most probiotics contain bacteria from the Lactobacillus or Bifidobacterium genera, but other bacterial genera, such as Escherichia, Enterococcus and Bacillus and the yeast genus, Saccharomyces, are also marketed as probiotics. The Lactobacillus genus, which is the primary focus of Probi's research, belongs to the family of lactobacilli that were, in times gone by, a natural component of our diets. Changes in dietary habits, including the introduction of the refrigerator, have, along with other lifestyle changes, resulted in a substantial fall in the natural quantity of Lactobacilli found in our intestines. A shift from lactobacilli to inflammatory bacteria in the digestive tract can result in imbalances in the intestinal flora, which can have a harmful effect on the immune system and lead to increased health risks. Probiotics are designed to restore the body's natural balance.

The full range of causal links is not fully charted, as yet, but research is gradually finding more and more support for the existence of such links and their ability to influence an individual's health. Not



## *Immune system*

The immune system is extremely complex and protects human beings against pathogens, such as bacteria and viruses, which have entered the body. Small disturbances to the bacterial balance can have a negative effect on the immune system, which can increase the risk of cardiovascular disease, cancer, types I and II diabetes, fatty liver, arthritis, MS, allergies and – probably – obesity. Probiotics help the body restore its correct balance and strengthen its own defence systems.

all bacteria sold as probiotics have documented health effects and some probiotic strains are more effective than others, depending on the nature of the specific health problem. Access to new, genetically-based methods of recognising different types of bacteria has, however, meant a drastic increase in probiotic research potential.

## **WHY PROBI'S PROBIOTICS?**

Not only is Probi a pioneer and one of the world's leading companies in the field of probiotic research and development, it is also on the cutting edge when it comes to commercialising discoveries within probiotic research. Probiotics are live microorganisms for which certain types of food – primarily dairy products – have been shown to be particularly suitable carriers, albeit certain non-milk-based products, such as chilled drinks and dry food, can also act as a host for probiotics. The challenge lies in keeping the probiotic alive, all the way from manufacturing and distribution, through storage, to in-store sales and, finally, consumption.

Several of Probi's patented bacterial strains are among the most robust in the market and have a good survival rate, making them well-suited for industrialisation. Probi has successfully marketed these strains as ingredients in dietary supplements



### *Metabolic disorders*

Metabolic syndrome is a collective name for diseases, conditions and disorders that can be linked to people's metabolism. A constantly elevated inflammatory level in the body (systemic inflammation) increases the risk of obesity, diabetes and cardiovascular disease, for example. Probiotics can help reduce abnormally high inflammation levels and thereby counteract disease.

and fresh fruit drinks, for example. Probi was the first company with a probiotic offering for use in fruit drinks – something that the company is still relatively alone in being able to do. Probiotics can be used to affect both human immune systems and human metabolisms, boosting hopes that it will eventually be possible to prevent and affect not only digestive disorders, but a number of prevalent endemic diseases.

Probi therefore aims to seek out, identify, evaluate and clinically document bacterial strains and probiotic product concepts in the following four therapeutic areas:

#### **GASTROINTESTINAL DISORDERS**

Probi's research has shown that probiotics alleviate the symptoms of people suffering from irritable bowel syndrome (IBS). Research findings also support the belief that probiotics can improve the digestive process and nutrient absorption, and that they can also counter symptoms associated with inflammatory intestinal disorders.

#### **IMMUNE SYSTEM**

Probiotic research in this area is still in an early stage of development, but the results obtained to date



### *Stress & performance recovery*

Stress, poor dietary habits, disease, lack of sleep and antibiotic treatment can all disrupt the balance between good and bad intestinal bacteria, increasing the risk of intestinal disorders and infections. Probiotics can help restore the balance.

show that probiotics probably reinforce the body's ability to protect itself.

In a clinical study of a new product in 2007, Probi demonstrated that the use of probiotics can alleviate cold symptoms. A second common cold study is now in progress and aims, in combination with the first study, to provide sufficient documentation for a health claim within the EU. The study is scheduled for completion during the third quarter of 2008.

#### **METABOLIC DISORDERS**

Research within the traditional pharmaceutical industry has long been focused on disorders related to the metabolic syndrome, which include cardiovascular disease, obesity and type II diabetes. Probiotic research in this area is still in its infancy, but has demonstrated clear effects on several important metabolic syndrome risk factors.

#### **STRESS AND PERFORMANCE RECOVERY**

Probiotics can restore the balance between good and bad bacteria in the intestinal flora, and can help the body recover after physical exertion. Probiotics can be used in conjunction with iron deficiency, which often affects women during their menstrual period, or when taking vitamins, to speed up the distribution rate or reduce negative health effects.

#### **Did you know that:**

We are born with absolutely no bacteria in our intestines, but within only a month or so of birth, we have been colonised by virtually all the bacteria we will subsequently carry within us? An adult human being has 10 billion bacteria per gram of large intestine wall.

# CEO's Statement

**2007 was Probi's most successful year ever since the company was founded in 1991. Revenues increased by over 50 per cent, excluding a non-recurring income in 2006. The company was also profitable for the first time ever, reporting an operating profit of just over SEK 5 million, and generated strong cash flow. The success was also reflected in the positive performance of our share price during the year. The company is now in a strong position to generate continued growth in the global market over the next few years.**

Both Functional Food and Dietary Supplements made a substantial contribution to the healthy profit. ProViva sales increased dramatically during the year and Probi also entered into new agreements, including one with NextFoods in the USA. Probi commenced new development partnerships with international food companies, generating a small amount of revenue in 2007, and the goal is for these partnerships to lead to commercial agreements in 2008.

Probi doubled its turnover in Dietary Supplements during the year by means of, among other things, continued growth by our partners in existing markets, such as France and Australia, as well as launches in the USA (professional health care), Canada, Greece, the Czech Republic, Slovakia, and Chile. An agreement to launch in 2008 was also signed with Ranbaxy and Aristo in India and with Biostime in China.

## PRODUCT DEVELOPMENT

Product development is becoming an increasingly important factor for success at Probi and we have consequently, in 2007, established a new full-time position dedicated to the development group. The experience we have gained from ProViva is important here, in that it has enabled us to develop a unique skill set with regard to methods of adding high levels of probiotics to tasty fruit drinks. Virtually all of the liquid probiotic products on the global market are milk-based; and tasty, milk-free fruit drinks offer an important competitive advantage for Probi.

Our product development work has now been expanded to include dry foods – a massive market opportunity for Probi that is currently completely unexploited. Product development of both liquid and dry food products is often conducted in cooperation with large food companies and acts as a gateway to new commercial agreements.

## RESEARCH

World-leading research in the field of probiotics is the basis of Probi's strong position, and 2007 saw us take a critical step towards completely new products capable of accelerating the company's growth in the years ahead.

The results of a common cold study conducted in Uppsala and Lund showed that a product comprising two patented bacterial strains can suppress a number of symptoms experienced by cold sufferers. The positive results were confirmed when test subjects demonstrated equivalent immune system effects in their blood. A new common cold study started in Berlin in January 2008, aimed at providing a stronger body of source data for health claims regarding the immune system and cold-related symptoms. The study is scheduled for completion during the third quarter of 2008.

Probi began research into new products focusing on type II diabetes and risk factors for cardiovascular disease and obesity in the latter half of the year. The first step was taken in 2007 when Probi became a member of AFC, the Antidiabetic Food Centre, at the University of Lund. AFC is a partnership between the University of Lund, Vinnova and leading food companies with the aim of creating new food products and solutions designed to prevent and affect the biggest lifestyle-related diseases in contemporary society. Probiotics are expected to be capable of playing a major role in this context and Probi aims, in a few years' time, to launch products that can help a very large target group address these problems.

Studies have already shown that Probi's probiotics can increase iron absorption in fertile women. A confirmation study on iron absorption was completed towards the end of 2007 in Gothenburg. Iron absorption in women who drank the ProViva product increased by ca. 50 per cent in comparison with those given a placebo drink. The results provide the source data for a new ProViva product aimed at an



interesting target group and offer the potential for new products internationally.

#### OUTLOOK

The potential for continued growth in both Functional Food and Dietary Supplements in the years ahead is good. Skane Dairy is planning to further increase its investment in ProViva in 2008, with a programme including a launch in Denmark as well as more advertising and more new products in Sweden.

NextFoods launched “fruit shots”, based on the same bacteria as ProViva, Lp299v, in January 2008. The range is being marketed under the Verb: Good-Belly brand name and is initially being sold in a test market in Boulder, Colorado, and nationally through the leading organic retail chains, WholeFoods and Wild Oats. NextFoods intends to expand sales to the broader grocery trade in the USA in 2008 if the test is successful. Probi will book a guaranteed royalty in 2008 from both this launch and from an agreement we entered into with a European food company in April 2007. Monitoring the sales trend for the international launches of foods containing Probi’s bacteria in 2008 will be exciting. Probi intends to secure additional commercial agreements with international food companies and we have already entered into a number of concrete partnerships. We hope, among other things, to achieve a breakthrough in the field of dry foods, where freeze-dried bacteria with a long shelf life have applications in cereal-based products.

The launches of Probi’s dietary supplements to treat stomach disorders in China and India will be some of our most important activities in 2008. In India, Aristo will call on general practitioners, while Ranbaxy concentrates on gastric specialists. Bios-time, meanwhile, will be launching the product in China. We are also engaged in discussions regarding licensing agreements for a further global expansion of the gastro product in parts of eastern Europe,



Asia, Latin America, and for expanding the marketing programme in the USA.

One of the key milestones in 2008 will be the result of the second colds-related study, which could give Probi a completely new immune product in both Functional Food and Dietary Supplements. Probi has already begun development of the immune product as a dietary supplement, which will give us the opportunity to control a larger part of the value chain.

#### ORGANISATION

Probi will continue to further strengthen both its marketing/sales and research teams in 2008. An experienced CFO, Niklas Brandt, has just been employed, and in R&D, the organisation has been strengthened in both clinical research and in the laboratory. Niklas Bjärum has been given overall responsibility for sales and marketing within Probi and the team will be further strengthened in the form of an additional full-time position with responsibility for Functional Food. Probi has very exciting, but also very demanding, times ahead of it, with a global expansion in several product segments, however, I am very confident about our future, thanks to our high calibre team that combines long-term experience within Probi with competence and skills acquired outside the company.

A handwritten signature in blue ink, which appears to read "Michael Oredsson".

*Michael Oredsson, CEO*

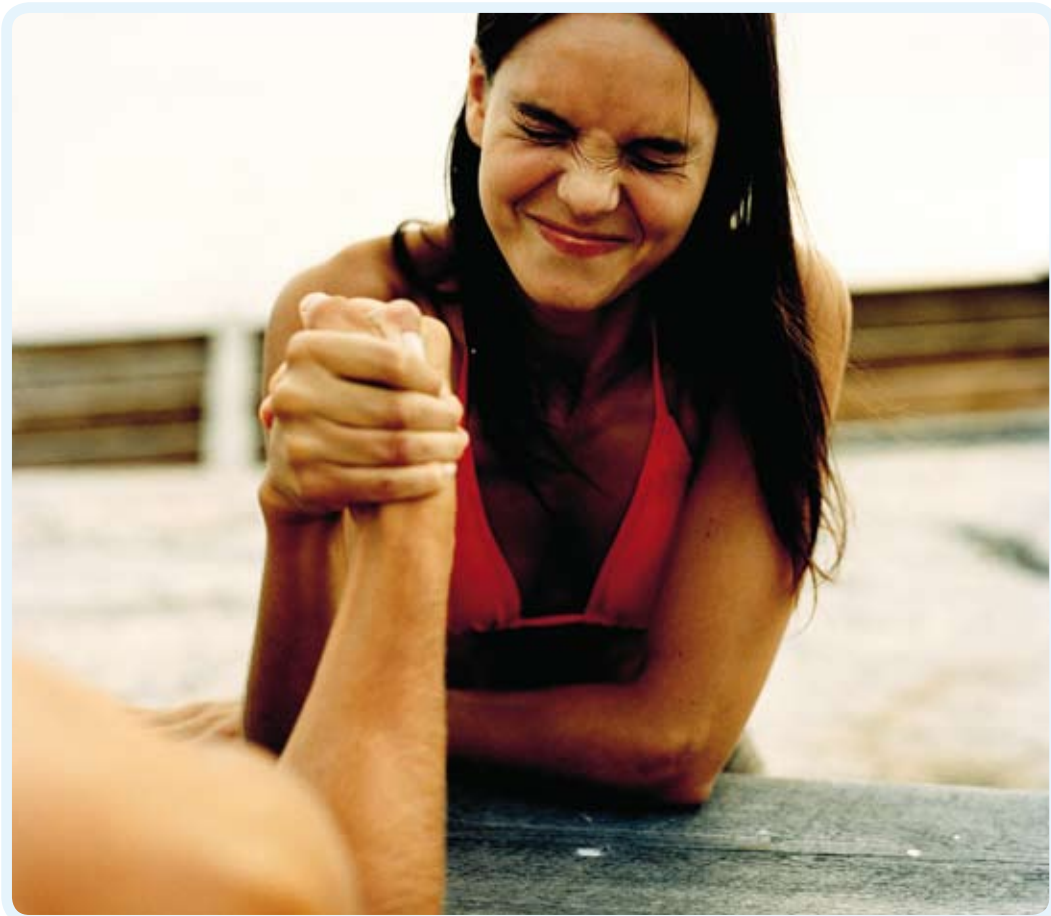
Lund, March 2008

# Operations

**Probi's market offering is divided into three business areas; Functional Food, Dietary Supplements and Clinical Nutrition.**

- **Functional Food offers food producers thoroughly documented probiotic bacteria.**
- **Dietary Supplements offers manufacturers and distributors of dietary supplements well-documented, high-quality probiotics.**
- **Clinical Nutrition offers probiotic concepts for use in nutritional solutions in the health care sector.**

**Probi's primary research fields are gastrointestinal disorders, immunological defence, the metabolic syndrome, as well as stress and performance recovery. Probi chose these fields because they have an impact on many people and are areas in which probiotics have a positive effect.**



*Probiotic bacteria are good bacteria with positive health effects that compete with, eliminate and replace bacteria that have a negative effect on the body.*

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# Functional Food

- **ProViva reported a further sharp increase in sales.**
- **Agreement with NextFoods opened the door to the American food market.**
- **Agreement on new probiotic bacterium with reputable European food company.**
- **Development agreement with major company regarding development of an ambient food product.**

## THE MARKET

The global market for functional food products based on probiotics continued to report vigorous growth in 2007. Net sales at the consumer stage of the market totalled USD 15 billion, corresponding to an increase of ca. 15 per cent in comparison with 2006. Market growth has matched or even exceeded forecast levels due to continued favourable conditions in already strong markets, such as Asia and Europe, and to the awakening of the American market.

The Asian markets continued to develop strongly. The population is not only used to fermented food, e.g. kim-chi, a commonplace dish in Korea, they also have a tradition of using preventative alternative

medication, and acceptance levels are therefore high. In Japan, which has the highest per capita consumption of probiotic food in the world, demand continues to be high, driven by, among other things, a view of health that says that “if the stomach feels well, the rest of the body feels well”.

Europe continues to be a close second to Asia in terms of market size for probiotic foods. The American market has really begun to pick up during the year. Vigorous marketing by the French firm, Danone, has to some extent succeeded in changing American consumers’ view of probiotic products. This has led to an increase in marketing activities by other suppliers, both foreign and domestic, which has benefited the market as a whole.

The Probiotic food market is still dominated by dairy-based products, and the Japanese firm, Yakult, and the French, Danone, have further reinforced their positions as the market’s biggest players during the year. The strong growth within the sector and the introduction of new application areas such as drinks have, however, led to an increase in interest on the part of other global players in the food and beverage market, and competition is therefore expected to increase in the long term.

## NEXTFOODS

The American company, NextFoods, was formed in the spring of 2007 by people with extensive experience in the functional foods sector. The company is launching “fruit shots” containing Probi’s probiotic, Lp299v, in spring 2008 under the Verb: GoodBelly brand name. The agreement guarantees Probi a royalty of SEK 10 million between 2008 and 2009 and expires, at the earliest, in 2015.



### Did you know that:

The ProViva fruit drink has been a sales success since its launch in 1994 and has reported high annual increases in sales figures? Sales grew by 30 per cent in 2007.

# YT MOT NY BILD



# Functional Food

## SKANE DAIRY

Skane Dairy's investment over the past year in achieving a geographical sales balance by improving its distribution and gaining greater control of the central and northern Swedish markets yielded a strong increase in sales. Royalty revenues from sales of ProViva increased by 30 per cent (21) and totalled SEK 31.3 million. ProViva is available as a fruit drink, "fruit shots", soured milk and drinking yoghurt. Two new fruit drink flavours were added to the range during the year: Watermelon/Cranberry and Organic Pear/Kiwi. The fruit drinks are the only probiotic products in Sweden to have a Swedish Nutrition Foundation-verified product-specific health claim. A continued increase in Skane Dairy's market presence in 2008, coupled with the launch of new products will, in Probi's opinion, result in a continuation of the positive sales performance for ProViva.

## OFFERING

Probi's principal business concept involves offering functional food producers probiotic bacterial additives with well-documented positive health effects. The term, functional food, refers to food products that contain healthy, active ingredients that can increase the consumer's wellness. Probi's customers appreciate the thoroughly documented and robust probiotics we supply because it helps boost the value added of their products and helps ensure that the customer is willing to pay for the value added.

Probi licences its probiotics in return for royalty payments based on the customers' sales.

Historically, probiotics have mainly been added to dairy products, but as new research breakthroughs are made, and probiotic bacterial strains are made more stable, the distribution of probiotics via room-temperature products, such as energy bars, biscuits or breakfast cereals will become possible. Over the

## NextFoods

NextFoods was formed in spring 2007 and is based in Boulder, Colorado. NextFoods' philosophy and business concept is to market natural food with clear health benefits. Steve Demos, the founder and principal owner, has previously founded and run the WhiteWave food company, which owned and marketed the world's best-selling soy milk, Silk. NextFoods' management group includes several of the people involved in running WhiteWave until the company was sold to Dean Foods, America's biggest dairy group.

In January 2008, NextFoods launched "fruit shots" containing Probi's probiotics under the Verb: GoodBelly brand name. To ensure rapid market availability, production has initially been based at Skane Dairy in Sweden, but the company will be building up its own production capacity via contract manufacturers as sales increase. NextFoods will initially market Verb: GoodBelly in three different flavours and the launch will be conducted in stages, beginning with a launch in two test markets in January. The company intends to make substantial investments in marketing, and if everything goes according to plan, to launch Verb: GoodBelly on a national basis in the second half of 2008.

*"Probi and Lp299v fulfilled two very important criteria when we were searching for a partner to cooperate with. Firstly, Lp299v was scientifically tested through a number of clinical studies and has shown market acceptance over a long period of time. Secondly, this is a product that has successfully competed against large global competitors in its home market and has not only maintained a dominant market share but has actually grown the size of the market as well. That's very impressive,"* says Steve Demos, the founder and principal owner of NextFoods.



Steve Demos

years, Probi has also built up an extensive body of expertise and competence with regard to adding probiotics to drinks and is also on the cutting edge of the development of new dry applications.

In-depth product technology know-how, coupled with thoroughly documented and stable products, combined with market expertise, are the key components of all of the products in Probi's offering – which is important to new and existing customers alike.

### OPERATIONS

The strategy of the Functional Food business area is to support the customers in the commercialisation process of probiotic products with clinical studies and health claims. Probi's products are found within the premium segment, which gives the customers an advantage in the market and results in higher royalty revenues for Probi than for the market as a whole.

Last year saw exciting agreements signed for both the European and the American markets. The agreement with NextFoods opened up the US food market to Probi, and an agreement was also signed in the spring with a European food company concerning the commercialisation of a new bacteria. The launch date is still under discussion, but Probi will receive a fixed royalty of SEK 2.8 million for 2007–2008.

### DRIVING FORCES AND THE FUTURE

The global market for functional food continued to report strong growth in 2007 and growth rate by the probiotic subsidiary market is outperforming that of the market as a whole. The functional food and premium food market is benefiting from the public's ever-increasing interest in health issues, and the primary driving forces for the probiotic market are:

- Knowledge of the positive effects of probiotics is expanding, both among the general public and via new research.
- Increased global prosperity is creating a greater awareness of and interest in personal health.
- The food industry's efforts to achieve higher margins and growth via innovative new products.
- The age structure of the industrialised world is increasing pressure on healthcare providers and increasing interest in preventative self-treatment.
- The authorities' efforts to improve public health and thereby reduce healthcare costs.

Several countries have chosen to regulate the ways in which functional food may be marketed, the aim being to protect and guide consumers. In Sweden, product-specific claims have, to date, been approved by the Swedish Nutrition Foundation, SNF, but a new, EU-adapted regulatory framework is expected to come into force in 2008. The health claims are based on the product's scientific documentation. From a marketing perspective, probiotics can be divided into three tiers.

- Foods with product-specific health claims.
- Foods with general health claims.
- Foods without approved health claims, but with a clear health-oriented positioning.

There is nothing to indicate that the health trend that has benefited the market so much in recent years will level off, and in fact, the reverse would appear to be the case. Probi may also benefit from the planned introduction of health claims regulations by the EU, depending on how consumer-friendly it turns out to be. The precise formulation of the regulations is, as yet, unclear, but there is a relatively good chance that a health claim will be linked to a bacterial strain, rather than to a consumer product. The health claim can then be used on a number of consumer products based on the bacterial strain in questions.

Probi has developed its production technology know-how to include freeze-dried bacterial strains, generating the potential for adding probiotics to room-temperature dried food, such as breakfast cereals or biscuits. This technology is expected to expand the sales potential substantially in the years ahead.

The study of a new product that balances the immune system will be concluded during the third quarter. The product is a combination of two probiotic strains and Probi has chosen to focus the study on suppressing cold symptoms – something from which most people suffer. If the second study also produces positive results, the product will probably be launched in 2009.

# Dietary Supplements

- **Continued strong sales growth.**
- **Several new agreements, including ones for the Chinese and Indian markets.**
- **Continued high levels of marketing activity.**

## THE MARKET

The market for dietary supplements and vitamins includes everything from simple herbal products to refined and well-documented ones. The total market for dietary supplements and vitamins achieved a turnover of ca. EUR 40 billion in 2007 and is growing by between 5 and 6 per cent every year. The market for probiotic dietary supplements accounts for a small percentage of the total market at ca. 2 per cent, but is also growing faster, with an annual growth rate of ca. 10 per cent. This strong growth is primarily being driven by people's increased interest in self-treatment and by increased global prosperity, with an ever-growing middle class who, as disposable income increases, is showing a higher interest in and willingness to pay for health care products.

The USA is by far the biggest market for vitamins and dietary supplements, with a market share of 32 per cent, while simultaneously accounting for "only" 23 per cent of the market for probiotic products. This difference is due to the caution on the part of the American public when it comes to adopting products that contain bacteria. The highly successful efforts to obtain acceptance for probiotic products in the American market by Danone have paved the way for reducing these differences, primarily with regard to probiotic dietary supplements. Probi is of the opinion that the American market will have caught up with the European market for probiotic dietary supplements within a couple of years.

Not only are already established markets continuing to perform well, new markets are also showing very strong growth, albeit from low levels. Demand in these markets is primarily driven by the increase in the general standard of living which, in turn, increases people's focus on their own health.

## METAGENICS

Probi has a licensing agreement with the American firm, Metagenics - the leading company for dietary supplements in the professional health care sector in the USA - since the end of 2006. The past year saw Metagenics carry out a successful initial launch of the consumer product supplied by Probi in the professional channel, i.e. among doctors, naturopaths, and homoeopaths. Sales are continu-

ously growing and the next challenge is a consumer market launch. The partnership is proceeding very well and both parties are examining the potential for expanding the partnership into new areas.

## HEALTH WORLD

Health World, a subsidiary of Metagenics, sells probiotic dietary supplements in the Australian and New Zealand markets. Sales of dietary supplements containing Lp299v grew very strongly in 2007. The partnership, which was launched back in 2002, has become closer over the years and the companies are now conducting a joint research project that is still in its early stages.

## INSTITUT ROSELL

The French-Canadian firm, Institut Rosell, is one of the leading suppliers of probiotic dietary supplements in the US and Europe. Institut Rosell markets and sells dietary supplements containing Probi's Lp299v bacterium. The agreement gives Institut Rosell the exclusive right, in certain chosen markets, to market dietary supplements in the therapeutic area of irritable bowel syndrome (IBS). Distribution is handled by market-leading players, including Merck KGaA in France, Aristo Pharmaceutical in India and Rougier in the Czech Republic and Slovakia. Probi has been working in partnership with Institut Rosell since 2003.



### PROBI'S OFFERING

Probi's probiotics are clinically documented and are used in dietary supplements to treat gastrointestinal disorders. Manufacturers and distributors of dietary supplements are offered well-documented, high-quality probiotics in the form of ingredients, semi-finished or consumer products. The probiotics are licensed in return for royalty payments on sales, or are sold as semi-finished goods to customers.

### OPERATIONS

The strategy of the Dietary Supplements business area is to commercialise bacterial strains that Probi has successfully documented.

Probi offers premium products and consequently cooperates with partners who have extensive knowledge of the market for dietary supplements and who have a strong local sales presence. Product credibility is enhanced by recommendations from medical professionals and by the fact that the products are sold by pharmaceutical companies.

Probi's offering continues to attract substantial interest and a number of new licensing agreements were signed in 2007. The pricing strategy has been made more flexible, thereby both increasing competitiveness and enabling the products to move into formerly closed markets.

Licensing agreements have been signed during the year for the Chinese, Indian, Greek, Czech, Slovak and Chilean markets. Dietary supplements containing Probi's probiotics are already sold in Australia, Canada, Finland, France, New Zealand, Norway, South Africa, the UK and the USA.

### DRIVING FORCES AND THE FUTURE

Growth in the established markets is primarily driven by an ever-increasing interest in personal health, an aging population structure, and people's reluctance to turn to professional health care. An ongoing rise in living standards in the developing markets is leading to an increased demand for dietary supplements. These trends are expected to continue unabated for the foreseeable future, and this will benefit the market for dietary supplements and vitamins. Probi will continue to work diligently to sign new licensing agreements for both geographical markets and new products, such as the immune product currently under development. The future outlook for dietary supplements continues to be a positive one.



#### Did you know that:

The market for probiotic dietary supplements is growing by ca. 10 per cent per annum, which is considerably faster than the growth rate for the supplement market as a whole? One important driving force is an increased acceptance by consumers of dietary supplements containing probiotics in the American market.

## MERCK KGaA

Merck KGaA is a venerable company that has operated in the pharmaceutical and chemical market for over 300 years. Its dietary supplement operations are grouped within the Consumer Health Care (CHC) business area, which has grown strongly over the last five years. Merck is proud of its investment in dietary supplements and handles this area with the same seriousness as its traditional pharmaceutical operations. Probi has been supplying Merck France with Lp299v through the French-Canadian firm, Institut Rosell, since September 2005. Merck France sells the product under the Bion Transit brand name. Bion Transit, which is part of the successful Bion range of products, has performed very well, right from the start. The product was initially launched via doctors in order to build confidence and achieve acceptance, and this strategy has worked well in that the product is now also marketed directly to consumers.

*"With scientific and clinical data that showed an extremely high level of quality, the choice of Probi's probiotic was an easy decision. We are very satisfied with our collaboration and look forward to new high-quality products,"* says Laurent Heneaux, Head of Business Unit Complementary Medicine of Merck KGaA France and responsible for OTC and dietary supplement products.



Laurent Heneaux

# Clinical Nutrition



*probiotics are live microorganisms with scientifically proven health benefits on people.*

## THE MARKET

The market for probiotics in clinical nutrition products is still very immature outside of Japan. Clinical nutrition products are specialised nutrition products intended for use in inpatient and outpatient care. There are no general market data and for every new product, the area in which the product is intended to complement existing medication must be defined. Clinical trials of probiotics used in clinical nutrition have shown excellent potential for both improving health and saving money in hospitals.

## DRIVING FORCES AND THE FUTURE

A study has been conducted since 2005 with a product from Probi at the University Hospital in Maastricht in the Netherlands. The objective of the study is to investigate whether probiotics can replace or complement the use of antibiotics. Reducing antibiotic usage in hospitals decreases the risk of generating multi-resistant bacteria.

The study in Maastricht was temporarily halted, for reasons of caution and pending the results of an investigation, when it became known that another Dutch probiotic study, with no links whatsoever to Probi, had reported higher than expected mortality rates. The cause of the high mortality is unknown, but there is currently no direct link to the probiotics. If the Maastricht study yields good results, once it is recommenced, Probi will launch a unique product targeting hospitals where antibiotic usage is most widespread.

Probi will carry out a market analysis in 2008, studying different pricing models and distribution alternatives, to ensure it is ready for a launch if the study's results are positive. Probi will also carry out analyses to determine which business model is best suited for the market in the future.

Viewed from a longer term perspective, it is probable that a market for clinical nutrition products containing probiotics could emerge, primarily driven by the following factors:

- Demand for reduced use of antibiotics and shorter treatment periods.
- Efforts to reduce infections and complications following surgery.
- New opportunities to reduce inflammation.
- Increased knowledge and documentation of the health effects of probiotics.
- An ageing population with a growing number of patients.

There are numerous illnesses where established therapeutic methods can wipe out large parts of the intestinal microflora. This is true, for example, of cytostatic treatment (chemotherapy) and radiation, where probiotics can reduce both the problems and side-effects associated with the treatment. Probi launched a study in this field in 2007.



# Research portfolio

## RESEARCH AND DEVELOPMENT

The discoveries made during Probi's research and development work form the basis for the product concepts that may be commercialised. The goal is to find indications where Probi's "good" bacteria can be introduced, battle and finally, defeat and replace pathogenic bacteria that have a negative effect on an individual's health.

Probi's research tests large numbers of different bacterial strains in order to identify the best ones, while simultaneously studying the effect of the probiotics. The research also focuses on establishing the effects of imbalances between the 400–500 species, or a total of approximately two kilos of bacteria present in the gastrointestinal tract. Disruptions to the bacterial balance may lie behind many prevalent endemic diseases.

## RESEARCH ACTIVITIES, 2007

Probi has conducted a placebo-controlled, randomised study during the year in which a combination of two of the company's patented strains, one *Lactobacillus plantarum* and one *Lactobacillus paracasei*, have been tested on 273 volunteer test subjects. The goal of the study was to investigate whether the frequency of and symptoms associated with colds can be reduced and whether immunological protective factors in blood cells can be positively affected. The test subjects who used Probi's probiotic formula showed a significant effect on immunological blood parameters that led to a general reduction in cold-related symptoms.

A new study of the common cold was started in Berlin in January 2008 in order to provide a stronger body of source data for health claims with regard to the immune system and cold symptoms. The study is expected to comprise 300 volunteer test subjects and a report on the study's findings is expected during the third quarter of 2008.

Studies have already shown that Probi's probiotics can increase iron absorption in fertile women, and this was confirmed in a clinical study in late 2007. Women who drank a fruit drink containing Lp299v saw a significant increase in iron absorption in comparison with those given a placebo drink. The results provide the source data for a new product aimed at an interesting target group with a concrete need.

When Probi joined AFC, the Antidiabetic Food Centre at the University of Lund, sponsored by Vinova, the company took its first step into research in connection with new products focusing on type

II diabetes, cardiovascular and obesity risk factors. Probiotics are expected to be capable of playing a significant role in this context.

Successful trials of a new probiotic product targeting inflammation have been completed and an initial clinical trial has now begun. The aim is to develop a probiotic product that has positive health effects, e.g. in conjunction with treatment for cancer.

The University Hospital in Maastricht in the Netherlands has temporarily halted the ongoing study of the treatment of intensive care patients with Probi's probiotics. The study was halted in response to the news that another probiotic study in Utrecht in the Netherlands, with no links whatsoever with Probi or Probi's probiotics, had reported higher than anticipated mortality rates among patients with acute pancreatitis. Acute pancreatitis is a rare and life-threatening disease. The cause of the high mortality rates in the Utrecht study is unknown, but there is currently no direct link to the probiotics. Probi's probiotics have been tested on people in over 25 studies and have been consumed by millions of people without any reported side effects.

Application and product development have been conducted in cooperation with the licensees and other players. Probi has developed a technique for enriching dry food products, handled outside the refrigeration chain, with effective amounts of probiotics. A shelf life of 6–12 months can be achieved, depending on the food product.

## PATENTS

Patent management is a vital component of Probi's business and the patents provide considerable value and protection for both Probi and the company's customers. Probi has strong patent protection for both its bacterial strains and associated applications. Patent protection for the bacterial strains is important, as the patents cover all forms of commercial use. By the end of 2007, Probi held a total of 132 patents in important geographical markets.

Large commercial agreements often include several different patents, increasing Probi's ability to collect a royalty as long as any patent is still in force. The core patent for Lp299v, which is the most important patent in terms of Probi's existing commercial agreements, expires in 2012, but other patents may provide further protection for the strain.

Probi was granted nine patents in 2007, one with respect to a bacterial strain and eight with respect to applications. Probi also submitted four new applications with respect to new application areas.

## Did you know that:

One interesting area in the next stage of research development will be the field of Symbiotics – combining Prebiotics with Probiotics with the former helping the latter to be more effective and reach its target more quickly?

# Organisation and employees

**Probi has built up an efficient organisation which, through its partnerships with international and regional players, covers a large number of markets and key scientific competencies. Probi had 18 employees at the turn of the year.**

Probi's business model is based on a network of partnerships with partner companies, research institutions and, when necessary, external consultancy services. The partner companies handle production, distribution and marketing to consumers, and Probi can therefore manage with a limited sales organisation. The research is largely carried out via a network that includes Swedish and international universities, with some of the research partially financed via scholarships and research grants, enabling Probi to maintain a small and cost-effective research unit.

## EXPERIENCED RESEARCHERS

Probi's operations focus on the development, patenting and marketing of probiotic bacterial strains. Probi invests in attracting employees with in-depth research experience. The company employs researchers with experience in the fields of medicine, microbiology and biotechnology. Seven of the company's employees hold doctorates and one quarter of Probi's employees are of foreign origin, which helps create a multicultural environment that plays a major part in creating the company's dynamic organisation, not least when it comes to research work. Probi's headquarters are located in the Ideon Research Park in Lund – a location that enables researcher interaction and information exchange as well as contacts between universities and companies.

Over and above its research and marketing organisations, Probi also has finance, administration, production and product development units. In terms of gender breakdown, the company's employees consisted of nine women and nine men at the end of 2007. The average term of employment was 4.8 years (4.2). Probi strives to have a workplace that is attractive to both existing and potential employees.

Total sickness absence in relation to total number of hours worked was 7.3 per cent (5.0), with periods of sickness absence lasting over 60 days accounting for 85 per cent of the total sickness absence.

## FLEXIBILITY

Given its relatively small number of employees, Probi's organisation must be flexible if it is to conduct successful research and commercialisation within a variety of functional areas. Accordingly, Probi strives to maintain an open dialogue within the company and to support a continuous exchange of knowledge between different functions. The ability of Probi's employees to familiarise themselves quickly with the structural resources that have been built up within the company is crucial.

## VALUES

Probi shall be characterised by:

### Know-how and expertise

Probi shall be characterised by know-how and expertise in all areas. This is what Probi's partners demand and what attracts personnel and other partners, making them keen to work with Probi.

### Dedication

Dedication to working with Probi's products means a level of commitment over and above the norm. It involves dedication to research and to the development and marketing of products that improve people's health.

### Credibility

Credibility is the key to partners choosing Probi and end-consumers buying the Products.

### Curiosity

Probi started as a research company that was born from a discovery. Curiosity is a strong driving force and Probi's work entails continuously exploring new paths.

# Ethics and quality

**Every aspect of Probi's work is characterised by stringent quality and ethical guideline requirements. Probi conducts its research and clinical trials according to the same ethical standards as the traditional pharmaceutical industry and no clinical tests of Probi's bacteria are carried out without the prior approval of an ethics committee. This means that no trials are carried out without first having secured the ethical aspects with regard to target group, the object of the tests, the tests to be performed and the methods to be used.**

## CERTIFICATION

Wherever possible, Probi adheres to the same requirements as its customers within the food medical industries, with regard to safeguarding quality assurance. The company has tailored its activities to the EU's requirements whereby all foods must be traceable at all stages of the production, processing and distribution chains. Probi has also tailored its operations to the Hazard Analysis Critical Control Point (HACCP) monitoring programme, which is a system for quality assurance of the entire production process. The HACCP programme specifies that the company must, among other things, determine and set threshold values for the critical points in the production process and have an action programme in place to deal with any errors that may occur. In 1998, Probi received its first quality certification from SWEDAC (the Swedish Board for Accreditation and Conformity Assessment), which conducts annual inspections to ensure that quality requirements are being met, and an inspection on a larger scale is performed every fourth year prior to renewed accreditation. The most recent such inspection was performed at Probi in 2006. The accreditation means that Probi, in common with other accredited laboratories, gains international acceptance in ca. 40 countries for its test reports and calibration certificates in accordance with the EN ISO/IEC 17025 standard.

## PRODUCTION QUALITY

In addition to all the standard monitoring functions, Probi also performs extensive analyses of every new batch of bacterial cultures produced. Microbiologists ensure, among other things, that the bacterial content is correct and that hygiene maintains the highest possible standards. Identity analyses are also performed during which fermentation patterns and genetic profiles are checked against the original culture. This process also includes tests of the bacterium's function.

Probi produces its bacteria in its cultivation facility at the Ideon Research Park in Lund. The production units are capable of handling a substantial increase in volume using existing capacity and can also, if necessary, quickly be scaled up without the need for significant investments. The production of dry products, such as dietary supplements, is outsourced to the external production units of quality assured subcontractors.

## ENVIRONMENT

Probi's research and production have a negligible effect on the environment in that no harmful by-products are generated.



*"If the stomach feels well, the rest of the body feels well," as they say in Japan, which has the highest per capita consumption of probiotics in the world.*

# Probi's Share

On December 28<sup>th</sup>, 2007, the closing price for the Probi share was SEK 36.80 (23.90), corresponding to a market capitalisation of SEK 345 million (224). The share price rose by 54 per cent during the year. The highest price paid during the year was SEK 39.40 (May 3<sup>rd</sup>), and the lowest was SEK 23.50 (January 2<sup>nd</sup>). Trading in the Probi share increased by 70 per cent during the year and a total of 3,600,609 shares were traded in 2007, corresponding to 38 per cent of the total number of outstanding shares. Probi's share has been quoted on the Nordic list of the Stockholm Stock Exchange since December 2004, after having been previously quoted on the NGM Equity list of shares.

## SHARE CAPITAL

Probi's share capital at the end of 2007 totalled SEK 46,826,500 (46,826,500), spread over 9,365,300 shares with equal voting rights. The quotient value of the share is SEK 5. Probi's shareholders' equity totals SEK 95.3 million after the net result for the year.

## NUMBER OF SHAREHOLDERS AND OWNERSHIP BREAKDOWN

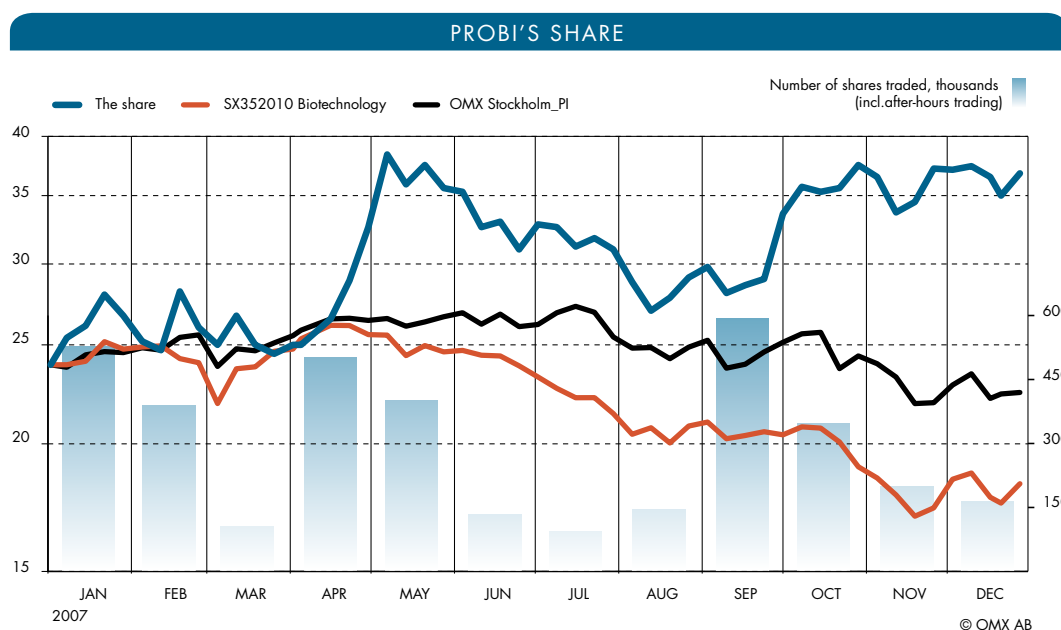
Ownership of Probi's share capital breaks down as follows: 39.7 per cent by private individuals and 60.3 per cent by legal entities. 1.9 per cent of Probi's shares are in foreign ownership. Probi's two principal owners, Skane Dairy and H&B Capital, jointly control approximately 23.2 per cent of the votes and capital. The total number of shareholders registered with VPC (the Swedish CSD) on December 31<sup>st</sup> 2007 was 4,050 (4,192).

## STOCK OPTIONS ISSUED

Probi has no outstanding conversion loans or any outstanding warrants.

## DIVIDEND POLICY

The Board of Directors has proposed to the Annual General Meeting that no dividend be paid for the 2007 financial year. Probi's operations over the next year will require considerable resources and the company therefore believes that no dividend will be paid until after 2008. Provided that Probi has achieved a suitable capital structure after this period, and that it is deemed that the company's financial goals can be maintained, Probi estimates that its share will thereafter yield a dividend totalling 30–50 per cent of the result after tax.



## SHARE CAPITAL DEVELOPMENT

Event	Year	Issue price	Increase in no. shares	Total no. shares	Nominal value per share	Increase in share capital	Share capital
Formation	1991		500	500	100	50,000	50,000
Stock dividend 1:1	1997		500	1,000	100	50,000	100,000
Directed share issue <sup>1</sup>	1997		150	1,150	100	15,000	115,000
Split from 100 to 1	1997		113,850	115,000	1.00	0	115,000
Stock dividend 34:1	1998		3,910,000	4,025,000	1.00	3,910,000	4,025,000
Directed share issue <sup>2</sup>	1998		1,006,250	5,031,250	1.00	1,006,250	5,031,250
Stock dividend 15:10	1998		7,546,875	12,578,125	1.00	7,546,875	12,578,125
Directed share issue <sup>3</sup>	1998	12	1,721,875	14,300,000	1.00	1,721,875	14,300,000
Stock dividend 13:10	1998	–	18,590,000	32,890,000	1.00	18,590,000	32,890,000
New share issue with preferential rights	2000	10	8,222,500	41,112,500	1.00	8,222,500	41,112,500
Reverse split 5:1	2004		–	8,222,500	5.00	–	41,112,500
New share issue	2004		1,142,800	9,365,300	5.00	5,714,000	46,826,500

1) The issue was directed at founders and senior executives.

2) The issue was directed at Skane Dairy's ownership group and at Probi AB.

3) The issue was directed at participation holders in Skane Dairy, Probi AB and Skane Dairy personnel, and certain other associated parties.

## DATA PER SHARE

	2007	2006	2005	2004	2003
Number of shares on 31/12, thousand	9,365	9,365	9,365	9,365	8,223
EPS, SEK	2.62	–0.52	–0.94	–0.71	–0.99
Shareholders' equity per share, SEK	10.17	7.55	8.06	9.01	7.10
Cash flow per share, SEK	1.39	–0.56	–0.77	2.86	0.10
Share price on 31/12 (final price paid), SEK	36.80	23.90	32.00	30.00	40.00
Price/Shareholders' equity per share, multiple	3.62	3.17	3.97	3.33	5.64
P/E ratio, multiple	17.44	neg	neg	neg	neg
Dividend, SEK	–	–	–	–	–
Market capitalisation on 31/12, SEK k	344,643	223,831	299,690	280,959	328,900

The values in the above table do not correspond to those in the formal accounts because they have been recalculated for the 5:1 split employed.

## SHAREHOLDERS

	Number of shares	Percentage of share capital & votes, %
H & B Capital Lp	1,212,542	12.95
Skånemejerier Ek för	958,403	10.23
Concepio	883,000	9.43
KI Chem AB	566,333	6.05
Nordea	469,250	5.01
Tafica Limited	468,250	5.00
Göran Molin and companies	420,841	4.49
Bengt Jeppsson	407,517	4.35
Siv Ahrné	189,073	2.02
SEB	125,400	1.34
Other	3,664,691	39.13
Total	9,365,300	100.00

## SHAREHOLDING PER SHAREHOLDER

Share distribution	No. shareholders	No. share	Percentage of shares, %
1–500	3,026	558,854	5.97
501–1,000	513	402,302	4.30
1,001–5,000	401	910,754	9.72
5,001–10,000	60	449,359	4.80
10,001–15,000	10	116,110	1.24
15,001–20,000	7	126,640	1.35
20,001–	33	6,801,281	72.62
Total	4,050	9,365,300	100.00

# Risk factors

## RELIANCE ON A FEW PARTNERS

Probi has only a few partners who are expected, within the foreseeable future, to provide the company with increasing royalty revenues. If one or more of these partnerships were to be terminated, it would have a negative impact on Probi's revenue streams, results and financial position. The customer, Skane Dairy, still accounts for a dominating share of the company's revenues.

## STRATEGIC RESEARCH PARTNERSHIPS

Probi's research is based not only on the company's in-house competence but also, to a large degree, on partnerships with external Swedish and international researchers. The external research partnerships are an important part of Probi's business model, but there are no guarantees that these partnerships will result in new discoveries, or that Probi will have the exclusive rights to any such discoveries.

## KEY INDIVIDUALS AND EMPLOYEES

As a small, efficient organisation, Probi is heavily dependent on a few key individuals and specialists and the competence they possess. The company's future development is heavily dependent on Probi's ability to retain these employees and to attract new and highly qualified members of staff.

## PROBIOTIC REGULATION

The functional food market is at present under-regulated with regard to health claims. The introduction of international regulations is, however, expected within the next few years, and these will apply equally to probiotics. An international standard will boost demand for high-quality products, but could also increase the cost of the development and manufacturing processes.

## PROBIOTICS FOR THE MEDICAL SECTOR

Probi's focus on clinical nutrition presupposes a usage of probiotic nutrient solutions in the medical sector that does not currently exist. Probi believes that there is a need for probiotic products in the medical sector. Establishment of this usage could, however, take time, and this would mean that the development expenses incurred by Probi in the short-term would not be covered through commercial agreements.

## DOCUMENTATION AND PATENT PROTECTION

Probi's commercial successes are largely dependent on its ability to continue generating positive research findings and to protect its patents. Increased activity, interest and new regulations in the probiotic sphere make it vital for Probi to be on the cutting edge of innovation and inventiveness.

## SECURITY

Probi signs confidentiality agreements with both its personnel and external consultants, and the company strives to generate a high level of awareness with regard to sensitive information. Continuous supervision of systems, firewalls and virus protection provide protection against unauthorised access to Probi's IT network and data. Probi also works actively with operational reliability and monitors its security functions to ensure that they are managed efficiently and function smoothly.

## COMPETITION

International competition from probiotics suppliers has increased in all of Probi's business areas. The markets in the probiotic functional food and clinical nutrition sectors verge on oligopolies. Competition in the probiotic food field also comes from other products that are endeavouring to achieve the same sort of health benefits.

## COMPETING RESEARCH INCREASING

Threats to market growth include substitute products, less serious players and a trivialisation of probiotics.

## FUTURE CAPITAL REQUIREMENTS

Probi's focus on biotechnology means that the company will always be burdened with substantial research and development expenses. These expenses are currently largely covered by commercial revenues. If opportunities for faster growth that entail a capital requirement arise, Probi may be forced to acquire additional capital by means of a new share issue, for example.

## FINANCIAL RISKS

Probi's partnerships with international customers entail revenues in several different currencies, and these are affected by exchange rate fluctuations. The primary source of revenue at present is Skane Dairy, and under the terms of the contract, these revenues are always paid in SEK, irrespective of whether they derive from royalties in countries other than Sweden. Payments in foreign currencies increased in 2007 in conjunction with revenue derived from new agreements in foreign currencies.

The company has no interest-bearing operating liabilities.

Annual checks (impairment tests) are carried out to determine whether any write-down requirement exists for patents and licenses. The European rights for Lp299v are amortised linearly from the acquisition year until 2012. Probi closely monitors product launches by its partners, together with development work for impending launches. The assessment of this information forms the basis for decisions as to when the company performs write-down evaluations.

# Directors' Report

**The Board of Directors and the CEO of Probi Aktiebolag (publ), company reg. no. 556417-7540, the registered offices of which are in Lund, Sweden, hereby present the annual accounts and the consolidated accounts for 2007.**

Probi was founded in 1991 and is now a leading player in the field of probiotic research and development. The company's research relates to live microorganisms with scientifically demonstrated health-giving effects. The main fields of research are: Gastrointestinal complaints, Immunology, Risk factors for metabolic disorders as well as Stress and performance recovery.

Probi's business concept is based on offering effective and well-documented probiotic product concepts with extensive patent protection, thereby creating the potential for higher royalties than in the industry as a whole. Probi's share is quoted on The Nordic Exchange.

## FUNCTIONAL FOOD

The increase in operating income in the Functional Food business area during the year, excluding a one-off payment from Danone, totalled 44 per cent (3). The comparable figures for the fourth quarter were 53 per cent (39). If last year's one-off payment from Danone of SEK 8.7 million is included, operating income within the Functional Food business area increased by 6 per cent during the year and fell by 30 per cent in the fourth quarter. The increase was in part due to the continued growth in sales of Skane Dairy's fruit drink, ProViva, in Sweden and in part to the new agreements signed by the company in the Functional Food business area. Probi's royalty revenues from Skane Dairy increased to SEK 31.3 million (24.0).

Probi has signed a licensing agreement with NextFoods for the American market with regard to the launch of a health food product containing Probi's probiotics. A range of "fruit shots" were launched in test markets in January 2008 and NextFoods is now preparing to expand sales in the USA via extensive marketing investments. Probi is guaranteed a royalty of ca. SEK 10 million for 2008–2009.

A licensing agreement has also been signed with a highly reputable European food company. The agreement grants the company exclusive rights

to sell products containing one of Probi's bacteria that has to date not been commercialised. Probi will receive a fixed royalty of SEK 2.8 million for 2007–2008, and royalties based on ongoing sales thereafter. The royalty is expected to increase as products are launched in more and more European markets.

Probi has developed a technique for enriching dry food with effective quantities of probiotics. Application and product development work are currently being conducted within the framework of development agreements with two global players. Probi will receive ca. SEK 3 million for its development work, which is scheduled for completion during the third quarter this year.

## DIETARY SUPPLEMENTS

The Dietary Supplements business area reported growth of 98 per cent (27) during the year, and of 59 per cent (54) during the fourth quarter. Revenues within Dietary Supplements increased during the year to SEK 8.9 million (4.6), of which royalties accounted for 62 per cent (55). The business area reported an operating profit for the year of SEK 0.7 million (–0.4).

Probi's partner, Institut Rosell, has signed a number of agreements during the year regarding the sale of dietary supplements based on Probi's Lp299v bacterium. In India, agreements have been signed with both Ranbaxy Pharmaceuticals and Aristo Pharmaceuticals. Ranbaxy is one of India's leading companies in the field of health and pharmaceutical products for the digestive organs. This agreement, coupled with the agreement signed with Aristo Pharmaceuticals and which primarily targets general practitioners, gives Probi a powerful sales team for working up the Indian market.

Products have also been launched in Canada, the Czech Republic, Slovakia, Greece and Chile. The successful launch in partnership with Merck KGaA has also been expanded to Chile, where a launch took place during autumn.

# Directors' Report

Overall, sales of dietary supplements containing Probi's probiotics are currently under development in fifteen countries, including the world's three most populous countries: India, China and the USA. Probi believes that additional agreements will be signed both with new distributors and for new geographical markets.

## CLINICAL NUTRITION

The Clinical Nutrition business area's operating costs for the year fell to SEK -3.1 million (-5.4). The costs principally refer to clinical trials. Clinical Nutrition has not yet reported any sales and the result is therefore the same as the costs. The results of clinical studies are important in generating the preconditions for commercial partnerships and licensing agreements within the Clinical Nutrition business area.

The University Hospital in Maastricht in the Netherlands has, as a precaution, temporarily halted the ongoing study of the treatment of intensive care patients with Probi's probiotics. The study was halted in response to the news that another probiotic study, in Utrecht, with no links whatsoever with Probi or Probi's probiotics, had reported a higher than anticipated mortality rate among patients with acute pancreatitis. Acute pancreatitis is a rare and life-threatening disease. The cause of the high mortality rate in the Utrecht study is unknown, but there is currently no direct link to the probiotics. The background to the study involving Probi's probiotics is the controversial use of antibiotics in hospitals. The Maastricht study aims, among other things, to determine whether patients who routinely receive a probiotic product need preventative treatment using powerful antibiotics.

## RESEARCH AND DEVELOPMENT

Probi's research forms the basis for commercialisation of product concepts. Research is conducted on live microorganisms with scientifically proven health effects.

Probi has conducted a placebo-controlled, randomised study during the year in which a combination of two of the company's patented strains, one

*Lactobacillus plantarum* and one *Lactobacillus paracasei*, have been tested on 273 volunteer test subjects. The goal of the study, which was conducted in Lund and Uppsala, was to investigate whether the frequency of, and symptoms associated with, colds can be reduced and whether immunological protective factors in blood cells can be positively affected. The test subjects who used Probi's probiotic formula showed a significant effect on immunological blood parameters that led to a general reduction in cold-related symptoms.

Probi began research on new products focusing on type II diabetes and risk factors for cardiovascular disease and obesity in the latter half of the year. The first step was taken in 2007 when Probi became a member of AFC, the Antidiabetic Food Centre, at the University of Lund. AFC is a partnership between the University of Lund, Vinnova and leading food companies with the aim of creating new food products and solutions designed to prevent positively and affect the biggest lifestyle-related diseases in contemporary society.

Studies have already shown that Probi's probiotics can increase iron absorption in fertile women. A confirmation study of iron absorption was completed towards the end of 2007 in Gothenburg. Iron absorption in women who drank the ProViva product increased by ca. 50 per cent in comparison with those given a placebo drink. The results provide the source data for a new product aimed at an interesting target group and offer the potential for new products internationally.

Probi has also developed a technique for enriching dry food products with effective amounts of probiotics. The successful test results increase the commercialisation potential within the Functional Food business area.

## EVENTS AFTER THE PERIOD-END

A new study of the common cold, involving 300 volunteer test subjects was started in Berlin in January 2008, with the aim of providing a stronger body of source data for health claims with regard to the immune system and cold symptoms. The study is scheduled to report during the third quarter of 2008.



## PERSONNEL

Probi had 18 employees at the end of the year, 9 of whom are women and 9 of whom are men. The average number of employees during the year was 18 (18). The company's employees include 7 (6) people who have defended their doctoral theses.

Michael Oredsson took over as the new CEO in September 2007. Per-Ola Forsberg, the Vice President and CFO, has resigned his position and will leave the company on February 29<sup>th</sup> 2008. Niklas Brandt has been appointed as the new CFO and will take over during the spring of 2008. The position of Head of Research at Probi is temporarily vacant and recruitment of a new Head of Research is now underway.

## TURNOVER AND RESULTS

The Group's net turnover during the year totalled SEK 43.6 million (37.2), corresponding to an increase of 17 per cent (37). Operating income in the Functional Food business area totalled SEK 35.7 million, corresponding to an increase of 44 per cent, excluding a one-off payment from Danone of SEK 8.7 million in 2006. If last year's one-off payment from Danone is included, the change in the Functional Food business area corresponded to an increase of 6 per cent and to a fall of 30 per cent during the fourth quarter. Operating income within the Dietary Supplements business area totalled SEK 8.9 million, corresponding to an increase of 94 per cent.

Operating costs fell during the year in comparison with last year and totalled SEK -39.5 million (-43.8). The reduction in comparison with last year was due primarily to last year's severance pay to the former CEO and to disposals of patents and write-downs of production equipment.

Earnings per share during the year were SEK 2.62 (-0.52). The result includes a reported tax income of SEK 1.93 per share, attributable to a deferred tax receivable on loss carry-forwards.

## CASH FLOW AND FINANCIAL POSITION

Probi's cash flow for the year was SEK 13.0 million (-5.3), while the cash flow from operating activities totalled SEK 17.8 million (-3.1). The increase in the

cash flow from operating activities was due both to the EUR 1 million payment by Danone, which was booked in 2006, and to increasing royalty revenues from existing agreements. Probi has amortised loans totalling SEK 3.5 million during the year and is now free from loan liabilities. Liquid assets at the end of the reporting period totalled SEK 47.4 million (34.4).

Probi invests significant amounts in research and development. R&D costs, excluding raw materials, stocks, goods held for sale, and depreciation, totalled 43 per cent (44) of total costs during the year.

The company's accumulated fiscal deficit on December 31<sup>st</sup>, 2007 totalled SEK 64.6 million. The Board of Probi is of the opinion that both the result and the cash flow from operating activities will be positive in the future and the deferred tax receivable has therefore been reported in its entirety at SEK 18.1 million, in accordance with IFRS.

There are no unreported undertakings in respect of former Board Members or Senior Executives. The company was not involved in any legal proceedings in 2007.

## EVENTS AFTER THE CLOSING DATE

No significant events have occurred after the closing date.

## FUTURE DEVELOPMENT

Probi's business model is based on conducting research and development, patenting and documenting probiotic bacteria and product concepts, and producing 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 to operate according to its stated plan.

## ENVIRONMENTAL IMPACT

The Group is not engaged in any operations for which a permit is required pursuant to the Swedish Environmental Code.

# Directors' Report

## SUBSIDIARIES

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

## PROPOSED ALLOCATION OF PROFIT

The Parent Company's and Consolidated Income Statements and Balance Sheets will be submitted for adoption at the Annual General Meeting of the company held on May 8<sup>th</sup>, 2008. The following profits (SEK k) in the Parent Company are at the disposal of the Annual General Meeting:

Profit brought forward	0
Net profit for the year	24,528
<b>Total</b>	<b>24,528</b>

The Board of Directors and the CEO propose that the profits be carried forward. The Group's accumulated loss in accordance with the Consolidated Balance Sheet totals SEK -48.9 million.

## CORPORATE GOVERNANCE

### The Board of Directors and its rules of procedure

The Board of Directors and Management of Probi strive to live up to the requirements of the company's shareholders and other stakeholders with regard to good corporate governance by means of openness, effective control and efficiently functioning internal routines.

### Composition of the Board

Probi's Board of Directors is appointed once a year at the Annual General Meeting. The Board of Directors for 2007 comprised six ordinary Members: Peter Zakrisson (9 of 9), Lars Backsell (7 of 9), Hilde Furberg (9 of 9), and Mats Lidgard (9 of 9). Ola Erici (4 of 5) and Hans Wigzell (3 of 5) replaced Göran Molin (4 of 4) and Rolf Trulsson (2 of 4) who resigned in conjunction with the Annual General Meeting in May 2007. The figures in parentheses refer to attendance at Board Meetings.

The Chairman of the Board, Peter Zakrisson, is also a partner in Probi's largest owner, H&B Capital. Ola Erici is the President of Skane Dairy. No Board

Member is employed by the company. The company's CEO and Executive Vice President also attend the majority of Board Meetings, although they are not entitled to vote.

### Remuneration to the Board of Directors and management

The Annual General Meeting determines the principles and threshold limits for directors' fees. A Member of the Board may, for a brief period of time, provide consulting services on behalf of Probi, but only after a Board resolution to this effect and only provided that it is deemed to be the most cost-effective and advantageous alternative for the company. Any such consulting fees are reported in the Annual Report.

The Directors' fees for 2007 were set at SEK 650 thousand, SEK 150 thousand of which is payable to the Chairman of the Board, while SEK 100 thousand is payable to each of the other Board Members. See Notes 9 and 27 for details of remuneration paid to the Board.

### The working procedures of the Board of Directors

Each year, the Board of Directors draws up the rules of procedure that regulate the division of labour and responsibility between the Board, the Chairman and the CEO. The Board of Directors shoulders ultimate responsibility for Probi's organisation and the administration of the company's affairs. It makes decisions on significant organisational and operational changes and on the appointment and dismissal of the CEO. The duties of the Board also include determining and evaluating strategies, business plans and budgets. The Board also adopts interim reports and preliminary financial statements. It is incumbent upon the Chairman of the Board to monitor the company continuously and ensure that all Board Members receive the ongoing information required to assess and evaluate Probi. The Chairman of the Board shall also consult the CEO on strategic issues, chair the Board Meetings, and ensure that the handling of items on the agenda of Board Meetings does not contravene the disqualification rules laid down in the Swedish Companies Act. The Board shall draft a set of instructions for the CEO every year,

containing guidelines on the ongoing management, bookkeeping and administration of funds, as well as internal checks and balances within the company. The instructions shall also include the extent of the CEO's authority and his or her obligation to supply the Board of Directors with information.

Pursuant to the instructions governing the working procedures of the Board of Directors, the Board shall hold at least five ordinary meetings per year, over and above the statutory company meeting. In 2007, the Board has held nine meetings and has focused particularly on following up the initial launches of products within Dietary Supplements and on following up the company's efforts to further commercialise its business areas.

#### **Audit Committee**

Probi's Audit Committee comprises the Board of Directors in its entirety. The Board maintains continuous contact with the auditors, who present their audit reports and observations twice a year in person. At these meetings, the auditors also provide details of the areas that are due to be specifically addressed by the next audit while the Board informs the auditors about issues or areas to which the Board wishes particular attention to be paid.

#### **Remuneration Committee**

Probi's Remuneration Committee comprises the Board of Directors. The Chairman of the Board drafts a proposal relating to directors' fees ahead of the statutory company meeting. The proposal is checked and approved by the Nomination Committee. The Remuneration Committee also determines the salary and remuneration payable to the CEO, and the principles governing salaries and remuneration payable to other senior executives. The Remuneration Committee monitors conditions of employment and benefits for the company's senior executives on an ongoing basis.

Probi shall offer a market-based total remuneration package that enables senior executives to be recruited and retained. The remuneration paid to the company management shall comprise a fixed salary, pension and other remuneration. Collectively, these

components make up the individual's total remuneration package. The salary shall take into account the individual's areas of responsibility and experience. Other remuneration and benefits shall be market-based and shall help promote the executive's ability to carry out his or her duties.

The company's management's contracts of employment include termination provisions. These contracts state that employment may usually be terminated at the employee's request with a three to six month notice period and, at the company's request, with a six to twelve month notice period. The individual's salary shall remain unchanged during the notice period. The Remuneration Committee shall be entitled to waive the above-mentioned guidelines if, in the opinion of the Board, and on a case-by-case basis, special grounds exist to justify such a departure.

#### **Nomination Committee**

The Annual General Meeting elects the Nomination Committee, which shall comprise representatives of the two biggest owners and one representative of the other owners. The Committee currently comprises Lars Gatenbeck (H&B Capital), Jan Persson (Skane Dairy) and Kåre Larsson. The Chairman of the Board and the Nomination Committee present a proposal for a new Nomination Committee for the period up to the next meeting. A representative of the biggest owner shall convene the Nomination Committee well in advance of the Annual General Meeting in order to submit proposals to the Meeting concerning the ordinary Board Members, any Deputy Members and the auditors. Their recommendation shall also be submitted to the Board of Directors in January/February.

#### **Ownership structure**

According to VPC (the Swedish CSD), Probi had 4,050 shareholders (4,192) on December 31<sup>st</sup>, 2007. The company currently has no outstanding conversion loans or outstanding warrants.

# Financial statements

INCOME STATEMENTS					
SEK thousand	Note	The Group		The Parent Company	
		2007	2006	2007	2006
<b>Operating income</b>					
Net turnover	6	43,568	37,215	43,568	37,215
Other income		1,088	1,202	1,088	1,202
<b>Total operating income</b>	5, 27	<b>44,656</b>	<b>38,417</b>	<b>44,656</b>	<b>38,417</b>
<b>Operating expenses</b>					
Change in inventories		669	-55	669	-55
Raw materials and consumables		-123	-92	-123	-92
Goods for resale		-2,120	-1,210	-2,120	-1,210
Employee benefits expense	9	-17,703	-18,509	-17,703	-18,509
Other external costs	7, 8	-15,127	-16,845	-15,127	-16,845
Depreciation and write-downs of fixed assets	10, 15, 17, 18	-5,070	-6,645	-5,070	-6,645
Other operating expenses		0	-468	0	-468
<b>Total operating expenses</b>		<b>-39,474</b>	<b>-43,824</b>	<b>-39,474</b>	<b>-43,824</b>
<b>Operating result</b>		<b>5,182</b>	<b>-5,407</b>	<b>5,182</b>	<b>-5,407</b>
<b>Result from financial investments</b>					
Finance income	11	1,287	718	1,287	718
Finance costs	11	-42	-145	-42	-145
<b>Total result from financial investments</b>		<b>1,245</b>	<b>573</b>	<b>1,245</b>	<b>573</b>
<b>Result before income tax</b>		<b>6,427</b>	<b>-4,834</b>	<b>6,427</b>	<b>-4,834</b>
Income tax for the year	12	18,101	0	18,101	0
<b>NET RESULT FOR THE YEAR</b>		<b>24,528</b>	<b>-4,834</b>	<b>24,528</b>	<b>-4,834</b>
Number of shares		9,365,300	9,365,300		
EPS, SEK		2.62	-0.52		

There have been no changes in the number of the company's shares and the average number of shares in 2007 was hence the same as the total number of shares, namely 9,365,300. The company currently has no outstanding conversion loans or outstanding warrants.

## CONSOLIDATED BALANCE SHEETS – THE GROUP

SEK thousand	Note	The Group	
		2007	2006
<b>ASSETS</b>	5		
<b>Fixed assets</b>			
<b>Intangible fixed assets</b>			
Patents, licences and similar rights	15	20,997	24,145
Goodwill	16	2,762	2,762
		<b>23,759</b>	<b>26,907</b>
<b>Tangible fixed assets</b>			
Buildings and land	17	3,634	3,795
Inventories, tools and installations	18	2,116	2,508
		<b>5,750</b>	<b>6,303</b>
<b>Financial fixed assets</b>			
Deferred tax assets	13	18,101	0
		<b>18,101</b>	<b>0</b>
<b>Total fixed assets</b>		<b>47,610</b>	<b>33,210</b>
<b>Current assets</b>			
<b>Inventories, etc.</b>			
Finished goods		1,654	985
		<b>1,654</b>	<b>985</b>
<b>Current receivables</b>			
Accounts receivable	20	5,956	12,559
Other current receivables		19	202
Prepaid costs and accrued income	21	1,043	973
		<b>7,018</b>	<b>13,734</b>
<b>Liquid assets</b>	22	<b>47,420</b>	<b>34,436</b>
<b>Total current assets</b>		<b>56,092</b>	<b>49,155</b>
<b>TOTAL ASSETS</b>		<b>103,702</b>	<b>82,365</b>
<b>EQUITY AND LIABILITIES</b>	5		
<b>Equity</b>	23		
Ordinary shares		46,827	46,827
Share premium		97,290	97,290
Retained loss		-48,856	-73,384
<b>Total Equity</b>		<b>95,261</b>	<b>70,733</b>
<b>Non-current liabilities</b>			
Other non-current liabilities		0	3,450
<b>Total non-current liabilities</b>	24	<b>0</b>	<b>3,450</b>
<b>Current liabilities</b>			
Current part of non-current liability	24	0	156
Accounts payable		2,194	1,836
Other current liabilities		2,031	404
Accrued costs and prepaid income	25	4,216	5,786
<b>Total current liabilities</b>		<b>8,441</b>	<b>8,182</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>103,702</b>	<b>82,365</b>

# Financial statements

## CONSOLIDATED BALANCE SHEETS – THE PARENT COMPANY

SEK thousand	Note	The Parent Company	
		2007	2006
<b>ASSETS</b>	5		
<b>Fixed assets</b>			
<b>Intangible fixed assets</b>			
Patents, licences and similar rights	15	20,997	24,145
		<b>20,997</b>	<b>24,145</b>
<b>Tangible fixed assets</b>			
Buildings and land	17	3,634	3,795
Inventories, tools and installations	18	2,116	2,508
		<b>5,750</b>	<b>6,303</b>
<b>Financial fixed assets</b>			
Participations in Group companies	19	4,031	4,031
Deferred tax asset	13	18,101	0
		<b>22,132</b>	<b>4,031</b>
<b>Total fixed assets</b>		<b>48,879</b>	<b>34,479</b>
<b>Current assets</b>			
<b>Inventories , etc.</b>			
Finished goods		1,654	985
		<b>1,654</b>	<b>985</b>
<b>Current receivables</b>			
Accounts receivable	20	5,956	12,559
Other current receivables		19	202
Prepaid costs and accrued income	21	1,043	973
		<b>7,018</b>	<b>13,734</b>
<b>Liquid assets</b>	22	<b>47,420</b>	<b>34,436</b>
<b>Total current assets</b>		<b>56,092</b>	<b>49,155</b>
<b>TOTAL ASSETS</b>		<b>104,971</b>	<b>83,634</b>

CONSOLIDATED BALANCE SHEETS – THE PARENT COMPANY

SEK thousand	Note	The Parent Company	
		2007	2006
<b>EQUITY AND LIABILITIES</b>	5		
<b>Equity</b>	23		
<b>Restricted equity</b>			
Ordinary shares		46,827	46,827
Statutory reserve		21,140	25,974
<b>Total restricted equity</b>		<b>67,967</b>	<b>72,801</b>
<b>Non-restricted equity</b>			
Retained profit/loss		0	0
Net result for the year		24,528	-4,834
<b>Total non-restricted equity</b>		<b>24,528</b>	<b>-4,834</b>
<b>Total Equity</b>		<b>92,495</b>	<b>67,967</b>
<b>Non-current liabilities</b>			
Other non-current liabilities		0	3,450
Liabilities to Group companies		4,035	4,035
<b>Total non-current liabilities</b>	24	<b>4,035</b>	<b>7,485</b>
<b>Current liabilities</b>			
Current part of non-current liability	24	0	156
Accounts payable		2,194	1,836
Other current liabilities		2,031	404
Accrued costs and prepaid income	25	4,216	5,786
<b>Total current liabilities</b>		<b>8,441</b>	<b>8,182</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>104,971</b>	<b>83,634</b>

# Financial statements

## CHANGES IN SHAREHOLDERS' EQUITY – THE GROUP

SEK thousand	Share capital	Other capital contributed	Loss brought forward	Total shareholders' equity
<b>Opening balance, Jan 1<sup>st</sup> 2006</b>	<b>46,827</b>	<b>97,290</b>	<b>-68,550</b>	<b>75,567</b>
Net result for the year			-4,834	-4,834
<b>Opening balance, Jan 1<sup>st</sup> 2007</b>	<b>46,827</b>	<b>97,290</b>	<b>-73,384</b>	<b>70,733</b>
Net result for the year			24,528	24,528
<b>Shareholders' equity, Dec 31<sup>st</sup> 2007</b>	<b>46,827</b>	<b>97,290</b>	<b>-48,856</b>	<b>95,261</b>

## CHANGES IN SHAREHOLDERS' EQUITY – THE PARENT COMPANY

SEK thousand	Share capital	Premium reserve	Statutory reserve	Non-restricted equity	Total shareholders' equity
<b>Opening balance, Jan 1<sup>st</sup> 2006</b>	<b>46,827</b>	<b>0</b>	<b>34,807</b>	<b>-8,833</b>	<b>72,801</b>
Allocation of previous year's result			-8,833	8,833	0
Net result for the year				-4,834	-4,834
<b>Opening balance, Jan 1<sup>st</sup> 2007</b>	<b>46,827</b>	<b>0</b>	<b>25,974</b>	<b>-4,834</b>	<b>67,967</b>
Allocation of previous year's result			-4,834	4,834	0
Net result for the year				24,528	24,528
<b>Shareholders' equity, Dec 31<sup>st</sup> 2007</b>	<b>46,827</b>	<b>0</b>	<b>21,140</b>	<b>24,528</b>	<b>92,495</b>

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



## CASH FLOW STATEMENT

SEK thousand	Note	The Group		The Parent Company	
		2007	2006	2007	2006
<b>Operating activities</b>					
Result before income tax		6,427	-4,834	6,427	-4,834
Depreciation and write-downs		5,070	6,645	5,070	6,645
Disposal of intangible fixed assets		0	379	0	379
<b>Cash flow from operating activities before change in operating capital</b>		<b>11,497</b>	<b>2,190</b>	<b>11,497</b>	<b>2,190</b>
Change in inventories, etc.		-669	55	-669	55
Change in operating receivables		6,716	-9,718	6,716	-9,718
Change in operating liabilities		259	4,415	259	4,415
<b>Cash flow from operating activities</b>		<b>17,803</b>	<b>-3,058</b>	<b>17,803</b>	<b>-3,058</b>
<b>Investing activities</b>					
Acquisition of intangible fixed assets		-1,056	-1,283	-1,056	-1,283
Acquisition of tangible fixed assets		-313	-769	-313	-769
<b>Cash flow from investing activities</b>		<b>-1,369</b>	<b>-2,052</b>	<b>-1,369</b>	<b>-2,052</b>
<b>Financing activities</b>					
Repayment of debt		-3,450	-156	-3,450	-156
<b>Cash flow from financing activities</b>		<b>-3,450</b>	<b>-156</b>	<b>-3,450</b>	<b>-156</b>
<b>Change in liquid assets</b>	22	<b>12,984</b>	<b>-5,266</b>	<b>12,984</b>	<b>-5,266</b>
Cash and cash equivalents at the beginning of the year		34,436	39,702	34,436	39,702
Cash and cash equivalents at the end of the year		47,420	34,436	47,420	34,436
<b>Interest received and paid</b>					
Interest income, as per Income Statement		1,287	718	1,287	718
Interest expense, as per Income Statement		-42	-145	-42	-145

No prepaid or accrued interest effects affect the interest income and interest expenses reported above.

# Notes to the Accounts

## NOTE 1 GENERAL INFORMATION

Probi Aktiebolag (publ), corporate ID no. 556417-7540, the registered offices of which are in Lund, Sweden and the address of which is Ideon Gamma 1, SE-223 70 Lund, Sweden, was founded in 1991 and is now a leading player in the field of probiotic research and development.

The company's research relates to live microorganisms with scientifically demonstrated health-giving effects. The main fields of research are: Gastrointestinal complaints, Immunology, Risk factors for metabolic disorders as well as Stress and performance recovery. Probi's business concept is based on offering effective and well-documented probiotic product concepts with extensive patent protection, thereby creating the potential for higher royalties than in the industry as a whole.

The Group comprises the Parent Company, Probi AB, and two dormant subsidiaries, Probi Food AB and Probi Feed AB. Probi's share is quoted on The Nordic Exchange.

These consolidated accounts were approved by the Board of Directors for publication on February 12<sup>th</sup>, 2008.

## NOTE 2 ACCOUNTING AND VALUATION PRINCIPLES

The consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act, RR 30:06, complementary accounting rules for corporate Groups, and International Financial Reporting Standards (IFRS), as adopted by the EU, and interpretations issued by the International Financial Reporting Interpretations committee (IFRIC) approved by the European Commission.

A number of standards and interpretations have been published, but not yet come into force, in conjunction with the preparation of the consolidated accounts on December 31<sup>st</sup>, 2007. Below is a preliminary assessment of the effect that the introduction of these standards and interpretations could have on Probi AB's financial reports:

### *IAS 1 amendment – Presentation of financial statements*

The amendment comes into force on January 1<sup>st</sup>, 2009. The amendments primarily entail changes to presentation formats and designations of the financial reports and the future presentation of the financial reports will, therefore, be affected by the introduction of this standard.

### *IAS 23 amendment – Borrowing costs*

The amendment comes into force on January 1<sup>st</sup>, 2009. The amendment requires companies to capitalise borrowing costs directly attributable to purchases, construction or production of an asset that takes a substantial period of time to get ready for its intended use or for sale, as part of the acquisition value of the asset. The Group will apply the amendment to IAS 23 as of January 1<sup>st</sup>, 2009, but it is not currently relevant to the Group as there are no assets for which borrowing costs can be capitalised.

### *IAS 27 amendment – Consolidated and separate financial statements*

The amendment comes into force on January 1<sup>st</sup>, 2009 and means, amongst other things, that results attributable to minority owners shall always be reported, even if this means that the minority participation is negative, that transactions with minority owners shall always be reported under shareholders' equity and that in the event of a parent company losing its controlling influence, any remaining participation shall be revalued at the fair value. This statement is not applicable to Probi, as this type of transaction does not occur.

### *IFRS 2 amendment – Share-based payment, Vesting conditions and cancellations*

The amendment comes into force on January 1<sup>st</sup>, 2009. This amendment has no effect on Probi's financial reports.

### *IFRS 3 amendment – Business combinations*

The amendment comes into force on January 1<sup>st</sup>, 2009. The Group will apply the standard as of the financial year commencing January 1<sup>st</sup>, 2010. The amendment addresses the way in which changes to future acquisitions shall be reported. The amendment to the standard will not have any effect on previous acquisitions, but will affect the reporting of future transactions.

### *IFRS 8 Operating segments*

The standard comes into force on January 1<sup>st</sup>, 2009 and applies to financial years that begin as of this date. The standard addresses the division of the company's operations into different segments. The standard states that the company shall take this as its starting point in the structure of its internal reporting and shall determine the reportable segments on the basis of this structure. Probi's preliminary assessment is that no changes in the segment reporting will be presented in the 2009 annual accounts.

### *IFRIC 11 IFRS 2 Group and Treasury share transactions*

The interpretation comes into force on March 1<sup>st</sup>, 2007 and applies to financial years that begin after this period. Probi will apply IFRIC 11 as of January 1<sup>st</sup>, 2008, but this is not expected to have any effect on the Group's accounts.

### *IFRIC 12 Service concession arrangements*

The interpretation comes into force on January 1<sup>st</sup>, 2008 and applies to financial years that begin after this date. The interpretation addresses those arrangements in which a private company shall establish an infrastructure for providing public services for a specific period of time and the company receives payment for this service for the term of the contract. Probi will apply IFRIC 12 as of January 1<sup>st</sup>, 2008, but this is not expected to have any effect on Probi's accounts.

### *IFRIC 13 – Customer loyalty programmes*

The standard comes into force on July 1<sup>st</sup>, 2008 and explains that goods or services sold together with some form of incentive designed to induce customer loyalty entail a multi-part agreement. IFRIC 13 is not relevant to Probi, as the Group has no customer loyalty programmes.

### *IFRIC 14 - IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*

The standard comes into force on 1<sup>st</sup> January 2008 and provides guidance when calculating the limit contained in IAS 19 on the amount of a surplus that may be reported as an asset. The Group will apply IFRIC 14 as of January 1<sup>st</sup>, 2008 but it is not expected to have any effect on Probi's accounts.

## 2.1 Prerequisites for preparing the consolidated financial reports

The Parent Company's functional currency is the Swedish krona, which is also the reporting currency for both the Parent Company and the Group. Unless otherwise indicated, all amounts shown have been rounded off to the nearest thousand kronor. The consolidated accounts have been prepared in accordance with the acquisition value accounting method, with the exception of applicable cases where financial assets are valued at their fair value.

The most important accounting principles applied when these consolidated accounts were prepared are shown below. These principles have

been applied consistently for all the years presented, unless otherwise indicated. The Parent Company applies the same accounting principles, other than with regard to the exceptions and additions stipulated in recommendation RR 32, "Accounting for legal entities", issued by the Swedish Financial Accounting Standards Council. The accounting principles for the Parent Company are detailed in the section entitled "The Parent Company's accounting principles".

## 2.2 Consolidated accounts

The consolidated annual accounts comprise the annual accounts for the Parent Company and all subsidiaries. All companies in which the Group holds or controls more than 50 per cent of the votes or in which the Group contractually exercises an exclusive controlling influence are consolidated as subsidiaries. Subsidiaries are consolidated as of and including the day on which the Group gains control of the company, and sold subsidiaries are included in the consolidated accounts up to and including the day on which the Group retains control over the company.

The consolidated accounts are prepared using the acquisition method. Shareholders' equity in subsidiaries acquired is calculated on the basis of a market valuation of assets and liabilities at the time of acquisition (known as an acquisition analysis). If the market valuation of assets and liabilities yields values that differ from the acquired Group book values, these market values constitute the Group's acquisition value. If the acquisition value for the subsidiary's shares exceeds the estimated value of the net assets at the time of acquisition, the difference is reported as consolidated goodwill. If the acquisition value is less than the value of the net assets, the difference is reported as consolidated negative goodwill.

The effects of all intra-Group transactions and Balance Sheet items, as well as unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction constitutes proof of the existence of a write-down requirement for the asset transferred.

## 2.3 Segment classification

Lines of business comprise products or services that are subject to risks and returns that differ from those of other lines of business. Geographic markets supply products or services within a distinct economic environment that is subject to risks and returns that differ from the risks and returns that apply to units operating in other economic environments. Lines of business are classified as primary segments in the Group, while geographic areas are classified as secondary segments.

## 2.4 Income

Income comprises the fair value of what is obtained or will be obtained in return for the company's own or licensed goods sold within the framework of the Group's operations. Income is reported excluding Value Added Tax, returns and discounts and after the elimination of intra-Group sales.

Probi reports an income when the amount can be reliably measured, it is probable that future economic benefits will accrue to the company and special criteria have been met for each of the company's operations, as described below. The income amount is not deemed capable of reliable measurement until all obligations with regard to the sale have been met or expired. Probi bases its assessments on historic results and takes into account, in connection therewith, the type of customer, type of transaction and special circumstances, on a case-by-case basis.

*Royalty revenues:* Royalty revenues are reported as a percentage on the basis of the licensee's reporting of the sale value of consumer products containing Probi's products and ingredients. The accounting process is carried out at the end of every month. Licensing revenues arising from

down payments made in conjunction with the signing of the contract are periodised over the period until the date when Probi expects a launch to occur in a territory in order to cover the company's organisation costs. The percentage of licensing revenues that does not correspond to costs is reported directly.

*Interest income:* Interest income is recognised as revenue over the term, applying the effective interest method.

## 2.5 Loan costs

Loan costs are taken up as income in the period to which they refer, irrespective of the use to which the borrowed funds have been put. Interest is capitalised in the acquisition value of assets.

## 2.6 Income tax

Income taxes reported comprise tax payable or receivable in respect of the year in question, together with adjustments made in respect of current tax for previous years. Valuation of all tax liabilities/receivables is effected at nominal amounts and in accordance with the tax regulations and tax rates instituted or announced and likely to be confirmed.

Associated tax effects are also reported in the Income Statement for items reported therein. Tax effects of items booked directly to shareholders' equity are reported against shareholders' equity.

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

## 2.7 Intangible assets

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

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

When Probi deems that the criteria with regard to identifiability, control, future economic benefit and the ability to calculate the acquisition value in a satisfactory manner have been met, it capitalises these development costs. Customer-controlled development projects in relation to existing launches with Probi's probiotics will probably meet the requirements for capitalising development expenses.

# Notes to the Accounts

*Other intangible assets:* Patent and licensing expenses are reported at their acquisition value and are amortised linearly over their contractually regulated useful life. The useful life of the assets is reviewed annually. The following amortisation periods are applied:

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

Annual charges and other additional fees are carried as expenses on a rolling basis.

## 2.8 Tangible fixed assets

Land and buildings are reported at a value that is tested annually, less depreciation of buildings effected thereafter. All other tangible fixed assets are reported at the acquisition value less depreciation. The acquisition value includes expenses directly attributable to the acquisition of the asset. Additional charges are only added to the reported value of the asset or reported as a separate asset, depending on what is appropriate, when it is likely that the future economic benefits associated with the asset will accrue to the Group and the acquisition value of the asset can be measured in a reliable way. The reported value for the part replaced is eliminated from the Balance Sheet. All other forms of repairs and maintenance are reported as costs in the Income Statement during the period when they arise.

Land is not depreciated. Linear depreciation methods are used for other types of asset, as shown below.

- Buildings 25 years
- Inventories, tools and installations 3–10 years

Profits and losses on the disposal of tangible fixed assets are reported under Other operating income and Other operating expenses, respectively.

## 2.9 Write-downs of tangible assets

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

## 2.10 Leasing

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

Leasing agreements in respect of fixed assets whereby the Group has, in every significant respect, assumed the same risks and enjoys the same benefits as it would in conjunction with direct ownership, are classified as financial leasing.

*Operational leasing agreements:* Leasing of fixed assets where the lessor, in every significant respect, continues to hold the title to the asset, are classified as operational leasing. The leasing charge for operational leasing is carried as an expense linearly over the leasing period.

*Financial leasing agreements:* When the leasing agreement results in the Group, in its capacity as lessee, in every significant respect enjoying the economic benefits and assuming the economic risks attributable to the leasing object, the object is reported as a fixed asset in the consolidated

Balance Sheet. A corresponding undertaking to pay leasing charges in the future is reported as a liability. All leasing agreements, irrespective of whether they are operational or financial, are reported in the Parent Company as rental agreements (operational leasing agreements).

All of the company's leasing agreements are operational in nature.

## 2.11 Financial instruments

Consolidated financial instruments reported in the Balance Sheet include liquid assets, accounts receivable and accounts payable, as well as loan liabilities.

*Accounts receivable:* Accounts receivable are non-derivative financial assets with fixed or fixable payments that are not quoted on an active market. They are distinguished by the fact that they arise when the Group supplies monies, goods or services directly to a customer without intending to trade in the receivable that arises. They are included under Current assets, with the exception of items with a due date that falls more than 12 months after the closing date, which are classified as Fixed assets. Accounts receivable are booked under the Accounts receivable item in the Balance Sheet. Accounts receivable are booked in the amount that the Group expects to receive, based on an individual assessment of doubtful accounts receivable.

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

## 2.12 Stock-in-trade

Stock-in-trade is valued, using the first-in-first-out (FIFO) principle, at whichever is the lower of the acquisition value and the net sales value on the closing day. The acquisition value of finished goods comprises the cost of raw materials, direct salaries, other direct costs and indirect manufacturing costs attributable to them (based on normal manufacturing capacity). Loan costs are not included. The net sales value comprises the estimated sale price in the day-to-day operations, less applicable floating sales overheads.

## 2.13 Accounts receivable

Accounts receivable are initially reported at their fair value, less any provision for depreciation and thereafter at the accrued acquisition value applying the effective interest rate method, less any provision for a reduction in value. 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 size of the provision is determined by the difference between the reported value of the asset and the current value of estimated future cash flows, discounted using the effective interest rate. The provision amount is reported in the Income Statement.

## 2.14 Liquid assets

Liquid assets comprise cash and bank balances. Liquid assets include no short-term investments.

## 2.15 Foreign currencies

Transactions in foreign currencies are converted to the functional currency at the exchange rate on the transaction date. Monetary assets and liabilities in foreign currencies are converted at the closing date rate.

Exchange rate differences arising in conjunction with the conversion are reported in the Income Statement. Non-monetary assets and liabilities reported at historic acquisition values are converted at the exchange rate on the transaction date.

#### 2.16 Provisions

Provisions are reported when the Group has, or may be deemed to have, an obligation as a result of events that have occurred, and where it is likely that disbursements 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 disbursed. Provision for potential restructuring measures is made once a detailed, formal plan for the measures has been drawn up and well-founded expectations have been generated among those who will be affected by the measures.

#### 2.17 Pensions

All of the company's pension plans are defined contribution plans. Under defined contribution plans, the company's legal or informal obligations are limited to the size of the contribution that the company agrees to make. The Group's disbursements in respect of defined contribution plans are reported as a cost over the period during which the employees performed the services to which the contribution relates.

#### 2.18 Cash flow statement

The cash flow statement is compiled using the indirect method. The reported cash flow only comprises transactions that entail payments being received or made. Bank deposits and petty cash are defined as liquid assets.

#### 2.19 The Parent Company's accounting principles

The Parent Company's financial reports have been prepared in accordance with the provisions of the Swedish Annual Accounts Act (ÅRL) and recommendation RR32, Reporting for legal entities, of the Swedish Financial Accounting Standards Council, whereby the Parent Company shall, wherever possible within the framework of ÅRL and taking into account the link between reporting and taxation, apply the International Financial Reporting Standards (IFRS) approved by the EU. No differences between the reporting of the Parent Company and the Group have been identified.

### NOTE 3 FINANCIAL RISK FACTORS

Probi's partnerships with international customers entail income in several different currencies that are affected by exchange rate fluctuations. Revenues from Skane Dairy currently dominate, and contractually, these are always paid in SEK, irrespective of whether they derive from royalties on sales in Sweden or abroad. Payments in foreign currencies increased in 2007 in conjunction with revenues from new agreements in foreign currencies – primarily USD and Euro. Probi's financial policy describes the way in which the company shall handle currency risks in relation to SEK. The aim is, wherever possible, to minimise currency exposure and hence currency risk on an ongoing basis. Probi has not, to date, used hedging as a protective measure because payment of amounts due in foreign currencies are usually made in conjunction with the signing of the contract, or has involved receivables with a short term and limited credit risk. When delivery agreements have longer terms, Probi includes in the contract a renegotiation clause that comes into force when currency fluctuations exceed set limits.

The credit risk is related to the counterparty's creditworthiness and requires an evaluation of whether the counterparty in question can meet their undertakings. Customers' financial performance is monitored on an ongoing basis. Probi has suffered no bad debt losses in recent years.

Liquid assets are currently invested in interest-bearing accounts with special terms for deposits. Other investment types may be considered if the return on the investment is expected to exceed the return on the bank account. The lock-in period must not exceed 12 months and investments may only be made subject to the approval of the Chairman of the Board of Probi. The company's approach to liquid asset management also only allows that part of the combined surplus from liquid assets that exceeds SEK 12.0 million to be invested.

The company has no interest-bearing liabilities.

### NOTE 4 IMPORTANT ESTIMATES AND ASSESSMENTS FOR ACCOUNTING PURPOSES

The Board of Directors of Probi is of the opinion that both the result and the cash flow from the operating activities will be positive in the future and the deferred tax receivable of SEK 18.1 million has consequently been reported in its entirety. Probi's deferred tax receivable is attributable to fiscal loss carry-forwards. The company's accumulated fiscal deficit, as of December 31<sup>st</sup>, 2007, was SEK 64.6 million.

Impairment tests have been carried out within Probi in 2007 to secure the value, as of December 31<sup>st</sup>, 2007, of patents, licences and similar rights. 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 performs impairment tests. The tests carried out have indicated that no write-down requirement exists.

The Group investigates whether any write-down requirement exists for goodwill on an annual basis, in accordance with the accounting principle described in Note 2.9. The recovery value for cash-generating units has been determined by calculating the value in use. These calculations require certain estimates to be made. The remaining useful life is 5 years (6), 12 per cent (12) has been used as the discount rate and growth has been estimated at 10 per cent (10).

# Notes to the Accounts

## NOTE 5 SEGMENT INFORMATION

The Group works within three main business areas: Functional Food ("FF"), Dietary Supplements ("DS"), and Clinical Nutrition ("CN").

The FF business area has existed since the first licensing agreement was signed in 1993. DS became an independent business area in 2002. The company launched CN as an independent business area in 2003. "Other" comprises unallocated research and business development costs, general administrative costs, and other central costs. There are no sales or other transactions between the various lines of business.

### Income Statement per line of business

The Group	2007					2006				
	FF	DS	CN	Other	Total	FF	DS	CN	Other	Total
<b>Total operating income</b>	35,695	8,905	0	56	<b>44,656</b>	33,557	4,583	0	277	<b>38,417</b>
<b>Total operating expenses</b>	-28,123	-8,250	-3,101	0	<b>-39,474</b>	-28,802	-5,006	-5,402	-4,614	<b>-43,824</b>
<b>Operating result</b>	<b>7,572</b>	<b>655</b>	<b>-3,101</b>	<b>56</b>	<b>5,182</b>	<b>4,755</b>	<b>-423</b>	<b>-5,402</b>	<b>-4,337</b>	<b>-5,407</b>

### Balance Sheet per line of business

The category "Other" comprises assets and liabilities attributable to joint research and business development activities, and Group-wide activities.

### Balance Sheet per line of business

The Group	2007					2006				
	FF	DS	CN	Other	Total	FF	DS	CN	Other	Total
<b>Total assets</b>	32,998	1,844	1,340	67,520	<b>103,702</b>	42,861	1,352	1,451	36,701	<b>82,365</b>
Non-current liabilities	0	0	0	0	<b>0</b>	0	0	0	3,450	<b>3,450</b>
Current liabilities	4,677	941	315	2,508	<b>8,441</b>	2,203	236	271	5,472	<b>8,182</b>
<b>Total liabilities</b>	<b>4,677</b>	<b>941</b>	<b>315</b>	<b>2,508</b>	<b>8,441</b>	<b>2,203</b>	<b>236</b>	<b>271</b>	<b>8,922</b>	<b>11,632</b>
<b>Equity</b>	0	0	0	0	<b>95,261</b>	0	0	0	0	<b>70,733</b>
<b>Investments</b>	1,241	128	0	0	<b>1,369</b>	2,052	0	0	0	<b>2,052</b>
<b>Depreciation</b>	-4,627	-151	-292	0	<b>-5,070</b>	-5,061	-219	-472	0	<b>-5,752</b>
<b>Write-downs</b>	0	0	0	0	<b>0</b>	-893	0	0	0	<b>-893</b>

### Operating income, assets and investments broken down by geographical area

The Group	2007				2006			
	Nordic region	Europe, other	Global, other	Total	Nordic region	Europe, other	Global, other	Total
Operating income	32,080	4,640	7,936	<b>44,656</b>	25,121	9,857	3,439	<b>38,417</b>
Assets	83,950	17,653	2,099	<b>103,702</b>	52,014	29,964	387	<b>82,365</b>
Investments	493	192	684	<b>1,369</b>	1,010	460	582	<b>2,052</b>

**NOTE 6 BREAKDOWN OF NET TURNOVER**

	The Group		Parent Company	
	2007	2006	2007	2006
Goods	3,330	1,985	3,330	1,985
Royalties, licences, etc.	40,238	35,230	40,238	35,230
<b>Total</b>	<b>43,568</b>	<b>37,215</b>	<b>43,568</b>	<b>37,215</b>

**NOTE 7 AUDITORS' FEES**

	The Group		Parent Company	
	2007	2006	2007	2006
Audit and audit-related services (PricewaterhouseCoopers)	325	314	325	314
Other engagements (PricewaterhouseCoopers)	19	17	19	17
<b>Total</b>	<b>344</b>	<b>331</b>	<b>344</b>	<b>331</b>

The term, audit engagement, refers to the auditing of the Annual Report, the book-keeping and the administration of the Board of Directors 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 engagements.

**NOTE 8 RESEARCH AND DEVELOPMENT**

	The Group		Parent Company	
	2007	2006	2007	2006
Research and development expenses booked as costs	14,024	15,391	14,024	15,391

**NOTE 9 AVERAGE NUMBER OF EMPLOYEES, SALARIES, OTHER REMUNERATION AND PAYROLL OVERHEADS**

	The Group		Parent Company	
	2007	2006	2007	2006
<b>Average no. employees</b>				
Women	10	10	10	10
Men	8	8	8	8
<b>Total</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>18</b>

**Salaries and remuneration  
The Board of Directors**

	2007	2006	2007	2006
Peter Zakrisson	150	150	150	150
Lars Backsell	100	75	100	75
Ola Erici	75	-	75	-
Hilde Furberg	100	100	100	100
Mats Lidgard	100	100	100	100
Hans Wigzell	75	-	75	-

	The Group		Parent Company	
	2007	2006	2007	2006
<b>Former Board Members</b>				
Rolf Bjerndell	0	25	0	25
Berthold Lindqvist	0	25	0	25
Göran Molin	25	100	25	100
Rolf Trulsson	25	75	25	75
CEO, Michael Oredsson	670	-	670	-
Former Acting CEO, Rolf Bjerndell	814	50	814	50
Former CEO, Per Bengtsson	2,934*	1,388	2,934*	1,388
Deputy CEO, Per-Ola Forsberg	1,412	990	1,412	990
Other management (3)	2,108	1,490	2,108	1,490
Other employees	4,645	4,430	4,645	4,430
<b>Total</b>	<b>13,253</b>	<b>8,998</b>	<b>13,253</b>	<b>8,998</b>
<b>Payroll overheads, total:</b>	<b>6,573</b>	<b>4,750</b>	<b>6,573</b>	<b>4,750</b>
Of which pension costs:	1,856	1,498	1,856	1,498
Board of Directors	0	0	0	0
CEO, Michael Oredsson	109	0	109	0
Former Acting CEO, Rolf Bjerndell	0	0	0	0
Former CEO, Per Bengtsson	429*	482	429*	482
Deputy CEO, Per-Ola Forsberg	324	0**	324	0**
Other management (3)	530	574	530	574
Other employees	464	442	464	442

\* Refers to severance pay booked as costs in 2006.

\*\*The position of Deputy CEO is new for the year.

The CEO is entitled to a bonus if certain goals set annually by the Board are met. If the goals are met in full (100), a bonus shall be paid comprising 30 per cent of the annual salary. The bonus shall never, however, comprise more than 50 per cent of the annual salary. There is currently no bonus programme for other senior executives. The notice period for the CEO is 6 months if notice is given by the CEO. If notice is given by the company, the notice period is 6 months up to and including 1<sup>st</sup> September 2008, after which it will be 12 months if notice is given by the company. The retirement age for the CEO is 65. The notice period for the Deputy CEO is 12 months if notice is given by Probi and 6 months if given by the Deputy CEO. The notice period for other senior executives is 6 months if notice is given by Probi and 3 months if notice is given by the employee. There are no severance pay or pension agreements within the company, other than those described above. The CEO's remuneration is determined by the Board of Directors and that of other management personnel by the CEO and the Chairman of the Board. There are no share-based benefits in the company. The company has no outstanding and unreported pension undertakings, since all pensions are defined premium pensions. There is no share-based remuneration in the company. The company management is exclusively male.

# Notes to the Accounts

Sickness absence	Parent Company	
	2007	2006
<b>Total sickness absence</b>	<b>7.3%</b>	<b>5.0%</b>

Of which absence due to sickness of more than 60 days as a percentage of total absence due to sickness

	84.5%	39.7%
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No breakdown is provided because there are fewer than 10 employees in each sub-category.

## NOTE 10 DEPRECIATION AND WRITE-DOWNS OF FIXED ASSETS

Tangible and intangible fixed assets have been depreciated in the amounts shown below:

	The Group		Parent Company	
	2007	2006	2007	2006
Depreciation and write-downs	5,070	6,645	5,070	6,645

## NOTE 11 FINANCIAL INCOME AND EXPENSES

	The Group		Parent Company	
	2007	2006	2007	2006
Interest income	1,287	718	1,287	718
Interest expenses	-42	-145	-42	-145

## NOTE 12 INCOME TAX

	The Group		Parent Company	
	2007	2006	2007	2006
Current tax for the year	0	0	0	0
Deferred tax	18,101	0	18,101	0
<b>Total</b>	<b>18,101</b>	<b>0</b>	<b>18,101</b>	<b>0</b>

The difference between statutory Swedish tax and actual tax within the Group. Tax is calculated at a tax rate of 28%.

	2007	2006
Result before income tax	6,427	-4,834
Fiscal effect, calculated at the national tax rate	-1,800	1,354
Review of previous years' taxation	-	-37
Non-taxable income	0	0
Non-deductible expenses	-46	-24
Fiscal deficit for which no deferred tax receivable has been reported	0	-1,293
Deferred tax receivable for accumulated loss carry-forwards	19,947	0
<b>Tax income</b>	<b>18,101</b>	<b>0</b>

## NOTE 13 DEFERRED TAX

	The Group		Parent Company	
	2007	2006	2007	2006
Opening balance	0	0	0	0
Additional deferred tax receivable	19,947	0	19,947	0
Utilised deferred tax receivable	-1,846	0	-1,846	0
<b>Closing balance</b>	<b>18,101</b>	<b>0</b>	<b>18,101</b>	<b>0</b>

The Board of Directors of Probi is of the opinion that both the result and the cash flow from the operating activities will be positive in the future and the deferred tax receivable of SEK 18.1 million has consequently been reported in its entirety. Probi's deferred tax receivable is attributable to fiscal loss carry-forwards. The company's accumulated fiscal deficit, as of December 31<sup>st</sup> 2007, was SEK 64.6 million.

## NOTE 14 OPERATIONAL LEASING AGREEMENTS

Operational leasing agreements comprise rental agreements for premises, office equipment and car leasing. The nominal value of future minimum leasing charges in respect of operational leasing agreements breaks down as follows:

	The Group		Parent Company	
	2007	2006	2007	2006
Year's leasing charges	1,889	1,918	1,889	1,918
Falls due for payment within one year	2,021	1,895	2,021	1,895
Falls due for payment after more than 1 but fewer than 5 years	329	457	329	457
Falls due for payment after more than 5 years	0	0	0	0



## NOTE 15 PATENTS, LICENSES AND SIMILAR RIGHTS

	The Group		Parent Company	
	2007	2006	2007	2006
<b>Patents and licences</b>				
Opening acquisition value	54,255	53,515	54,255	53,515
New acquisitions	1,056	1,283	1,056	1,283
Disposals	0	-543	0	-543
<b>Closing accumulated acquisition values</b>	<b>55,311</b>	<b>54,255</b>	<b>55,311</b>	<b>54,255</b>
Opening depreciation	-30,110	-25,946	-30,110	-25,946
Disposals	0	162	0	162
Depreciation for the year	-4,204	-4,326	-4,204	-4,326
Closing accumulated depreciation	-34,314	-30,110	-34,314	-30,110
<b>Closing residual value</b>	<b>20,997</b>	<b>24,145</b>	<b>20,997</b>	<b>24,145</b>

Patents, licenses and similar rights are primarily attributable to the buyback of the European rights from Skane Dairy for SEK 40 million in 2001, the book value of which, as on December 31<sup>st</sup> 2007, was SEK 17.0 million. The European rights are depreciated linearly from the acquisition year up until 2012, which is the year when the patent for the bacterial strain in question expires.

Write-down tests (or impairment tests) have been carried out within Probi during 2007 to determine the value of patents, licenses and similar rights on December 31<sup>st</sup> 2007. 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 performs write-down tests. The tests carried out have indicated that no write-down requirement exists. The discount rate used was 12 per cent (12).

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

## NOTE 16 GOODWILL

	The Group		Parent Company	
	2007	2006	2007	2006
Opening acquisition value	2,762	2,762	-	-
<b>Closing residual value</b>	<b>2,762</b>	<b>2,762</b>	<b>-</b>	<b>-</b>

The goodwill item is related to the strategic acquisition in 1998 of outstanding shares in Probi Food AB and is, therefore, reported under the Functional Food segment. Goodwill is tested every year with regard to any write-down requirement, as of the 2004 financial year. Such tests are also conducted when there are indications of a write-down requirement.

The Group carries out tests every year to determine whether any write-down requirement exists for goodwill, in accordance with the accounting principle described in Note 2.9. The recovery value of cash-generating units has been determined by calculating the value in use. Certain estimates must be made for the purposes of these calculations. Because the remaining useful life is 5 years (6), forecasts are based on periods of more than five years. 12 per cent (12) has been used as the discount rate, and growth has been calculated at 10 per cent (10), which was exceeded by the growth rate reported for the license agreement in question in 2007.

Impairment tests have been carried out within Probi during 2007 to determine the goodwill value on December 31<sup>st</sup> 2007. The tests carried out have indicated that no write-down requirement exists.

## NOTE 17 BUILDINGS AND LAND

	The Group		Parent Company	
	2007	2006	2007	2006
<b>Buildings and land</b>				
Opening acquisition value	4,642	4,642	4,642	4,642
Closing accumulated acquisition value	4,642	4,642	4,642	4,642
Opening depreciation	-847	-686	-847	-686
Depreciation for the year	-161	-161	-161	-161
Closing accumulated depreciation	-1,008	-847	-1,008	-847
<b>Closing residual value</b>	<b>3,634</b>	<b>3,795</b>	<b>3,634</b>	<b>3,795</b>
Tax value, land in Sweden	1,123	1,123	1,123	1,123
Tax value, buildings in Sweden	1,638	1,638	1,638	1,638

The value of land accounts for SEK 1,247 thousand (1,247) of the total reported value.

An independent valuation in January 2008 indicates that the market value of buildings and land exceeds the book value.

## NOTE 18 INVENTORIES, TOOLS AND INSTALLATIONS

	The Group		Parent Company	
	2007	2006	2007	2006
<b>Inventories</b>				
Opening acquisition value	14,038	13,269	14,038	13,269
Purchases	313	769	313	769
Closing accumulated acquisition value	14,351	14,038	14,351	14,038
Opening depreciation	-10,637	-9,370	-10,637	-9,370
Depreciation for the year	-705	-1,267	-705	-1,267
Closing accumulated depreciation	-11,342	-10,637	-11,342	-10,637
Opening write-downs	-893	0	-893	0
Write-downs for the year	0	-893	0	-893
Closing accumulated write-downs	-893	-893	-893	-893
<b>Closing residual value</b>	<b>2,116</b>	<b>2,508</b>	<b>2,116</b>	<b>2,508</b>

# Notes to the Accounts

## NOTE 19 PARTICIPATIONS IN GROUP COMPANIES

	Parent Company	
	2007	2006
Book value	4,031	4,031

Specification of the Parent Company's shareholdings in Group companies.

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

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

## NOTE 20 FINANCIAL INSTRUMENTS

	The Group		Parent Company	
	2007	2006	2007	2006
Accounts receivable	5,956	12,559	5,956	12,559
Liquid assets	47,420	34,436	47,420	34,436
<b>Total</b>	<b>53,376</b>	<b>46,995</b>	<b>53,376</b>	<b>46,995</b>

Probi's accounts receivable are related to a few major licensing partners. The company does not deem there to be any significant credit risk in respect of these partners. Probi has used letters of credit or payment in advance when selling to companies without licensing agreements.

### Maturity structure, accounts receivable

	The Group		Parent Company	
	2007	2006	2007	2006
Not matured	5,143	12,556	5,143	12,556
Maturing within 0–60 days	813	3	813	3
<b>Total</b>	<b>5,956</b>	<b>12,559</b>	<b>5,956</b>	<b>12,559</b>

The accounts receivable fallen due for payment at the turn of the year were settled before the end of January. No depreciation of accounts receivable has occurred during 2007.

## NOTE 21 PREPAID EXPENSES AND ACCRUED INCOME

	The Group		Parent Company	
	2007	2006	2007	2006
Prepaid rent	418	404	418	404
Other items	625	569	625	569
<b>Total</b>	<b>1,043</b>	<b>973</b>	<b>1,043</b>	<b>973</b>

## NOTE 22 LIQUID ASSETS

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

## NOTE 23 SHAREHOLDERS' EQUITY

A specification of changes in shareholders' equity can be found in the report entitled "Changes in shareholders' equity", which follows directly on from the Balance Sheets.

No. of shares	Class A	Class B share class	Common	
			2007	2006
No. on December 31 <sup>st</sup> , 2006	0	0	9,365,300	9,365,300
No. on December 31 <sup>st</sup> , 2007	0	0	9,365,300	9,365,300

The quotient value of the shares is SEK 5.

## NOTE 24 OTHER LONG-TERM LIABILITIES

	The Group		Parent Company	
	2007	2006	2007	2006
Liabilities to credit institutions, 1–5 years	0	624	0	624
Liabilities to credit institutions, > 5 years	0	2,826	0	2,826
Liabilities to Group companies, > 5 years	0	0	0	4,035
<b>Total</b>	<b>0</b>	<b>3,450</b>	<b>0</b>	<b>7,485</b>

## NOTE 25 ACCRUED COSTS AND PREPAID INCOME

	The Group		Parent Company	
	2007	2006	2007	2006
Accrued holiday pay	386	297	386	297
Social security contributions	887	381	887	381
Severance pay	1,175	4,252	1,175	4,252
Other items	1,768	856	1,768	856
<b>Total</b>	<b>4,216</b>	<b>5,786</b>	<b>4,216</b>	<b>5,786</b>

## NOTE 26 PLEDGED ASSETS AND CONTINGENT LIABILITIES

	The Group		Parent Company	
	2007	2006	2007	2006
Real estate mortgages	0	3,300	0	3,300
Floating charges	800	800	800	800
<b>Total pledged asset</b>	<b>800</b>	<b>4,100</b>	<b>800</b>	<b>4,100</b>

The company has no contingent liabilities.

## NOTE 27 TRANSACTIONS WITH ASSOCIATED COMPANIES

### Transactions with associated companies reported in the Income Statement:

	The Group		Parent Company	
	2007	2006	2007	2006
Skane Dairy (royalty revenue)	31,342	23,969	31,342	23,969
Skane Dairy (services)	0	17	0	17
<b>Total income</b>	<b>31,342</b>	<b>23,986</b>	<b>31,342</b>	<b>23,986</b>
Skane Dairy (royalty costs)	-65	-359	-65	-359
H&B Capital Advisors AB, (fee)	0	-334	0	-334
H&B Capital Advisors AB, (reimbursement of expenses)	-71	-229	-71	-229
GMF AB, associated party: Göran Molin	-57	-78	-57	-78
Lowenzahna AB, associated party: Rolf Bjerndell	0	-749	0	-749
<b>Total costs</b>	<b>-193</b>	<b>-1,749</b>	<b>-193</b>	<b>-1,749</b>

### Transactions with associated companies reported in the Balance Sheet:

	The Group		Parent Company	
	2007	2006	2007	2006
<b>Operating receivables</b>				
Skane Dairy	3,281	2,741	3,281	2,741
<b>Total operating receivables</b>	<b>3,281</b>	<b>2,741</b>	<b>3,281</b>	<b>2,741</b>
<b>Operating liabilities</b>				
Skane Dairy	-2	-2	-2	-2
GMF AB, associated party: Göran Molin	0	-17	0	-17
Lowenzahna AB, associated party: Rolf Bjerndell	0	-635	0	-635
<b>Total operating liabilities</b>	<b>-2</b>	<b>-654</b>	<b>-2</b>	<b>-654</b>

Skane Dairy and H&B Capital are Probi's biggest shareholders. The transactions have been conducted on commercial terms and at market value. The Parent Company has an agreement with Skane Dairy comprising licensing and service agreements. Royalties from Skane Dairy are based on these long-term agreements. The transactions otherwise refer to consultancy fees.

## NOTE 28 EVENTS AFTER THE CLOSING DATE

No significant events have occurred after the closing date.

The Income Statement and the Balance Sheets will be submitted to the Annual General Meeting of the shareholders of the company for adoption on May 8<sup>th</sup> 2008.

Lund, February 12<sup>th</sup> 2008



Peter Zakrisson  
Chairman



Lars Backsell



Ola Erici



Hilde Furberg



Mats Lidgard



Hans Wigzell



Michael Oredsson  
CEO

Our Auditors' Report was submitted on February 15<sup>th</sup> 2008  
PricewaterhouseCoopers



Lars Helgesen  
Authorised Public Accountant  
Principal Auditor



Magnus Jönsson  
Authorised Public Accountant

# Auditors' Report

## TO THE ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF PROBI AB (PUBL), SWEDISH COMPANY 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 the financial year 2007. The company's annual accounts and consolidated accounts can be found on pages 19–39 of the printed version of this document. These accounts and the administration of the company are the responsibility of the Board of Directors and the CEO, as is ensuring that the Swedish Annual Accounts Act is applied to the preparation of the annual accounts, and that IFRS international accounting standards, as adopted by the EU, and the Swedish Annual Accounts Act are applied to the preparation of the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. These standards require that we plan and perform the audit to obtain high, but not absolute, assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the CEO, as well as evaluating the significant estimates made by the Board of Directors and the 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 give a true and fair view of the company's financial position and results in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with IFRS international accounting standards, 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 the CEO be discharged from liability for the financial year.

Malmö, February 15<sup>th</sup>, 2008

PricewaterhouseCoopers AB



Lars Helgesen

Authorised Public Accountant  
Principal Auditor



Magnus Jönsson

Authorised Public Accountant

# Board of Directors



## **Peter Zakrisson**

Born in 1961. Chairman of the Board since 2002. Member of the Board since 2001. Education: Business Administration degree from Lund University/Stockholm University. Partner in GZ Group which represents H&B Capital. CEO Dacke Group Nordic AB. Other directorships: Besthand AB, G Z Holding AB, et al. Holding in the company: 0 shares.



## **Lars Backsell**

Born in 1952. Member of the Board since 2006. Education: Business Administration degree from the Stockholm School of Economics. Founder of Recip AB. Formerly worked within the Pharmacia group of companies in a variety of managerial positions. Other directorships: Chairman of Recipharm AB, Chairman of IVA's Trade and Industry Advisory Board. Holding in the company: 0 shares.



## **Ola Erici**

Born in 1960. Member of the Board since 2007. Education: Business Administration degree from the Stockholm School of Economics. CEO of Skane Dairy. Has previously held a number of international positions, including those of CEO of Tetra Pak Food Services, CEO of Tetra Pak's Polish operations, and International Marketing Director at the medical technology company, Gambro. Other directorships: none. Holding in the company: 0 shares.



## **Hilde Furberg**

Born in 1958. Member of the Board since 2005. Education: B.Sc. in Medical Technology, University of Oslo. Vice President & General Manager of Nordic/Benelux Genzyme. Other directorships: Copenhagen Capacity. Holding in the company: 0 shares.



## **Mats Lidgard**

Born in 1954. Member of the Board since 2004. Education: LL.B., Lund University. Senior Partner in the human venture capital company, Lavindia AB. Formerly worked within the Pharmacia group of companies, Active Biotech AB and SBL Vaccin AB as Chief Legal Officer and other managerial positions. Other directorships: Airsonett AB, Creative Peptides Holding AB, Eurocine Vaccines AB, Jatab Care AB, Synphora AB and Unitech Pharma AB. Holding in the company: 1,000 shares.



## **Hans Wigzell**

Born in 1938. Member of the Board since 2007. Professor emeritus in immunology and actively involved in research at the Karolinska Institute. Principal at KI between 1995 and 2003, and scientific advisor to the Government between 1999 and 2007. Other directorships: Karolinska Development, Biovitrum, Raysearch, Vibratex and Intercell in Vienna. Holding in the company: 21,000 shares.

## **Auditors**

PricewaterhouseCoopers AB.  
Principal Auditor, Authorised Public Accountant  
Lars Helgesen, Malmö.  
Authorised Public Accountant:  
Magnus Jönsson, Malmö.

# Senior Management



From the left: Niklas Bjärum, Michael Oredsson, Håkan Peterson and Per-Ola Forsberg.

## **Michael Oredsson**

Born in 1960. CEO. Education: Degree in International Business Administration from Lund University. Background: Michael Oredsson was employed in September 2007 as the company's CEO. Immediately prior to this, Michael was the CEO of the biotechnology company, Biosignal, in Australia, between 2002 and 2007. Michael was also the CEO of the Norwegian biotechnology company, Nutripharma, between 1999 and 2001 and prior to that, was responsible for building up Pharmacia's OTC product division in Australia. He has also held senior marketing positions at Nestlé and Mars Inc. in Sweden, Germany and France. Holding in the company: 2,000 shares.

## **Per-Ola Forsberg**

Born in 1961. CFO, Executive Vice President. Education: Degree in Economics and Business Administration from Lund University. Background: Per-Ola Forsberg was employed in November 2000 as CFO and Head of Administration. Immediately prior to this, Per-Ola Forsberg was the Controller at Rexam Beverage Can Fosite AB, and before that, he was employed as Head of Administration at Poly-Peptide Laboratories (Sweden) AB. Holding in the company: 0 shares.

## **Niklas Bjärum**

Born in 1963. Vice President of Marketing and Sales. Education: Degree in International Business Administration from Lund University. Background: Niklas Bjärum was employed in February 2001 and was put in charge of the company's marketing and sales. Since taking his degree in 1988, Niklas Bjärum has worked in a number of positions in Marketing, Sales and Business Development of both an operational and a strategic nature at international food companies, such as Nestlé and Masterfoods (Mars Inc.). In 1998, he changed industry and worked at Ericsson Mobile Communications for three years, where he was responsible for Business Development for the European market. Holding in the company: 2,000 shares.

## **Håkan Peterson**

Born in 1960. Director of Marketing and Sales, Dietary Supplements. Education: Degree in International Business Administration from Lund University. Background: Håkan Peterson was employed in November 2006 and was put in charge of the company's marketing and sales for dietary supplements. Immediately prior to this, Håkan Peterson was employed by the medical engineering company, Gambro, where he was in charge of sales and marketing for Central and Eastern Europe. He has wide-ranging experience of international work in a number of medical engineering companies where he has worked in senior positions in the fields of marketing and sales. Holding in the company: 2,000 shares.

Probi's senior management group also includes the Head of Research – a position that is currently vacant.

**AFC, Antidiabetic Food Centre**

AFC is a partnership between Lund University, Vinnova and leading food companies and which aims to create new food-related products and solutions that prevent and affect the biggest lifestyle-related diseases in contemporary society.

**Bacterial strain**

Bacteria are microscopic organisms that consist of a single cell. A bacterial strain comprises bacteria with the same genetic identity.

**Cereal-based products**

Products based on different types of grain.

**Clinical documentation**

Documentation of clinical trials.

**Clinical nutrition**

Specialised nutritional and food products intended for use in hospitals and outpatient care with patients whose general health is poor or who are seriously ill.

**Clinical trials**

Studies of food or pharmaceutical products on humans.

**Dietary supplement**

Food intended for use as a complement to a normal diet and which comprises concentrated sources of nutritional substances or other substances with a nutritional or physiological effect, whether separately or collectively. Dietary supplements are sold in individual doses, e.g. capsules, tablets or portion sachets.

**Enteral nutrition**

Medical concept involving the supply of nutrition to the stomach or intestine via a feeding tube or by mouth.

**Functional food**

Food products that have been enriched with one or more ingredients that have positive effects on health over and above the normal nutritional value of the product.

**IBS**

Irritable Bowel Syndrome, the condition is regarded as one of biggest public health problems in the western world.

**Lactobacilli**

A strain of bacteria that is part of the lactic acid family of bacteria, which is closely associated with various types of human mucous membrane and is often used in the acidification of foods.

**Metabolic disorders**

A collective name for diseases, conditions and disorders that can be linked to the human metabolism.

**Patent**

Intellectual property right that protects inventions or technical solutions. Patents grant sole right to use the patented item commercially.

**Probiotics**

Living microorganisms that have positive effects on human health when ingested in sufficient quantities.

**Product concept**

A concept or product prototype that requires development before it becomes an end-product.

**Product-specific health claims**

A health claim for a unique product whose scientific documentation has been reviewed by the Swedish Nutrition Foundation, for example.

**Royalty**

Payment for use of an intellectual property right where the amount paid is linked to the scale of the sales.

**Swedish Nutrition Foundation (SNF)**

The Foundation's objective is to promote scientific research into nutrition and associated fields and to promote the practical utilisation of advances made in this field of research. It is responsible for reviewing scientific documentation that forms the basis for product-specific health claims for functional food.

**Therapeutic field**

Sphere of use or treatment of a product, e.g. problems relating to the immune system or IBS.

**Thoroughly documented**

The term is used to refer to a product's demonstrated positive effects on health, as proven in extensive clinical studies.

**Type I diabetes**

A type of diabetes whereby the body's own insulin production has ceased, either wholly or in part.

**Type II diabetes**

A type of diabetes whereby the body is still able to produce small amounts of insulin, but where the insulin's effects are limited. The disease is also known as adult-onset diabetes.

# The Annual General Meeting

## **PROBI AB (PUBL)**

The shareholders of Probi AB (publ) are hereby notified of the Annual General Meeting of the company's shareholders to be held on Thursday, May 8<sup>th</sup>, 2008 at 3 p.m. (CET) at Scandic Star Lund, Glimmervägen 5 in Lund.

## **ENTITLEMENT TO PARTICIPATE**

In order to be entitled to participate in the Meeting, shareholders must both be registered in the Register of Shareholders maintained by VPC AB (the Swedish CSD) in respect of circumstances obtaining on Friday, May 2<sup>nd</sup>, 2008, and shall have notified Probi of their intention to participate in the Meeting no later than 4 p.m. (CET) on Friday, May 2<sup>nd</sup>, 2008.

Shareholders whose shares are nominee-registered must temporarily re-register their shares in their own name with VPC in order to be entitled to participate in the Meeting. Such registration must be effected no later than Friday, May 2<sup>nd</sup>, 2008, and shareholders must therefore notify the nominee of their request to that effect in good time before that date.

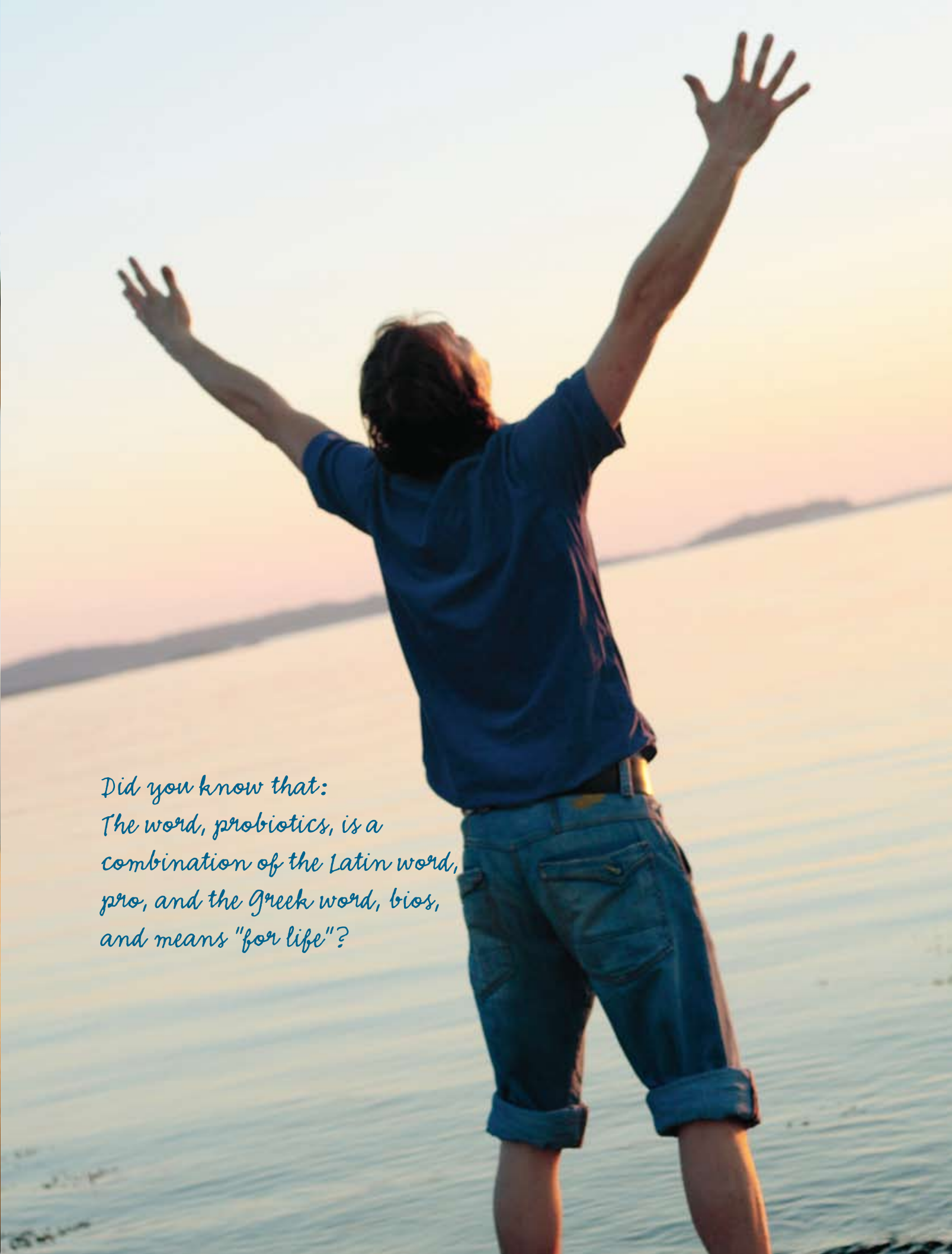
## **APPLICATIONS TO PARTICIPATE**

Applications to participate in the meeting shall be submitted in writing to Probi AB (publ), Ideon, SE-223 70 Lund, Sweden, by fax on +46 (0)46 286 89 28, by e-mail to [probi@probi.se](mailto:probi@probi.se), or by phone on +46 (0)46 286 89 20. Applications shall include the applicant's name, civic ID number or company registration number, the number of shares held, a daytime telephone number and, where relevant, the number of assistants (a maximum of two) who will accompany the applicant to the meeting. If a shareholder intends to be represented by a proxy, a power of attorney and other authorisation documents should be appended to the application. A power of attorney form is available upon request.

## **FINANCIAL REPORTING DATES**

Interim Report, Q1	April 23 <sup>rd</sup>
2007 Annual General Meeting	May 8 <sup>th</sup>
Interim Report, Q2	July 23 <sup>rd</sup>
Interim Report, Q3	October 28 <sup>th</sup>
Preliminary financial statement for 2008	February 7 <sup>th</sup> , 2009





*Did you know that:  
The word, probiotics, is a  
combination of the Latin word,  
pro, and the Greek word, bios,  
and means "for life"?*

**Probi AB**

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