

ANNUAL REPORT

2019 - PROBI - FIRST IN PROBIOTICS

Market trends

+ **21%**

Probiotic supplements
are expected to grow
21% by 2024.

CEO Statement

Growth

Our goal is to once
again show double-
digit growth.

Abdi Ibrahim

Turkey

Good conditions
thanks to Probi's
strong clinical profile.

The Nature's Bounty

USA

Innovation and growth
thanks to long-term
partnership.

Biome Australia

Australia

Rapid success due to
close collaboration.



“Tremendous progress has been
made in developing evidence about
the effects of probiotics”

Mary Ellen Sanders, PhD, who has been following the field of probiotics for decades.



Why you should invest in Probi



SEVERAL STRONG AND POSITIVE EXTERNAL FACTORS.

1. Fundamental to the assessment of Probi is that there are several global trends and drivers that are favourable for Probi's products. The global market for probiotic supplements is expected to grow by 21% up to 2024.



SHARP EYE ON CHANGES IN THE MARKET.

2. Probi works systematically and carefully to monitor the trends and drivers that control demand for our products, and to predict future changes for our customers and end markets.



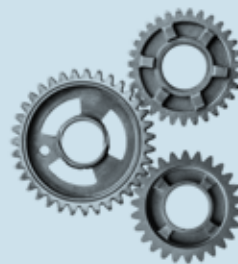
WORLD-CLASS RESEARCH AND DEVELOPMENT.

3. Based on our business intelligence, we conduct research and develop products that meet customer needs and requirements. We don't touch a test tube until we know there is a market for our product. That is how we have worked for decades and it forms the basis for a commercial research company.



HIGH-QUALITY PRODUCTS THAT IMPROVE THE WELL-BEING OF PEOPLE WORLDWIDE.

4. Probi offers high-quality probiotics, backed by science, grown with care and manufactured into novel forms. This is how we make life healthier for consumers worldwide.



A COMPLETE PROBIOTICS GROUP.

5. Probi is a complete, integrated probiotics group with control over the entire value chain – from R&D, formulation and production to marketing and sales.

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

This year's Annual Report is printed on Svanen labelled, climate compensated paper made from pulp from sustainable forestry.

Probi AB is a Swedish publicly traded bioengineering company. Our vision is to be the innovative leader in probiotics, with the aim of improving well-being for people all over the world. Our mission is to offer probiotics that help people live healthier lives all over the world.

PROBI IN BRIEF

Probiotics

For Probi, probiotics are certain types of bacterial strains with beneficial effects on health, and that support the good bacteria that exist naturally in the gut. It is now well-established that probiotics can help to restore and maintain the balance of gut flora.

There are millions of different bacterial strains and they all have a specific effect – to prevent flatulence, colds, and so forth. Finding the right bacteria among all of these strains is a laborious task. Moreover, the bacteria must be able to survive the acidic gastric environment and be suitable for various products, such as food with a certain pH. Scientific tests and documentation are required to communicate the health benefits of a product to consumers.

One of the largest and leading probiotic companies in the world

Probi was founded by researchers in Lund in 1991. We are now one of the largest probiotic companies in the world, with a total of four sites in the US, Sweden and Singapore. Probi has a strong and broad product portfolio, primarily in the gut health and immune system areas.

Own fermentation and production

Probi has its own capacity for fermentation, formulation and production, which are conducted in GMP certified facilities. Probi develops, manufactures, markets and sells probiotics in the form of powder, capsules, tablets or fruit drinks in close collaboration with leading food, health-care and pharmaceutical companies.

A broad product portfolio

Probi has one of the most comprehensive portfolios of probiotic products in the market:

PROBI PREMIUM™ is an exclusive and patented range of health concepts based on well-documented probiotic strains.

PROBI SELECT™ consists of selected probiotic strains with clinical documentation and general health claims that target broad target groups.

PROBI LIVEBAC® contains a wide range of probiotic strains for tailor-made product offerings.

PROBI BIO-TRACT® is a unique system available for protection of sensitive probiotic strains and for a controlled intestinal release.

Commercial research

Probi is leading in innovation and development and invests major resources in commercially based and structured research and development. All projects are based on customer needs. In recent years, Probi has presented several studies with findings that are important for Probi's future development. Probi has approximately 400 patents worldwide.

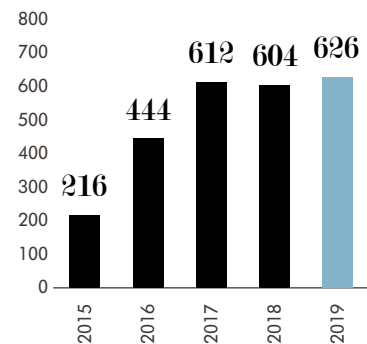
More than 40 countries

Probi's products are marketed, sold or currently being launched in more than 40 countries and the company is gradually expanding its geographic presence.

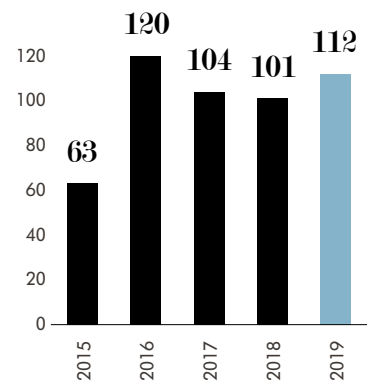
170 employees

At the end of 2019, Probi had 170 (167) employees, of whom 86 (79) were women and 84 (88) were men.

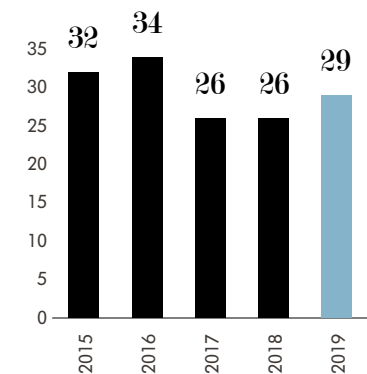
Net Sales (MSEK)



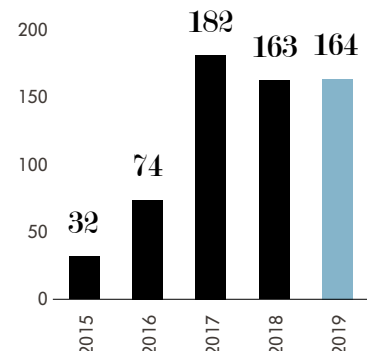
Operating profit (MSEK)



EBITDA margin (%)



Average number of employees



PROBI 2019

626
msek

Net sales totalled
MSEK 626 (604).

29
percent

The EBITDA margin
was 29% (26).

112
msek

Operating profit totalled
MSEK 112 (101).

170
employees

At 31 December 2019,
the number of employees
in Probi was 170 (167).

01

FIRST QUARTER

- Strong customer interest in Probi® Osteo for the prevention of bone loss in postmenopausal women, which was also launched in several markets.
- Early repayment of a bank loan totalling MSEK 60.

02

SECOND QUARTER

- A successfully completed clinical trial in 326 healthy pregnant women showed that intake of Probi FerroSorb® significantly improved iron status.
- New product concept launched in the Nordic market, adapted for consumers of all ages, with the products Probi® Baby, Probi® Gravid, Probi® Family and Probi® Active 50+.
- Early repayment of a bank loan totalling MSEK 39.

03

THIRD QUARTER

- Programme to upgrade the company's manufacturing unit in Redmond, US, was initiated to further strengthen competitiveness.
- New product launches of Probi® Osteo in the North American market in a plant-based drink, and of Probi® Osteo and Probi FerroSorb® in Australia.
- Early repayment of a bank loan totalling MSEK 20, which means that all bank loans are now repaid.

04

FOURTH QUARTER

- Two exclusive supply agreements were signed with major customers in the US.
- *The Lancet Rheumatology* published findings from the company's clinical trial showing a connection between reduced bone loss and probiotic intake (Probi® Osteo).



FOCUS ON GROWTH AND RESEARCH

Probi is active in an expanding global market and aims to be a growth company. Our growth has not been satisfactory in recent years, which makes us even more determined to return to growth. Our goal is to once again report double-digit growth. In 2019, we implemented a number of measures to position our company for this. In times of great uncertainty caused by the spread of the corona virus, it will be crucial how we succeed in implementing these measures. An important part has been a review of our business strategy. We have thereby created greater clarity, especially internally, in regard to our priorities for markets and development projects.

Probi has a broad and strong product portfolio that is meeting demand from large parts of the market – from customers requesting the highest possible scientific evidence for their probiotic products to those who offer probiotic products without making any specific health claims. We can also see that the strongest growth potential lies in those market segments where our most documented strains have clear competitive advantages. These segments also have higher profitability. That is motivating us to continue investing considerable resources in R&D and thereby maintain our leading position in innovation and product development.

To increase growth as fast as possible, we reviewed our commercial resources in 2019. All three geographic regions, USA, APAC and EMEA, represent growth potential, albeit in different ways.

In the US, we expanded our sales team and Probi is now represented in the most important regions of the country. This led to a positive trend in just a short time and during the year, we signed several exclusive supply agreements with major customers, which has created a stable base for the future. We have an established position in the US with our LiveBac portfolio of products, and we see growth potential in this segment. At the same time, we have also strengthened our position in the premium segment, which is providing conditions for accelerated growth.

To secure a stronger presence in the APAC region, we have also expanded our sales team there, mainly in China. Our strategy is to work with partners in order to quickly achieve a better reach in the large and growing Asian market. We are actively evaluating various possibilities for strategic collaborations in the region and see good opportunities to create a stronger market presence through partnerships moving forward.

In Europe, we have previously worked with limited resources. The probiotics market in Europe is showing stable and healthy growth despite a challenging regulatory climate, and we have therefore been focused on stronger and clearer marketing in several key markets. During the year, our increased presence had a rapid impact and we grew 26% in the region outside Sweden, albeit from a relatively low level.

During the year, we also commenced a comprehensive upgrade of our manufacturing facility in the US, a strategically important initiative that will help to strengthen our competitiveness. Probi feels confident about the future – we see good opportunities for growth and therefore need to ensure we have the capacity to meet higher manufacturing volumes with strict quality requirements.

From a scientific perspective, we had a particularly strong year. We continued the launch of our Probi® Osteo concept (reduced bone loss), which we hope will contribute to strong growth moving forward. In 2019, we laid a solid foundation that we will benefit from in the years ahead. We are particularly proud that the trial behind Probi® Osteo was published in one of the most prestigious scientific journals, *The Lancet Rheumatology*. That shows the strength of our R&D capabilities.

"Our goal is to once again report double-digit growth"

At the time of writing, it is difficult to overlook the consequences the corona virus will have on the global demand for probiotics. We have not yet seen any negative effects on the market and have not had any major disruptions in our supply chain. However, an increased focus on health and a stronger immune system may long-term increase the interest in probiotics. So despite moving towards a much more uncertain global development, we see continued great potential in our markets. We have a strong financial position and high profitability. It gives us resistance to negative market effects but it also enables us to act offensively to create high growth and take an active role in the consolidation of the industry. Our long-term goal is to make Probi one of the largest probiotic specialists in the world. With a focus on research and growth, and a team of dedicated and talented employees, we are aiming to strengthen Probi's position as 'First in Probiotics.'

Lund, March 2020

Tom Rönnlund
CEO

PROBI – FIRST IN PROBIOTICS

Vision

Probi aspires to be the innovative front-runner within probiotics. Our ambition is to improve the well-being of people worldwide. This is what drives and inspires us.

Mission

Providing probiotics for healthier lives worldwide.

Millions of people suffer from health issues that can benefit from careful addition of probiotics.

At Probi, our mission is to provide high-quality probiotics, backed by science, grown with care and manufactured into novel forms. This is how we make life healthier for consumers worldwide.

Our core values – Probi's four Cs

Probi's core values guide our actions every day. Regardless of our role or position in the company, our culture is based on these fundamental values.





CREDIBLE

Experts in our field and with products that deliver



CONFIDENT

Bold in exploring new scientific and commercial paths and unafraid to challenge set ways of thinking

Probi's 4 Cs



COMMITTED

Always willing to go the extra mile to ensure we and our products meet customer expectations



CLEAR

Transparent in all our dealings, both internally among ourselves and externally with partners and customers

STRATEGY TO CREATE GROWTH

In 2019, Probi revised its business strategy. The ambition is to create the conditions for Probi to return to being a growth company.

“Probi has a fantastic product portfolio with both depth and breadth. Our R&D is world-class,” says Probi’s CEO Tom Rönnlund. These are major assets that create conditions for commercialisation and growth. Our investments in R&D will remain on the leading edge of our industry. We will drive innovation to create a wider customer base and new applications for probiotics.”

“Probi today is the result of a merger

between Swedish Probi and the US company Nutraceutix,” says Tom. “Although we are a relatively small company, we have to respond to our customers like a professional global company. We have therefore been working to clarify our objectives for the entire company, and reviewed our processes and resources.”

“The overall objective is that Probi will continue to grow, while maintaining or improving our profitability. In order to

resume growth quickly, we will focus our resources to the areas with our greatest competitive advantages.”

“That includes a review of our geographic representation. We currently conduct sales in 40 markets and there are major opportunities for gaining an even stronger position in several of these countries relatively quickly. Partly by increasing our own resources, partly through strategic partnerships.”



Probi's strategic focus areas

 **DOUBLED SALES**

 **STRATEGY**
Growth through

- Stronger position in premium gastrointestinal and immune solutions
- Increased presence in the US, China and other growth markets
- Higher number of global key customers
- More strategic partnerships and acquisitions in relevant geographies and segments

Tom Rönnlund, CEO, comments:

"Probi aims to be a growth company – with a focus on scientifically validated products, a stronger market presence and higher market share in key markets. Combined with long-term strategic partnerships and acquisitions, our aim is to gradually double the size of our company."

 **LEAD THE WAY IN PROBIOTIC INNOVATION AND SCIENCE**

 **STRATEGY**
Accelerate the development of new products through

- Expanded range of clinically documented offerings
- Approved health claims in relevant markets
- Higher number of international research collaborations
- Evaluation of growth potential in areas related to probiotics

Tom Rönnlund, CEO, comments:

"Probi is built on decades of high-quality R&D – that is one of our biggest competitive advantages. Over the years, the high quality and standards of our research and product development have led the way. Curiosity and courage have enabled us to offer groundbreaking probiotic innovations to consumers all over the world. That will remain our ambition, in line with 'First in Probiotics'."

 **MANUFACTURING EXCELLENCE**

 **STRATEGY**
More efficient manufacturing through

- Facilities with guaranteed high-quality production capacity, adapted to market needs
- New manufacturing capabilities in growth regions
- Focus on gradually improved gross margins

Tom Rönnlund, CEO, comments:

"Probi is one of the few vertically integrated, global business-to-business companies in our sector. This is a strength that enables flexible solutions for our customers. We have the ability to deliver scientifically documented products in any format – from pure raw materials to consumer-ready products. That gives us control across the entire value chain, creating conditions for short lead times and unparalleled delivery reliability to our customers. We place high demands on ourselves in this respect, because that's what our customers expect from us."

SALES OF
PROBIOTIC
SUPPLEMENTS
ARE EXPECTED
TO GROW 21%
BY 2024



The market for developing and marketing probiotics is rapidly evolving. Increasingly intensive research in recent years indicates a strong relationship between gut flora and our health, which is leading to the development of probiotic products for new indications. Combined with a number of global consumer-related trends, this is expected to result in continued market growth in the years ahead.

Market trends

According to the International Probiotics Association (IPA), consumer spending in the global probiotics market reached USD 44.8 billion in 2019, up 18% since 2013. The global market is dominated by dairy-based products.

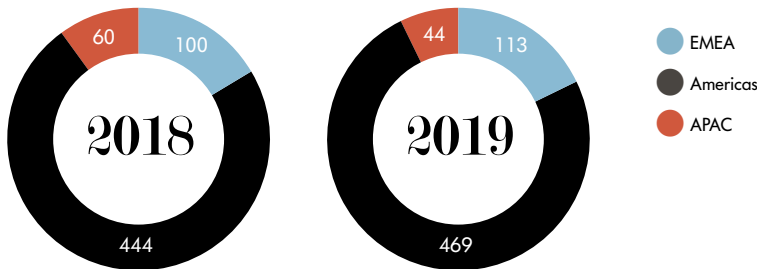
The probiotic supplements market, as a proportion of the overall market, is assessed to have grown from 10% to 13%

during the same period. In 2019, consumer spending on probiotic supplements was USD 6.1 billion, up 7% year-on-year. The single largest market is the US, which accounts for more than one-third of the supplements market.

The IPA expects the global probiotic supplements market to grow by 21% by 2024. The biggest growth is expected in

Asia, driven by sharp growth in the Chinese market in particular, which is currently the third-largest probiotic supplements market.

Geographic distribution of Group net sales (MSEK)



Probi sees four trends driving future probiotic markets

SCIENTIFIC PROGRESS IS LEADING TO NEW APPLICATIONS

01 As emerging technologies enable better analysis of the human microbiome, research into gut flora and probiotics is rising significantly. Increasingly intensive research in recent years indicates a strong relationship between gut flora and our health. While the established areas, such as gut health and immune function, are expected to continue dominating the market, research findings are also showing the potential health benefits of probiotics for certain metabolic syndromes and mental disorders. These results have led to an increase in the development of probiotics for new indications. Outside of the classic probiotic applications, new areas are predicted to become increasingly attractive, primarily vaginal and urinary tract disorders, due to the growing interest in treatments without antibiotics. Products for oral health are expected to grow as more and more products are launched in this area. Interest in other new indications, such as diabetes and obesity, is also growing. Overall, this trend is also expected to promote continued growth in the long term as the market becomes larger and wider.



02

A HIGHER PROPORTION OF OLDER PEOPLE

The world's population is expected to reach nearly 10 billion by 2050, and the proportion of older people will increase. In many countries, this is leading to higher costs for healthcare and drugs, and increasing demand for self-care products. Age-related changes in human gut flora can have adverse health outcomes. Products containing probiotics have been shown to have beneficial effects on these changes. A large proportion of these older population



groups also have stronger purchasing power than previous generations, which is increasing demand for products that can contribute to higher levels of well-being and better quality of life as people age.

04

HIGHER LIVING STANDARDS AND INTEREST IN PROBIOTICS IN NEW COUNTRIES

The general global interest in health, fitness and self-care remains strong. At the same time, the middle class is growing across most of the world, especially Asia. This subsequent increase in purchasing power is opening up new markets with demand for products with health benefits such as probiotics. The sharp increase in world population and continued rapid urbanisation are driving the growth of industrial food and drink production. At the same time, consumers are becoming increasingly aware of the ingredients in food, and demand for products that are healthy and nutritious, as well as safe and sustainable, is increasing. This is a favourable trend for probiotic products.



03

E-COMMERCE GROWTH

Consumer spending on probiotic products through online distribution channels is growing sharply. During the 2017-2027 period, e-commerce sales as a share of the total probiotic supplements market is expected to grow from 22% to 29%. Amazon, online pharmacies and local online stores are mainly expected to drive the increase. Total sales of probiotic supplements via digital channels during the same period are expected to grow from MUSD 269 to MUSD 955, corresponding to annual growth of about 13%¹⁾. At the same time, the number of consumers who are actively seeking information about food and preventive self-care on the Internet and social media sites will increase.

¹⁾ Source: Netscribes report 'Global Probiotic Supplements Market 2018-2027'



Market players

There are many players in the probiotics market. There are also many different types of collaborations, partnerships and other types of business relationships between various market players. In recent years, ingredient and

pharmaceutical companies have acquired probiotic companies and begun to consolidate the market. This indicates a growing interest from other related industries to be involved in the growing probiotics market.

A wide range of players are active in the market, from R&D companies to manufacturers, sales companies and brand owners. A number of integrated

players are also active across the entire B2B supply chain.

Some of the global leaders are Chr. Hansen, DuPont/Danisco and Lallemand. Probi is also a leading global company and in contrast to the other three companies, Probi is focused solely on probiotics. Most of the other players are geographically focused on a specific regional market.

Research into probiotics is hotter than ever

The interaction between the brain and the intestine, the so-called gut-brain axis, is vital to human well-being. The same goes for metabolic health. These two areas currently hold great hope for probiotics.

How probiotics can affect symptoms such as anxiety, stress, obesity and diabetes are the hottest areas being researched in the field of probiotics right now. This is according to **Mary Ellen Sanders**, who earned her PhD in Food Science with a focus on microbiology from North Carolina State University in the United States. In 2002,

Sanders co-founded the premier science-focused organisation in the field - International Scientific Association of Probiotics and Prebiotics, ISAPP.

Based in Colorado, USA, she is currently ISAPP's executive science officer.





Mary Ellen Sanders

Sanders has been following the field of probiotics for 30 years. When she started in the field in 1990, there were few convincing clinical trials on health benefits of probiotics, but the quality of studies has greatly improved. This was needed to balance the commercial gains made by probiotics.

“Over the past 15 years, tremendous progress has been made in developing evidence about the effects of probiotics. With many high-quality human trials, we better understand how probiotics benefit health and have insight into the mechanisms driving these benefits. But there is still much we don’t know,” she says.

Research shows that the gut bacteria of the body are crucial for a well-functioning digestion, metabolism and immune system. Researchers are linking different compositions of the intestinal microbiota to different illnesses, such as diarrhea, constipation, inflammation, cardiovascular disease, impaired immune system, allergies and even depression. However, it’s important to remember that most of the evidence today is associative. We do not know yet if the alterations in the gut microbiota are a cause or result of the diseases, or even from confounding factors such as medication use.

The interaction between the brain and the intestinal microbiota occurs in part via the vagus nerve, which branches into about 80,000 nerve fibers from the brain stem and down to the gastrointestinal tract. It affects and transmits impulses

"Over the past 15 years, tremendous progress has been made in developing evidence about the effects of probiotics"

from the body's vital organs such as the heart, lungs, liver, stomach, and intestinal system.

“There is evidence to suggest that there is a link between the gut bacteria and the brain. The big question that remains to be answered is whether it is possible to manipulate the microbiome so that it improves brain function. Health authorities in Canada have approved product claims that look very promising, says Sanders, and continues:

“Anxiety, depression, obesity and diabetes are important health concerns today that likely involve our microbiota. If researchers can find probiotics that can

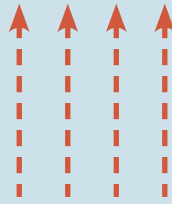
relieve these conditions, it would have a huge benefit to society.”

The global research on probiotics is largely funded by private companies, such as Probi. There are those who question the validity of results from industry-funded studies.

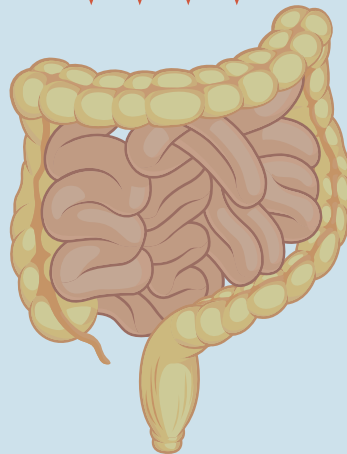
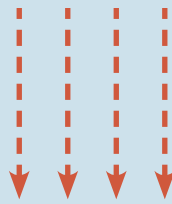
“Therefore, it is extremely important that all research is conducted in a manner that will minimize the potential for bias in the study. Further, funding sources need to provide funds and then step back and allow researchers independence in conducting the study”, says Sanders.

Today there is insufficient oversight in the marketplace to prevent the availability of products that claim benefits that are not substantiated clinically. Choosing the right product is a challenge for a consumer. A US study, for which Sanders was an author, showed that customers of large retail establishments who randomly pick a probiotic product off the shelf have a 35% chance of getting a product with apparent clinical documentation.

“It is a challenge for the consumer to navigate the marketplace. The best advice I can give is to look for a product that has studies showing effectiveness for the benefit you are interested in. But commonly marketed probiotics have an excellent safety record for the general consumer, so there is little risk of harm to try a product and see if it delivers a positive effect for you,” concludes Mary Ellen Sanders.



GUT-BRAIN AXIS IS VITAL FOR HUMAN WELL-BEING





Abdi Ibrahim and Probi are capturing the Turkish probiotics market

Lactic acid bacteria has played an important role in traditional Turkish food for at least a thousand years. Fermented food such as pickled vegetables, yoghurt and kefir are still staples of Turkish cuisine. But there is also a sharply growing market for probiotics in Turkey. Turkey's largest pharmaceutical company, Abdi Ibrahim, is now investing in probiotics in partnership with Probi.



Gökhan Eti

The probiotics market in Turkey is currently valued at approximately MEUR 30 and characterised by strong growth. In recent years, the market has grown more than 80%, despite the overall weakness of the country's economic growth. Probi is now entering this market in partnership with Abdi Ibrahim.

Abdi Ibrahim was founded in 1912 by a pharmacist, Abdi Ibrahim Bey, in his small pharmacy in Istanbul. Abdi Ibrahim is now the largest pharmaceutical company in Turkey, with more than 200 brands and 400 products, both proprietary products and licensed manufacturing. Abdi Ibrahim exports to 60 countries worldwide, including the EU and Canada, and employs about 4,500 people. The company's competitors include local players like Bilim, and global pharmaceutical giants like Novartis, Sanofi and Bayer. One in ten drugs sold in Turkey come from Abdi Ibrahim. But the company has even bigger plans for the future.

Abdi Ibrahim has ambitious plans for growth. The company intends to be one of the top 100 pharmaceutical companies in the

world within a few years. To succeed with this goal, the company has turned its eye to probiotics, a market with significant growth potential that is growing in Turkey as socio-economic conditions improve. Interest in probiotics is also growing due to a shifting view of health – from treating diseases, to preventative measures to promote well-being. While probiotics currently account for less than 1% of Abdi Ibrahim's sales, the company's Sales and Marketing Director Gökhan Eti is determined that will change.

"Probiotics are a key component of our growth plans and in 2020, about 100 of our total 2,500 sales staff and business developers will be focused on probiotics. That will give us the strength to grow and also become a leader in the probiotics market," says Gökhan Eti.

To succeed with their ambitious goal, Abdi Ibrahim sought a reliable, long-term partner. Because the company is aiming to become a leader in all of its markets, Gökhan and his colleagues wanted a partner with both a strong clinical profile and high production capacity.

"Probi is an invaluable partner for us, and I'm sure we are equally invaluable for Probi. We value the high level of service and collaboration, and the access to clinical research and high quality that Probi stands for," says Gökhan Eti.

In partnership with Probi, Abdi Ibrahim has now launched products for digestive health and immune health. The next step, says Gökhan Eti, will be to launch products for iron absorption and bone health.



The collaboration with Probi supports The Nature's Bounty Co.'s Ambition to drive innovation and growth

Global health and wellness company, The Nature's Bounty Co. has partnered with Probi for more than five years and the collaboration has played an integral role in driving innovation and growth within The Nature's Bounty Co.'s probiotics business.



Aileen Stocks

"Probiotics is one of the largest segments in the nutritional supplements category and a key product that consumers are frequently seeking out. Everyone's digestive system is a little different and at The Nature's Bounty Co., we work to ensure we carry a wide variety of probiotic options, many of which are backed by Probi's high quality strains, to help support daily digestive and immune health," says Aileen Stocks, Senior VP Marketing. She continues, "We know there are always opportunities to further drive growth within probiotics, as consumers are becoming more educated about its benefits. Thanks to our collaboration with Probi, we can provide robust high-quality strains that are well documented and backed by clinical research."

The Nature's Bounty Co. was founded in 1971 and is one of the largest nutritional health and wellness companies in the world. Today it employs over 4,000 people worldwide and is doing business in nearly 100 countries. The company's R&D technical teams, nutrition science researchers, and Scientific Advisory Council ensure that the company continues to drive product inn-

ovation and scientific advancement in the field of nutritional supplements.

"We continuously strive to offer the best that science can provide and invest in working with strong partners like Probi who can deliver the next generation of probiotics that will meet consumer demand. Probi is on the cutting edge of scientific breakthroughs for probiotics, and their high-quality strains have always been a great fit for us. Thanks to Probi's partnership and clinically studied strains, Nature's Bounty® *Probiotic 10* remains one of our most successful products," says Aileen Stocks.

The Nature's Bounty Co has a variety of probiotic products, including Probi strains to help support overall digestive health: Nature's Bounty® *Probiotic 10* contains 10 distinct probiotic cultures for optimal digestive balance and healthy immune function;* Nature's Bounty® *Probiotic GX* helps support abdominal comfort and helps alleviate occasional gassiness and bloating;* and Solgar® *Probi 30 Billion* is a focused, high dosage, single strain clinically studied probiotic that is delivered directly to the intestinal tract, where positive and beneficial micro-flora populate and grow.*

"Probi is a great partner for us in the probiotics space. Their expertise and willingness to collaborate has allowed us to remain a pioneer in the category, and we look forward to continuing to partner on new innovation with Probi-based strains," concludes Aileen Stocks.

* These statements have not been evaluated by the Food and Drug Administration. These products are not intended to diagnose, treat, cure or prevent any disease.



Rapid success in Australia due to close collaboration

Six years ago, Blair Norfolk started a company called Biome Australia with two consumer brands, Activated Nutrients and Activated Probiotics. “I started Biome Australia because I actually wanted to solve some personal health problems – problems that modern drugs couldn’t solve,” says Blair.



Blair Norfolk

About two years ago, Biome Australia entered into a partnership with Probi, a partnership that has largely led to the company’s success and rapid growth.

Biome Australia develops and markets innovative, clinically documented and natural healthcare products with tangible health benefits. Geographically, the company is mainly focused on Australia, but also Asia. The company now offers 24 products under two proprietary brands, Activated Nutrients and Activated Probiotics.

Blair Norfolk was born and educated in Australia before moving west.

“I spent ten years in the fast-moving consumer goods industry across Europe and the US before moving back to Australia and starting Biome Australia. I am passionate about improving quality of life for the people who need it most. I dream about being involved in new discoveries in the gut microbiome – discoveries that can lead to better outcomes for patients in the future and less reliance on drugs.”

In five years, Biome Australia has grown from one to 25 employees and the company continues to grow rapidly.

“By June 2020, we predict that our products will be available in 1,000 pharmacies. We now have a total of 24 products that are all helping people to live healthier lives – 12 organic plant-based multivitamin products with probiotics, five specialty probiotic products and five condition-specific products containing probiotics.”

“By combining our various research collaborations with intensive travels around the world, we have brought together an international team of industry-leading experts. We also made a strategically important decision to partner with Probi, a leading R&D and innovation company.”

“Biome Australia and Probi work very closely together now. We are continuously discussing future clinical opportunities and partnerships together and how we can work even more efficiently to develop our products and achieve even better results for consumers.”

“Working with Probi has always been easy. They are very cooperative and interested in creating results. Our partnership has gradually become closer, especially in research and training.”

“Biome Australia is a relatively small company that has grown rapidly in recent years, not least because of our important partners. Probi has been an important partner throughout the entire journey, and will continue to be so. From a customer at the beginning of our collaboration, Biome Australia is now a partner, and we are hoping to become a research partner with Probi in the very near future.”



Upgrade in Redmond in the US for even higher quality and capacity

Activity at Probi's facility in Redmond, close to Seattle in the US, is in full swing. In November 2019, trucks arrived carrying nearly 70 tonnes of new equipment to be unpacked, adapted and installed by Probi employees.

The facility in Redmond became part of Probi in 2016 when the company purchased Nutraceutix. Probi wanted to expand the company's manufacturing capacity and found an ideal solution in the acquisition of Nutraceutix. Since then, the facility has been the centre of Probi's commercial fermentation and production of bacterial strains. Due to a fast-growing and changing market, Probi made a decision in 2019 to invest in the facility.

"I've never stumbled across a better business opportunity than this"

Andy McShea, Chief Operating Officer:

"The facility in Redmond had served us well since it became part of Probi, but it was time for an upgrade and capacity expansion. With new, modern fermentation equipment, we saw opportunities for improving the technical capacity of the facility and increasing the flexibility required to meet the high pace of innovation in the probiotics market."

Andy McShea and his team knew that the acquisition of new manufacturing equipment would be a challenge. Fermentation vessels, pellet machines and other advanced equipment is usually expensive, with long delivery times from when orders are placed with suppliers.

"It was obvious that we needed to find other avenues for getting hold of the right equipment – faster and more cost-effi-

ciently. Used equipment was not an option, so we made use of our network to find another solution."

It was found in a global pharmaceutical company's facility in Austria. The pharmaceutical company had bought the facility several years ago, and completely new equipment for a planned fermentation facility was included. But due to a change in plans, the company was left with a surplus of state-of-the-art fermentation equipment that was never used or even installed. Andy and his team contacted the company and visited the facility. After a thorough on-site inspection, Probi decided to buy the equipment, nearly 70 tonnes in total.

"Finding state-of-the-art equipment at such an attractive price as well as getting it delivered almost immediately was a major breakthrough for us. I've been in this industry for a long time and I can honestly say that I've never stumbled across a better business opportunity than this."

The lower cost and shorter delivery time are helping Probi get the equipment into service quickly, and accelerate the pace of raising the company's fermentation and manufacturing capacity. To support the investment, Probi has recruited new personnel dedicated to installing and optimizing the range of new production processes. For the personnel in Redmond, the new equipment has many advantages, especially the higher degree of automation and better support for their work.

There are also important sustainability aspects, says Andy McShea.

"The new equipment will help us lower our electricity and water consumption, while improving the biomass yield and extending the life of our products. And finally, we are giving new life to equipment that probably would have been scrapped."

R&D – A FOCUS ON WOMEN'S HEALTH



Probi's strong R&D profile is highly valued by the company's customers and partners, and is often the decisive factor for choosing to partner with Probi. The R&D department with 12 employees, all located in Lund, is responsible for Probi's research globally.

Probi's focus on clinical research, which is similar to that of pharmaceutical companies, gives the company a solid foundation and builds market confidence. Probi follows the EU standard for Good Clinical Practice (GCP) in clinical trials, but is not usually required to test safety and doses like pharmaceutical companies, as many bacterial species are classified as safe for human consumption.

Probi's research into existing bacterial strains continues in several health-related areas. The company has taken yet another step in the development of new products and is also investing in research into new strains and concepts to a much greater extent. Two exciting fields of research that stand out are bone health and iron absorption – areas that are also particularly important for women. Titti Niskanen, who leads Probi's R&D together with Niklas Larsson, says that she and her colleagues are motivated by being able to help people achieve better health.

“We did not initially plan to focus on

women's health, but from both our own and others' research, we saw how probiotics could play a key role in bone health and iron absorption, and both of these areas are extra important for women – albeit in slightly different phases of life,” says Titti Niskanen.

Bone health

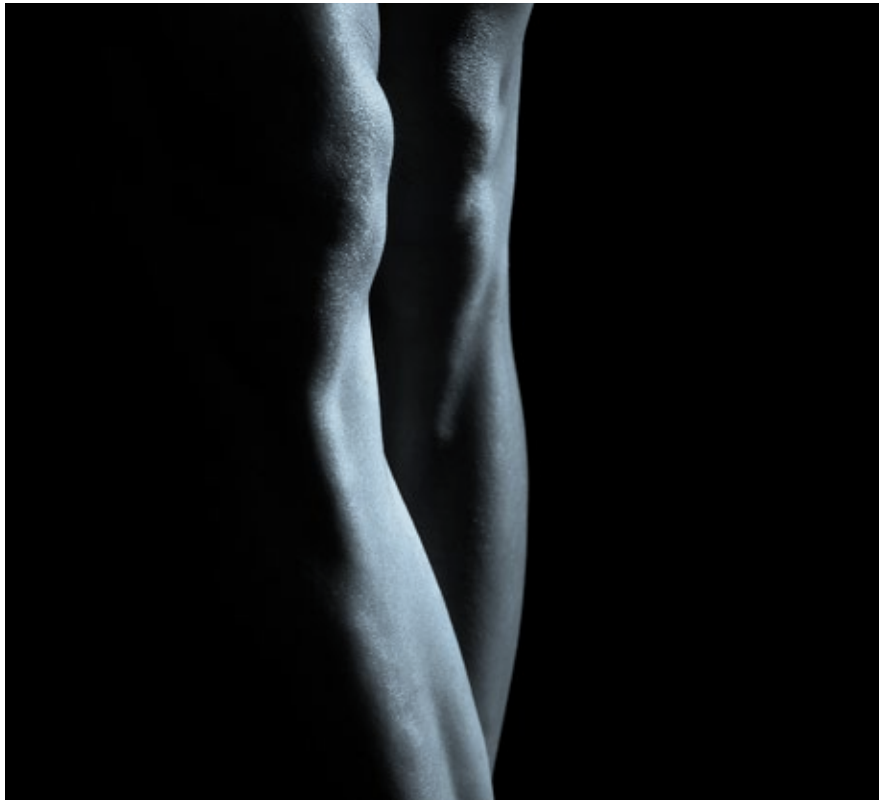
Probi® Osteo, which reduces bone loss, is a completely new and groundbreaking concept for Probi. Strong bones are important for our mobility at every stage of life. Bones are continuously being formed and broken down. At the beginning of life our bone mass increases, since bone formation is greater than bone loss. That continues until about 30 years of age. Then the process reverses and accelerates, especially for women when they reach menopause. Bone loss can lead to osteoporosis, which increases the risk of fractures and fall injuries.

There is already documented evidence of a link between the microbiome (gut

bacteria) and bone health. An effect on bone health was also seen in patients whose bacteria had been wiped out by antibiotics. Furthermore, pre-clinical studies performed by researchers at Sahlgrenska University Hospital in Gothenburg had shown a link between ingestion of Probi's bacterial strains and reduced bone loss. On the strength of these results, Probi decided to conduct a clinical trial in over 250 Swedish menopausal women. The trial was conducted in Gothenburg, Stockholm, Uppsala and Linköping, and measured the bone density of the patients when the trial commenced, and after one year of treatment with probiotics. The results were striking. The patients in the placebo control group lost approximately 1% of their bone mass during the year, a loss that was slowed by up to 80% in the group that received probiotics.

“These are excellent and clear results, and are obviously very exciting for us as researchers. Probiotics are also an attractive and easily accessible way for consumers

"We saw how probiotics could play a key role in bone health and iron absorption"



to slow bone loss that can otherwise lead to serious conditions and complications," says Titti Niskanen.

"There are obviously treatments for osteoporosis, but they are often associated with uncomfortable side effects. The ability to slow bone loss and prevent, or at least delay, the process of osteoporosis is an important breakthrough, especially for women's health," says Titti Niskanen.

The results from the clinical trial are solid and support the marketing of the company's product, Probi® Osteo. During the year, the trial results were also published in *The Lancet Rheumatology*, one of the most prestigious scientific journals.

But according to Titti Niskanen, it could be interesting to conduct another trial to try and reproduce the effects in another population. Another challenge for Probi is to raise awareness of bone health and spread the knowledge that osteoporosis can be prevented if you start early enough.

"In Australia, you can measure your bone density at your local pharmacy. That might be something for Sweden to look into," says Titti Niskanen.

Iron uptake

Iron deficiency is another area that is particularly relevant to women's health. Many

women suffer from iron deficiency during pregnancy, partly due to increased blood volume. Iron deficiency can lead to anaemia, which is a serious condition and to be avoided during pregnancy.

While the need for iron increases during pregnancy, it can be difficult to get sufficient iron from food and iron supplements. Most of the extra iron is not absorbed by the body and ends up in the gut where it can cause problems like constipation, nausea or stomach cramps. The guidelines for pregnant women vary between countries, but iron supplements are often recommended, even for preventive purposes and regardless of whether the woman has low iron status or not.

To avoid the side-effects of iron supplements, the ability to influence your own iron uptake would be ideal. Some probiotics have already been shown to affect iron uptake in earlier trials, such as the meal studies carried out by a research team at the University of Gothenburg. Here, researchers could confirm that the probiotic bacteria *Lactobacillus Plantarum* 299v, which is included in Probi FerroSorb®, helped to boost iron uptake from food.

Increased iron absorption would be beneficial for a number of groups that may otherwise find it difficult to get enough iron without supplements. The benefits would

be particularly significant for pregnant women. Probi therefore decided to study this closer and, together with midwives at maternity care centres across Skåne in southern Sweden, the company conducted a trial in more than 300 pregnant women. The aim was to study the effect of Probi FerroSorb® on their iron status. The results showed that healthy, pregnant women who participated in the trial were able to maintain a better iron status, which may be attributable to the higher uptake of iron shown earlier in the trials in Gothenburg.

Since iron deficiency can present as early as puberty, there are good reasons to start taking probiotics at that time and then continue through child-bearing years, and especially before a pregnancy.

"We have a good network and dialogue with the midwives who took part in the trial and they are very happy with the results. We are now discussing whether we could work together to impact recommendations at a broader level, such as through midwife organisations," says Titti Niskanen.

Probi's FerroSorb® product for increased iron absorption has been launched in a number of markets and in 2019, Probi® Gravid was launched in Sweden. As the name indicates ("Gravid" is the Swedish word for "Pregnant"), the target group is expectant mothers. Probi's R&D

department would like to continue studying the effect of probiotics on iron uptake, in mothers as well as their children. Another exciting area to study would be the effects of iron uptake in athletes, who are even more dependent on high iron status for both physical performance and recovery. A small-scale trial has been conducted by researchers in Umeå to date, with parameters that all pointed in the right direction.

**"These are
excellent and
clear results"**

"Sport is a very exciting area and something we would definitely like to explore. At the same time, the sports segment is a relatively complex market, so we need more time to think about it. Then there are obviously other larger groups that could definitely benefit from better iron uptake," says Titti Niskanen. Vegetarians and vegans would be an interesting target group," she says.





VivaPro – an initiative to broaden the food business

Functional Foods is where it all began for Probi. This business segment now accounts for a minor share of the company's total sales, barely 10%, but is still considered important and has growth potential. Fabian Skärvad started working at Probi about five years ago and is now responsible for activities in Functional Foods.

"The company's current offering in food mainly comprises lactic acid bacteria in fermented fruit drinks. Interest in probiotic foods has grown in recent years and new product segments are being added. Probi can address some of these applications with its existing product portfolio. Our lactic acid bacteria have been available for many years and are well proven. They are safe for human consumption and their effects have been highlighted in a range of clinical trials," says Fabian Skärvad.

But the lactic acid bacteria that have so far paved the way for Probi's success do not work in all new commercial applications, since the products are often heat treated to extend their shelf life.

"The aim is to develop new products to grow the food business globally"

That poses a major challenge for Probi and its partners because lactic acid bacteria cannot survive heat treatments. To grow with the market and broaden the business with more types of food products, such as drinks, bars, cereals and various types of powder products, Probi simply needed to find alternatives to its traditional bacterial strains.

Probi has now begun to study one such alternative – *bacillus coagulans* – spore-forming bacteria with properties that are similar to lactic acid bacteria but more robust and also provide the intended health benefits after heat treatment. Together with its US partner Viva 5, which has long experience of spore-forming bacteria, Probi is now taking the next step and forming a company called VivaPro to study these types of bacteria and their potential commercial applications.

"We are hoping to combine Viva 5's knowledge and experience in *bacillus coagulans* with Probi's, quite possibly, main strength – our strong focus on research and clinical trials," says Fabian Skärvad.

Viva 5 is one of Probi's customers and holds a strong position in the US market, while Probi has a wider reach with potential customers in Europe and Asia. The aim is to develop new products and applications in collaboration with VivaPro in order to broaden and grow the food business globally.



Collaboration between Probi and Symrise is leading to new perspectives on cosmetics

SymReboot™ L19, the result of a collaboration between Symrise in Germany and Probi, was launched at the global In-Cosmetics event in Paris in 2019. The exhibition in Paris attracted more than 12,000 visitors from the cosmetics industry and included well-attended presentations of how probiotic-based products can impact the skin microbiome.

One of the presentations was held by Imke Meyer, Senior Global Product Manager at Symrise in Germany, who described the results of the collaboration between Probi and Symrise. The companies have jointly developed a processed probiotic strain, SymReboot™ L19 (*Lactobacillus plantarum* HEAL19). In various studies, both *in vitro*¹⁾ and *in vivo*²⁾, the strain has demonstrated an ability to strengthen the skin's protective function and to calm sensitive skin. The basic function of SymReboot™ L19 is to activate the skin's defence mechanisms in a natural way.

In-Cosmetics attracted visitors from all over the world who listened to, and met, approximately 850 exhibitors of ingredients, fragrances, lab equipment and so forth. SymReboot™ L19 was launched in the market in conjunction with the event. The product has attracted a huge interest from the cosmetics industry in a very short time. After the launch, Symrise met with several customers to discuss how the product could be formulated in their end product, and also made customised samples. As a result, SymReboot™ L19 was already being sold as an ingredient for several cosmetic products in 2019.

SymReboot™ L19 also attracted attention in other ways during the year and received positive reviews in three different publications.

To manufacture the product, Symrise and Probi worked together to develop a unique production method and have now achieved an efficient manufacturing process for a probiotic-based ingredient with a range of applications.

Background

Sensitive skin has a weaker protective barrier and can therefore be hypersensitive to various types of external stimulation. The skin microbiome is part of, and may impact, this barrier function, which can then be impacted and strengthened by probiotic-based ingredients. Probiotics also have properties that can stimulate and support mechanisms in the skin that can help to make the skin softer.

Many consumers are now aware of the positive effects of probiotics on human health, especially for improved gut health. Surveys³⁾ show that 78% of consumers believe that probiotics could also have a positive effect on skin health, and 61% believe that probiotics would be well-placed in the beauty care category. In other words, a cosmetic product containing probiotics would feel natural for consumers.

¹⁾ laboratory test

²⁾ test on live organisms

³⁾ CMI Data Source: Symrise Cosmetic Ingredients consumer data base

Employees

Amy Lau Singapore

Probi Asia-Pacific
Sales support in Asia and Oceania



Amy Lau has been employed as sales support for Probi's operations in Asia and Oceania since 2018.

"I am based in Singapore where Probi now has three employees," says Amy. "Our Asian organisation also has two other colleagues – both in China, one in Beijing and one in Shanghai."

Amy's role is mainly to provide general support for Probi's own sales staff, and for Probi's agents, distributors and customers in Asia and Oceania. She provides documentation and information to existing and new customers. She is also involved in choosing the conferences and trade fairs that Probi will attend in the region, and then planning and implementing them in detail.

"My language skills have been really useful"

In 2019, Probi attended Food Ingredients China together with one of its distributors, a large-scale exhibition in Shanghai with five exhibition halls and several different themes.

"It was a very new and interesting experience for me," says Amy. "The exhibition

attracted a lot of visitors and there were exciting meetings at our booth. I was able to meet several Chinese customers to discuss Probi and our products."

"During the exhibition, there were several seminars covering regulatory issues, which are included in my responsibilities for the Asian market."

Another exhibition that Probi attended was VitaFoods Asia (Singapore), which attracted customers from Thailand, India, Australia, China and many more.

Amy was born and grew up in Malaysia and she speaks three languages: Malay, English and Mandarin (the official language of China). Her language skills are important for her sales support role at Probi.

"My language skills have been really useful and helped me advance professionally. Mandarin is my mother tongue, but I learnt to speak English and Malay fluently at school. I grew up speaking Fuzhou, which is a dialect spoken in the Fujian province of China."

Amy holds a Bachelor of Technology (Hons) and a Master of Science from Universiti Sains Malaysia with a focus on bioprocess technology.

Employees

Steve Preston Redmond, Washington

Probi USA

Head of Fermentation Technology



Steve Preston works at Probi's production facility in Redmond, Washington, in the US, a few kilometres east of Seattle. He started working at Probi (then Nutraceuticals) in 2012, left briefly in 2018 for a position as Head of Production at another company, then returned to Probi in autumn 2019.

You left Probi for a short time, but quickly came back...

"A former colleague offered me a job outside Probi, which I accepted. But I missed my co-workers and the work environment at Probi. When a new opportunity opened at Probi, I didn't hesitate. There's an open and friendly attitude here that I really like. We are all working towards the same goal: to produce probiotics efficiently, and of the right quality."

"I am now head of the fermentation process at the production facility in Redmond," says Steve. "A large part of my job is to ensure that we are working in a cost-efficient manner."

In 2019, there were some heavy investments in Redmond (refer to pages 24-25).

"Yes, a lot of interesting things happened during the year and it was an exciting time for everyone who works here. Several investments were made to increase the efficiency of the facility and to produce even higher quality probiotics. We made investments and introduced changes to improve the stability and sterility of the products."

"I work in the fermentation depart-

ment, together with six other employees. I work independently and during the autumn, I helped to install a new liquid pelletizer which will help us achieve a more stable product.

Steve holds a degree from the University of California, Davis, with a Bachelor of Science in Animal Science focuses on genetics. He was employed in the pharmaceutical/biotech industry for 15 years before he started working with probiotics.

"When a new opportunity opened at Probi, I didn't hesitate"

Employees

Fiona Westermeier Lund

Probi HQ
Junior Executive Assistant



From Marburg in Germany to Lund in Sweden, via Taipei and Shanghai. That was Fiona Westermeier's journey before joining the team at Probi, first as an intern and now as Junior Executive Assistant to Probi's CEO.

Fiona Westermeier is originally from Marburg, a university town in Germany like Lund. After studying in Taiwan and China, Fiona applied to Lund University, where she earned a master's degree in Corporate Innovation and Entrepreneurship. As part of her master's programme, she was an intern at Probi where she carried out research for her master's thesis.

"The project for Probi dealt with corporate innovation management, or how a company manages and incorporates new technological advances and innovations. We looked at how projects arose and how Probi decided what projects had the greatest potential for continued development – an assessment of how innovative the company is."

Fiona and her classmates had to choose from a number of large and small-sized companies. Fiona chose Probi because of cars – in a back-hand sort of way.

"In my region in Germany, nearly everything is focused on the car industry. I wanted to find something new and exciting. I became interested in probiotics after reading that Bill Gates – and others – believe that probiotics could help solve malnutrition over the next two decades. And that is why I chose Probi."

Fiona has also lived in Shanghai, where

she studied and worked at the German Chamber of Commerce. That is where she first came into contact with probiotics, which have long been used in traditional Chinese medicine.

"Probi has a unique combination of Swedish company culture and an international environment"

"At first, I thought about going back to China, but I really enjoyed being in Lund. It's a small town, but international at the same time. When Probi offered me a job, the choice was simple. Probi has a unique combination of Swedish company culture and an international environment," says Fiona.

As Junior Executive Assistant, Fiona works mainly with Probi's CEO Tom Rönnlund, but also as a support to the project management and innovation activities. Fiona's knowledge of corporate innovation management has already proved valuable for Probi.

Employees

Jason Scow Lafayette, Colorado

Probi USA
Senior Quality Manager



Jason began his career in probiotics as a quality technician at Nutraceutix in 2009. This was a somewhat unexpected career path for someone with a degree in journalism and PR from Colorado State University. Jason's journey, first in Nutraceutix and then Probi, after the companies were merged in 2016, in many ways symbolises Probi's culture and view of its employees.

Jason has built a career in Nutraceutix and Probi: from technician, to various roles in quality assurance, to quality manager for the facility in Colorado, and in 2019, he was appointed Senior Quality Manager for Probi USA.

"It is very exciting to be following a career path that you never knew existed. My original plan was to work as a journalist, but I discovered that working with quality assurance was fascinating, and that I really believed in the products we were developing. And that's why I stayed," says Jason Scow.

For Jason, it's important to be working for an organisation that he likes and believes in, and to be making a difference.

"At Probi, we are developing products that help people feel better and live healthier lives. We are also carrying out research to back up our claims and to demonstrate the benefits of probiotics. That suits me perfectly," he says.

Jason was also a member of the integration team that led the merger of Probi and Nutraceutix. One of the biggest changes for Jason and his colleagues at Nutraceutix was that they were now part of an interna-

national organisation and that there were suddenly two more business sites, Lund and Singapore, in addition to those two in the US. And Jason really appreciates his new company culture.

"Probi has a company culture that is both inclusive and engaging"

"Probi has a company culture that is both inclusive and engaging. The company values curiosity very highly and gives employees the autonomy, confidence and encouragement to explore new ideas, to improve processes and to work with other things that will eventually benefit the company. That's not how it works in a lot of other companies, especially in the US. That's a strong competitive advantage for us at Probi," says Jason.

THE SHARE

Probi has been listed on Nasdaq Stockholm since 2004 and is traded under the PROB ticker. Probi is traded in the Mid Cap segment, which consists of companies with market capitalisation from MEUR 150 to EUR 1 billion. Probi belongs to the Healthcare and Biotech sectors.

Share capital

At the end of 2019, Probi's share capital amounted to SEK 58,220,625 (58,220,625), represented by 11,644,125 shares (11,644,125). Each share carries the right to one vote and the same rights to a share in the company's assets and profit. The quotient value of the share is SEK 5.

Ownership

At 31 December 2019, the number of registered shareholders was 3,927, compared with 4,222 at 31 December 2018. Of the total number of shares, institutional ownership accounted for about 89.7% (88.8), private owners 10.3% (11.2) and foreign owners 60.9% (61.9). Europe accounts for the largest proportion of shares held by foreign owners, corresponding to 60.2% (60.7) of the total number of shares. Probi's principal

owner, Symrise AG, held 56.6% of the capital and 57.8% of the voting rights at year-end. Symrise AG treats Probi AB as a subsidiary in its consolidated financial statements and consolidates the company in full.

Holding of treasury shares

At year-end, Probi held 250,000 treasury shares, corresponding to 2.1% of the total number of shares, with a quotient value of SEK 5 per share. These shares were acquired in 2011 for MSEK 11.8. No shares were bought back during 2012-2019.

Share performance

In 2019, Probi's share declined 38% and was quoted at a closing price of SEK 222.00 (360.00) at year-end. OMX Stockholm PI rose 29% during the year. The highest and lowest prices in 2019 were SEK 408.60 (516.00) and SEK 206.50 (298.80), respectively. On 31 December 2019, Probi's market capitalisation was MSEK 2,529 (4,102). During 2019, 1,240,917 (2,481,283) Probi shares were traded on Nasdaq OMX Stockholm. The average turnover of shares per trading day was 4,964 (9,925).

Dividend policy

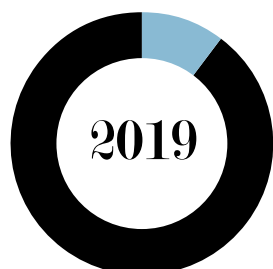
In future, the dividend will be based on Probi's earnings level and financial position, as well as requirements for the financing of available expansion and acquisition opportunities. On an annual basis, the Board will evaluate the potential to pay a dividend and, in so doing, will balance the shareholders' expectations of a reasonable dividend yield with the company's needs to self-finance its continued growth and expansion.

The Board of Directors and the CEO propose to the 2020 Annual General Meeting that the company pay a dividend of SEK 1.00 per share (-). This entails a total dividend of MSEK 11.4 (-), and the proposal is that the Parent Company's remaining retained earnings of MSEK 983.9 be carried forward.

Options programme

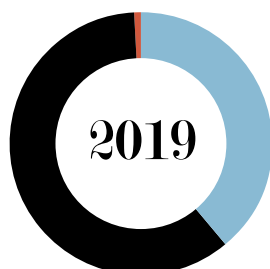
Probi has no outstanding convertible loans and no outstanding warrants.

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



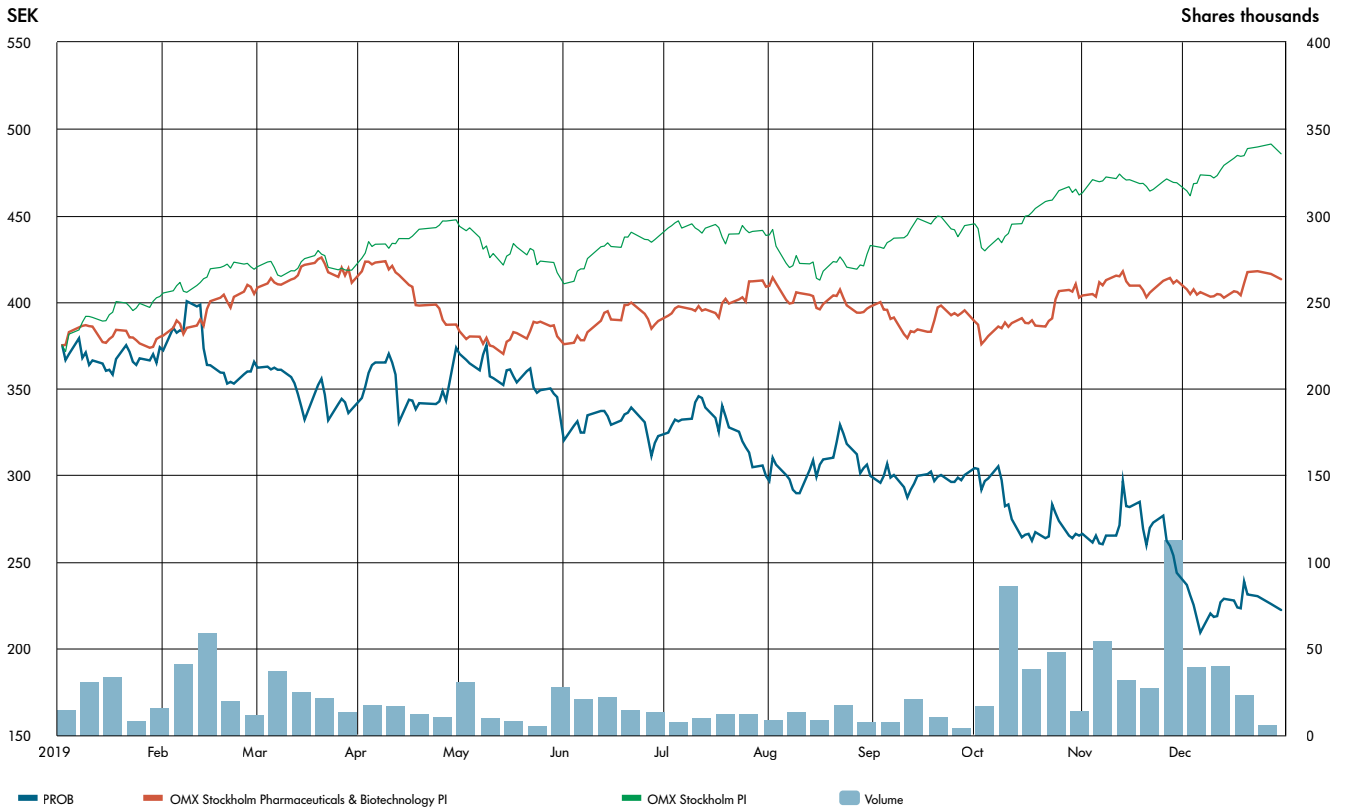
● Legal entities, 89,7%
● Physical persons, 10,3%

Distribution Swedish
– foreign shareholders (no. of shares)

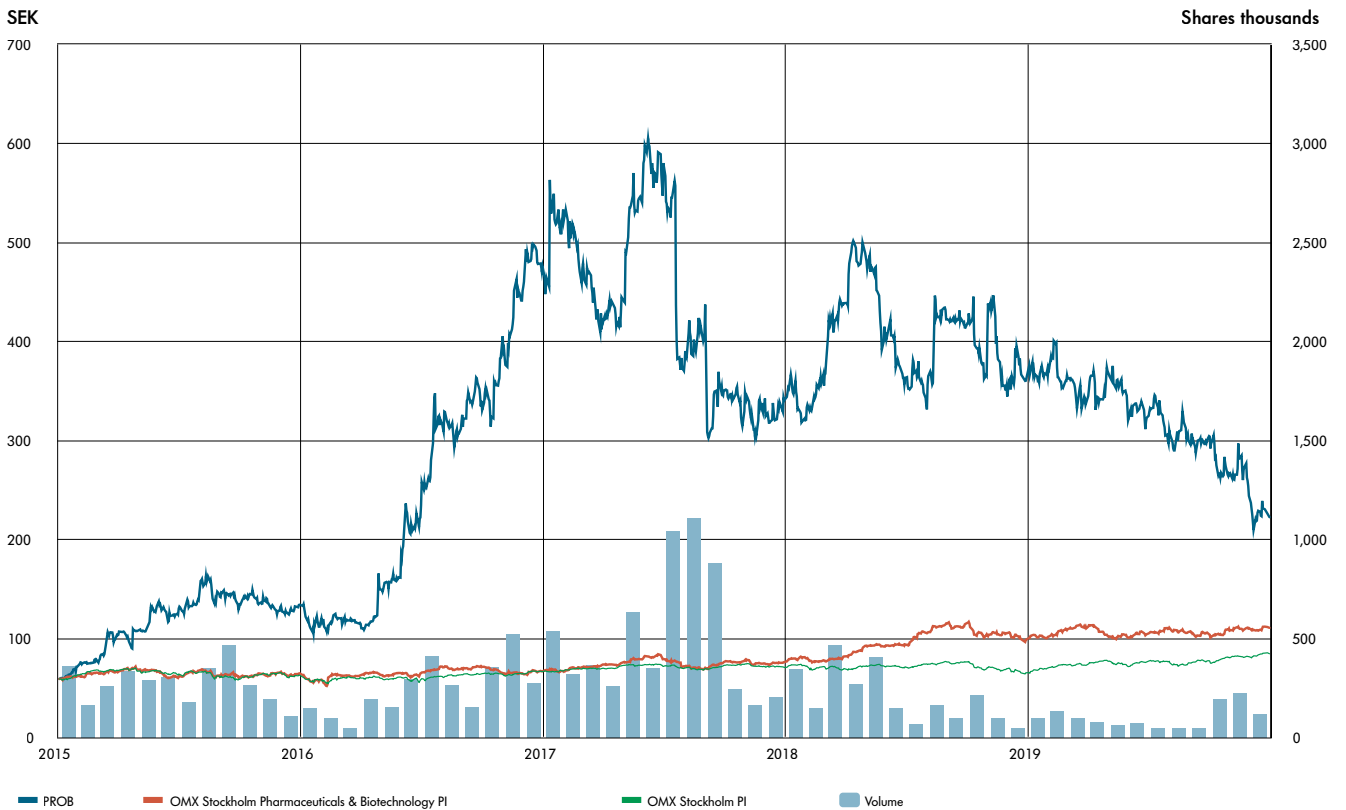


● Sweden, 39,1%
● Rest of Europe, 60,2%
● Rest of the world, 0,7%

The share 2019



The share 2015-2019



Share capital development

Event	Year	Issue price	Increase in no. of shares	Total no. of shares	Par value of share	Increase in the share capital	Share capital
Establishment	1991		500	500	100	50,000	50,000
Bonus issue 1:1	1997		500	1,000	100	50,000	100,000
Targeted issue ¹	1997		150	1,150	100	15,000	115,000
Split 100:1	1997		113,850	115,000	1	-	115,000
Bonus issue 34:1	1998		3,910,000	4,025,000	1	3,910,000	4,025,000
Targeted issue ²	1998		1,006,250	5,031,250	1	1,006,250	5,031,250
Bonus issue 15:10	1998		7,546,875	12,578,125	1	7,546,875	12,578,125
Targeted issue ³	1998	12	1,721,875	14,300,000	1	1,721,875	14,300,000
Bonus issue 13:10	1998		18,590,000	32,890,000	1	18,590,000	32,890,000
Rights issue	2000	10	8,222,500	41,112,500	1	8,222,500	41,112,500
Reverse split 5:1	2004		-	8,222,500	5	-	41,112,500
New issue	2004		1,142,800	9,365,300	5	5,714,000	46,826,500
Rights issue	2016	264	2,278,825	11,644,125	5	11,394,125	58,220,625

¹ Issue targeted to founders and senior executives.

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

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

Shareholders

	No. of Series A shares	Share of capital (%)	Proportion of votes (%)
Symrise AG	6,585,017	56.6%	57.8%
Swedbank Robur fonder	1,251,000	10.7%	11.0%
Fjärde AP-fonden	1,046,127	9.0%	9.2%
SEB	398,170	3.4%	3.5%
Avanza pension	117,723	1.0%	1.0%
Core Ny Teknik	97,959	0.8%	0.9%
Länsförsäkringar Fondförvaltning	78,866	0.7%	0.7%
BNY Mellon NA, W9	72,754	0.6%	0.6%
KBC Bank NV, W-8IMY	46,975	0.4%	0.4%
Other	1,699,534	14.6%	14.9%
Total Shares outstanding	11,394,125	97.9%	100.0%
Probi AB	250,000	2.1 %	-
Total no. of shares	11,644,125	100.0 %	100.0 %

Holding per shareholder

Share distribution	No. of shareholders	No. of shares	Proportion of shares (%)
1 – 500	3,324	353,290	3.0%
501 – 1 000	314	232,820	2.0%
1 001 – 5 000	226	464,637	4.0%
5 001 – 10 000	24	164,440	1.4%
10 001 – 15 000	9	110,938	1.0%
15 001 – 20 000	6	107,982	0.9%
20 001 -	24	10,210,018	87.7%
Total	3,927	11,644,125	100.0%

PROBI AB (PUBL)

**Annual accounts and consolidated financial statements for
2019 financial year**

DIRECTORS' REPORT

The Board of Directors and the Chief Executive Officer of Probi Aktiebolag (publ) with its registered office in Lund, Sweden, Corporate Registration Number 556417-7540, hereby present the annual accounts and consolidated financial statements for 2019.

Probi was founded 1991 and is a leading player in probiotic research and development, manufacturing and sales of effective and well-documented probiotics. The company's research relates to living microorganisms with scientifically proven health benefits. The main fields of research are: gut health, immune system and nutrient absorption, iron absorption, bone health and stress and recovery. Probi's customers are leading companies active in the Consumer Healthcare and Functional Food business areas.

Significant events in 2019

- Tom Rönnlund was appointed new CEO in January 2019 and joined Probi from the listed Norwegian company Navamedic ASA. Tom has more than 20 years of experience of sales, marketing and executive positions in the health and medical care sector. At the same time, Henrik Lundkvist was appointed new CFO and joined Probi from GCE Group, a global gas-equipment company, where he had served as CFO since 2015.
- During the year, Probi signed supply agreements with three of the company's largest customers in the US, providing a stable base for continued expansion in the US market.
- During the year, The Lancet Rheumatology journal published results from Probi's trial of bone health in postmenopausal women. The results showed a clear reduction in bone loss following intake of Probi's probiotics. The product was launched in all regions under the Probi® Osteo concept name during the year.
- In 2019, Probi commenced a programme to upgrade the manufacturing unit in Redmond, in the US. The aim of the programme is to further improve the efficiency and quality of production to strengthen competitiveness. The investment programme will continue through

2020, but the full effect is not expected until 2021.

- During the year, a clinical trial was conducted to study the effect of Probi Ferro-Sorb® on iron status during pregnancy. The results showed improved iron status at later stages of pregnancy. The product was launched in Sweden under the Probi® Gravid product brand, and also launched in other markets.
- During the year, Probi and its partner in the Nordic market launched a completely new range of products for consumers of all ages. New products in the Probi family are Probi® Baby, Probi® Gravid, Probi® Family and Probi® Active 50+.
- At the end of 2017, Probi signed an agreement with a global fast-moving consumer goods (FMCG) company regarding the launch of a Functional Food product containing Probi's digestive health bacteria in North America. Due to reprioritisations in the product strategy for the specific product, the business partner decided to opt out of the collaboration prematurely.
- During the year, Probi repaid MSEK 119 of the bank loans raised in connection with the acquisition of Nutraceutix in 2016. All bank loans were subsequently repaid at year-end.

Sales and results

Probi's net sales for the full-year amounted to MSEK 626.2 (604.1). The total increase was MSEK 22.1 or 4% compared with the year-on-year period. At the preceding year's exchange rates, net sales for the full-year would have been MSEK 0.8 higher year-on-year.

Net sales in Probi's largest market, Americas (North and South America), amounted to MSEK 468.9 (444.3), corresponding to 75% of Probi's total net sales. The increase of MSEK 24.6 (6%) was largely due to a stronger USD. Sales in EMEA (Europe, the Middle East and Africa) rose 13% year-on-year to MSEK 113.5 (100.4). The increase was attributable to a new large Turkish customer, but also to growth in existing customers. The APAC region (Asia Pacific) reported net sales

of MSEK 43.8 (59.5), down 26%, mainly the result of tighter regulation which led to a temporary slowdown in the Chinese market.

Operating expenses for the full-year amounted to MSEK 514.7 (503.0). The gross margin improved slightly year-on-year to 47% (46) of net sales. Sales and marketing expenses of MSEK 105.1 (91.9) increased in line with expanded commercial resources in the Americas and APAC regions, but also due to higher variable costs associated with the increase in net sales. Administrative expenses amounted to MSEK 46.0 (54.7). The comparative figures include a non-recurring employee-related cost of MSEK 4.5. Research and development expenses amounted to MSEK 31.0 (32.7).

Consolidated EBIT for the year totalled MSEK 111.5 (101.1). Adjusted for currency effects, EBIT totalled MSEK 112.7.

EBITDA amounted to MSEK 183.4 (154.9), corresponding to an EBITDA margin of 29.3% (25.6). EBITDA excluding effect from IFRS 16 amounted to MSEK 168.7 (154.9), corresponding to an EBITDA margin of 26.9% (25.6).

The Group's financial result for the year amounted to MSEK -2.0 (-2.6). Interest expense excluding IFRS 16 amounted to MSEK 0.7 (-5.4). Interest expense related to IFRS 16 amounted to MSEK -2.3 (-). In addition, bank charges amounted to MSEK -1.1 (-0.8). Gains or losses on the translation of loans and cash and cash equivalents denominated in other currencies are recognised in exchange rate gains or losses from financing activities. A currency gain of MSEK 0.7 (MSEK 2.2) arose during the year.

Profit after tax for the year totalled MSEK 85.9 (76.3). Tax expense was MSEK 23.6 (22.3).

Earnings per share for the year amounted to SEK 7.54 (6.69).

Cash flow and financial position

During the year, cash and cash equivalents rose MSEK 7.7 to MSEK 207.0 (199.3). Cash flow from operating activities rose MSEK 46.1 year-on-year, of which MSEK 14.7 was due to reclassification to financing activities in connection with the adoption of IFRS 16 Leases, and the remaining amount to a positive EBIT trend and improved working capital.

Cash flow from investing activities was MSEK -35.1 (-14.0). Payments for investing in intangible assets amounted to MSEK 8.4 (10.2), of which MSEK 3.5 (2.8) pertained to patents and MSEK 4.9 (7.4) to capitalised development costs. During the year, capitalised development costs mainly related to clinical trials in gut and immune health and nutrient absorption. Payment for investing in property, plant and equipment amounted to MSEK 26.7 (3.8), and mainly pertained to investments in the manufacturing unit in Redmond, in the US.

Cash flow from financing activities was MSEK -133.0 (-74.1). This included a repayment of MSEK 119 (70.2) on the bank loans raised in connection with the acquisition of Nutraceutix in 2016. The amount also includes lease payments of MSEK 12.5 (-) and paid interest of MSEK 2.3 (-) resulting from the adoption of IFRS 16.

A five-year summary is presented after the notes in the annual report.

Segment information

Probi's business operations are organised in two business segments: Consumer Healthcare (CHC) and Functional Food (FF). Consumer Healthcare develops, manufactures and markets Probi's probiotics to pharmaceutical and healthcare companies and customers specialised in probiotics and self-care products. Revenue is derived from sales of goods ranging from raw materials in bulk to finished products in consumer packaging. The Functional Food segment develops food containing Probi's probiotics. Development takes place in partnership with leading food companies. Revenue in Functional Food mainly consists of royalties based on partner-generated sales. No business transactions are conducted between the two segments.

Consumer Healthcare

In 2019, net sales in Consumer Healthcare amounted to MSEK 583.7 (566.8). EBIT for the business area totalled MSEK 92.4 (87.5), corresponding to an operating margin of 16% (15). The increase was attributable to sales growth in the Americas and EMEA.

A slight decline in growth in the business area's largest market, North America, was noted during the year. Net sales rose 4%

and mainly pertained to premium products, which is in line with the trend of growing demand for innovative and well-documented products. During the year, three supply agreements were signed with the company's large customers in the US market. The agreements provide a stable base for continued expansion in the region. To further strengthen Probi's position in the North American market, Probi continued to strengthen its sales organisation in the US during the year.

The aim of broadening the customer base in EMEA yielded results and growth was 19% for the business area. This growth was largely due to establishment in major European markets such as Italy and Turkey, and to the continued positive trend for the Probi range in Sweden with the new products Probi® Baby, Probi® Gravid, Probi® Family and Probi® Aktiv 50+.

The fast-growing Chinese and South-east Asian markets are key strategic focus areas for Probi. In 2019, the business area's sales in this region declined 27% year-on-year. The decline was largely attributable to dampened growth in the Chinese market due to stricter regulatory requirements for dietary supplements and related health foods, although this is expected to benefit Probi's well-documented products in the long term. During the year, Probi also strengthened its sales organisation with additional employees in the region in order to increase the company's local presence and capture new business opportunities.

Functional Food

In 2019, net sales in Functional Food amounted to MSEK 42.5 (37.3). EBIT for the business area totalled MSEK 19.1 (13.6), corresponding to an operating margin of 45% (36). The growth and earnings improvement was mainly attributable to a non-recurring payment from the discontinued collaboration with a global FMCG customer.

Research and development

In 2019, Probi's research programme generated promising results, which strengthened the company's product offerings and benefited the launch of products in new fields of health. Several clinical trials completed during the year are expected to further con-

tribute to a continued solid and innovative product portfolio. Total research and development costs amounted to MSEK 39.4 (40.1), of which MSEK 8.4 (7.4) was capitalised.

One of Probi's main achievements in 2019 was the completion of a clinical trial in 326 pregnant women. This randomised, double-blinded, placebo-controlled trial was conducted at antenatal clinics in southern Sweden, with the aim of assessing the effect of Probi FerroSorb® on iron status during pregnancy. Probi FerroSorb® has previously been shown to increase iron absorption in healthy women of child-bearing age. The effect on iron status was assessed, and intake of Probi FerroSorb® led to significantly improved iron status, resulting in reduced iron deficiency but also a lower incidence of anaemia during the final stages of pregnancy compared with the control group. During the year, Probi® Gravid was launched in the Swedish market as a supplement based on this concept, while also being introduced to customers in other markets.

In line with Probi's focus on innovation and research, the company continuously invests in collaborations with prestigious academic research teams. During the year, the research collaboration with Dr Karen Scott from the Rowett Institute at the University of Aberdeen in Scotland was extended. The collaboration is focused on next-generation probiotics in order to lay the foundation for the development of new, unique products. The ongoing collaboration with Professor Michiel Kleerebezem from the Host-Microbe Interactomics Group at Wageningen University in the Netherlands has proceeded as planned and will enter the next phase in 2020.

During the year, Probi continued to work actively to ensure the publication of its research results in reputable scientific journals. The Lancet Rheumatology published the results from Probi's study of bone health in postmenopausal women, which showed a clear reduction in bone loss following intake of Probi's probiotics. The product was launched under the Probi® Osteo concept name. The European Journal of Nutrition published Probi's results from a trial of immunity in children. The trial showed that daily consumption of a combination of two patented Probi strains for a period of three months

reduced cold symptoms in pre-school children.

The collaboration project with partner company Cilag, aimed at developing an OTC (over the counter) product for the global market, was concluded after the initial evaluation stage. Probi worked closely with the partner company on the project and learnt important lessons for similar OTC projects in the future, and the ambition to develop an OTC solution for the company's most well-documented probiotic concepts in the future remains firm.

Employees

At year-end, Probi had 170 (167) employees, of whom 51% (47) were women. The average number of employees during the year was 164 (163).

Events after the balance-sheet date

In March 2020, Probi formed a joint venture with the US based Viva5 Group. The standalone company, VivaPro LLC, will focus on spore-forming bacterias and its potential commercial applications. Probi will own 49% of the shares, but has an option to acquire additional shares at a later stage to become a majority shareholder in the company.

During the first quarter of 2020, COVID-19 broke out and Probi has taken a number of measures to protect the company's operations and reduce the spread of the virus. At the time of signing this annual report, the impact had been limited and there were no confirmed cases of COVID-19 among the company's employees, limited disruptions in the supply chain and no negative impact on customer demand. At present, it is not possible to make an assessment of the extent to which this may affect the business going forward, but the company management continuously assesses the potential financial impact.

Risks and uncertainties

Probi pursues continuous efforts to identify and evaluate the various types of risks to which its operations are exposed. This work involves the analysis and evaluation of possible risks, and an assessment of their likelihood and possible implications. Actions are also taken to minimise any adverse effects that these risks would have on the business

and the company's development if they should arise. This provides Probi with a distinct impression of what the risks are and how they should be resolved.

Changes in consumer trends

An overriding social trend among consumers in many geographic markets is the continued growing interest in health, health products and a healthy lifestyle. The prevailing health trend has had a positive impact on consumer demand for probiotics and other products. Should the prevailing health trend diminish or change, and lead to a change in consumption patterns and consumer trends, this could halt or slow demand for Probi's products, which could have a negative impact on Probi's operations, financial position and earnings.

Agreements with strategically selected customers

Probi has agreements with a number of customers in various countries who market Probi's products and technology, or are planning to do so. Should one or more of these collaborations end or not lead to launches, this would have a negative impact on Probi's revenue, earnings and financial position.

Acquisitions

Probi's business strategy includes growing through acquisitions. Opportunities for this depend on the company's ability to identify suitable acquisition targets, implement the acquisitions on favourable terms for Probi and successfully integrate them into the Group. If acquisitions cannot be implemented, the company's capacity for future growth could decline. In addition, completed acquisitions may also give rise to a number of risks, such as if the due diligence process prior to an acquisition proved insufficient or defective. Such flaws could, for example, result in expected acquisition synergies not being realised or in unforeseen costs arising from the integration process, which could have a negative impact on Probi's operations, financial position and earnings.

Competition

The growing interest in probiotics entails that Probi faces increased international competi-

tion, such as in the form of increased price pressure from ingredients companies, other suppliers of probiotics and new players becoming active in the market. Competition will also come from other products with equivalent health benefits. Over time, this could entail a threat to Probi's market position and growth.

Regulatory risks

The requirements and regulations for the use of health claims for probiotics, for example, are constantly being sharpened. Since 1 July 2007, nutrition and health claims have been regulated by an EU directive (1924/2006) that applies in all EU countries, which has placed considerable restrictions on the possibility of communicating the health-related benefits of products to consumers. Regulatory processes are also being tightened in other geographic markets. Since Probi's continued expansion presumes product launches in a greater number of geographic markets, the tightening of regulatory processes in various markets could entail a risk of increased costs and delayed launches for Probi.

Patents and rights

Probi's continued development depends largely on continued successful research and the ability to protect future revenue streams from product sales with extensive patent protection. Thus, it is vital that granted patents can be maintained and that newly developed products and applications can be patented or protected in some other way. There is a risk that current or future patents, trademarks and other intellectual property rights held by Probi will not provide adequate protection against infringement and competition. Moreover, patents held by other operators could limit the potential for or impede Probi and its licencees from freely utilising a certain product or production method in specific markets.

Operations subject to permit obligations

Probi conducts operations that require permits under environmental legislation in the US. While Probi currently holds the permits required to conduct these operations, there is a risk that the company will be unable in the

future to fulfil appropriate conditions for such permits, or that the regulatory framework is changed so that additional operations become subject to permit obligations without Probi having the capacity to obtain appropriate permits. If Probi should lack requisite permits in the future for a certain part of its operations, this would have a negative impact on Probi's operations, financial position and earnings.

Supply of goods

A significant portion of Probi's future growth is based on the delivery of ready-made products in the form of powder, capsules and tablets. Probi has two manufacturing units in USA, one fermentation unit in Redmond, Washington and one manufacturing and packaging unit in Lafayette, Colorado. An unplanned production interruption can have an impact on deliveries to customers, as most of the production takes place against orders. Part of the manufacturing is done by suppliers where Probi is dependent on them complying with agreed requirements in areas such as quality, volumes and delivery dates.

Product liability

Probi could be subject to product liability claims if the company's products are alleged to have caused personal injury or property damage. Probi's insurance programme contains product liability protection. Probi's business could give rise to claims for damages that are not covered by the insurance, which could have an adverse impact on Probi's earnings and financial position.

Strategic research and development

Probi's R&D and product development encompass both proprietary efforts and collaborations with external Swedish and international researchers and organisations. However, there is no guarantee that these efforts or collaborations will lead to new launchable products, or that Probi will receive exclusive rights to any results.

Key individuals and employees

The company's future development is dependent on being able to retain employees and recruit new employees with the skills that are in demand.

Information technology

A secure and reliable IT environment with high availability is a prerequisite for conducting operations efficiently. External and internal attempts to trespass the IT environment that limit its availability or result in losses of company information could have an adverse impact on Probi's earnings and financial position.

Financial risks

Probi is exposed to several financial risks that primarily arise from the purchase and sale of products in foreign currency. Exchange and interest rates impact Probi's earnings and cash flows. The company is also exposed to liquidity risks and to credit and counterparty risks. The company's financial policy is established by the Board and contains guidelines for the management of various types of financial risk exposure. The corporate finance function in the Group is responsible for identifying and effectively limiting the Group's financial risks. For more detailed information, refer to Note 3.

Future development

Probi's business model is based on conducting research and development, obtaining patents for and documenting probiotic bacteria and developing and producing ready-made probiotic consumer products. The company's long-term objective is to continue creating profitable growth by expanding and advancing its sales in the global market for probiotic products. The global market for probiotics is expected to continue growing in the coming years. In view of this, Probi's assessment is that prospects for continued growth are favourable, and that both earnings and cash flow from operating activities will be positive in the coming year.

Guidelines for remuneration to senior executives

According to the Companies Act, the Annual General Meeting must decide on guidelines for remuneration to the CEO and other senior executives. Guidelines were adopted at the Annual General Meeting on May 7, 2019. No deviations from these guidelines have been made. Prior to the 2020 Annual General Meeting, the Board of Directors has

proposed that the remuneration guidelines be updated to adapt to the new rules that apply since 1 January 2020 regarding guidelines for remuneration to senior executives. The Board's proposal for remuneration guidelines mainly has the following content:

The fixed cash salary (base salary) shall take into account the individual's potential, areas of responsibility and experience.

The variable cash remuneration may, for the CEO, amount to a maximum of 60% of the fixed annual cash base salary and may, for the other senior executives, amount to a maximum of 50% of the fixed annual cash base salary. For senior executives employed in the American organisation, the variable cash remuneration may amount to a maximum of 100% of the fixed annual cash base salary. Variable cash remuneration shall be linked to the senior executive's fulfilment of pre-determined quantitative and qualitative goals. The goals may be financial, for example by relating to result or net sales and non-financial, for example by relating to how the individual contributes to Probi's work with matters on diversity and the maintenance and building of Probi's culture. The goals shall, among other things, aim to secure a long-term commitment for the company's progress, whereby they are expected to contribute to the successful implementation of Probi's business strategy, long-term interests and sustainability. The fulfilment of criteria for awarding variable cash remuneration shall be measured on a yearly basis.

In addition to the fixed cash salary and the annual variable cash remuneration, senior executives and other selected key employees (up to ten persons) may each year be granted a variable long-term cash bonus (LTI-bonus). The LTI-bonus shall award EPS growth during the year of inclusion, which is also the performance year (year 1). The initial grant value shall be based on reach of the performance goal and shall amount to a maximum of 7.5-37.5% of the annual salary in the year of inclusion of each participant, depending on position. The initial grant value shall be vested over the following three years (year 2-4) and shall thereafter, upon pay-out, be indexed to reflect the share price development during the vesting period; i.e. if during the vesting period the share price has

increased by 25%, the initial grant value shall upon payout of the LTI-bonus be increased by 25%. If during the vesting period the share price has declined by more than 33%, there shall be a guaranteed minimum of 33% of the grant value. If the share price has increased by more than 50% during the vesting period, the LTI-bonus payout shall be capped at 150% of the initial grant value. Should the initial grant value be the maximum value of 37.5% of the annual salary and the share price development over the vesting period be more than 50%, then the maximum payout value of the individual LTI-bonus should be 56.25% of the annual salary as per the year of inclusion. Payout of the LTI-bonus is conditional upon continued employment by the end of the vesting period (subject to customary exceptions). The costs associated with the LTI-bonus are regular personnel costs associated with cash compensation.

Further variable cash remuneration may be awarded in extraordinary circumstances, provided that such extraordinary arrangements are limited in time and only made on an individual basis, either for the purpose of recruiting or retaining senior executives, or as remuneration for extraordinary performance beyond the individual's ordinary tasks. Such remuneration may not exceed 30% of the fixed annual cash base salary and may not be paid more than once each year per individual. Any resolution on such remuneration shall be made by the Board of Directors.

For the senior executives, pensions, including health insurance, shall be based on defined contribution plans. Variable cash remuneration shall qualify for pension benefits. The pension premiums for the contribution defined pension shall follow the ITP1 plan, and shall amount to not more than 4.5% of the pensionable salary up to 7.5 income base amounts, and not more than 30% on exceeding salary. Additionally, according to applicable collective agreements, a part of the senior executive's pensionable salary may be allocated as a complement to the senior executive's pension as set out in his or her employment contract.

Other benefits may include, for example, life insurance, medical insurance and com-

pany cars, and may be provided to the extent that such benefits are deemed to be on market terms for senior executives in equivalent positions in the market where the senior executive is active. Such benefits may amount to not more than 10% of the fixed annual cash base salary.

Senior executives shall be employed until further notice. The notice period may not exceed twelve months for the CEO and nine months for other senior executives if notice of termination of employment is made by the company. Fixed cash base salary during the period of notice and severance pay may together not exceed an amount equivalent to the fixed cash base salary for twelve months. The period of notice may not exceed six months, without any right to severance pay, when termination is made by the executive.

The Board of Directors may derogate from these guidelines if the Board of Directors considers that, in a specific case, there is special cause for the derogation and a derogation is necessary to serve Probi's long-term interests, including its sustainability, or to ensure Probi's financial viability. The Remuneration Committee's tasks include preparing the Board of Directors' resolutions in remuneration-related matters. This includes any resolutions to derogate from the guidelines.

Sustainability reporting

In accordance with Chapter 6, Section 11 of the Swedish Annual Accounts Act, Probi has elected to prepare its statutory sustainability report in a document that is separate from the Annual Report. The Sustainability Report is published on the company's website www.probi.com

Ownership structure and share capital

Probi's shares have been listed on Nasdaq Stockholm since 2004. Since 1 January 2017, Probi has belonged to the Nordic Mid Cap segment, comprising companies with a market capitalisation ranging from MEUR 150 to EUR 1 billion. At 31 December 2019, Probi had 3,927 (4,222) shareholders according to Euroclear Sweden AB. On that date, Probi had two owners with shareholdings representing at least one-tenth of the votes for all shares in the company: Symrise AG, Germany, and Swedbank Robur Funds,

Sweden, with 57.8% and 11.0% of the votes, respectively. At the end of 2019, Probi's share capital amounted to SEK 58,220,625 (58,220,625), distributed among 11,644,125 shares (11,644,125). All shares are of the same class and carry one vote and equal rights to the company's assets and earnings. The Articles of Association contain no restrictions on the transferability of the shares.

At year-end, Probi held 250,000 treasury shares, corresponding to 2.1% of the total number of shares, with a quotient value of SEK 5 per share. These shares do not carry voting rights nor do they carry entitlement to dividends.

Proposed allocation of profit in the Parent Company

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

Profit brought forward	314,898,117
Share premium reserve	579,064,772
Profit for the year	101,317,555
Total	995,280,444

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

that a dividend of SEK 1.00 per share be paid to shareholders	11,394,125
that the following amount be carried forward	983,886,319
Total	995,280,444

The proposed dividend has taken into consideration that the company has treasury shares that do not qualify for a dividend. The earnings brought forward by the Group totalled TSEK 433,514 according to the consolidated statement of financial position and other contributions received amount to TSEK 600,205.

The Board's assessment is that the proposed dividend will not prevent Probi from fulfilling its commitments in the short or long term, or from implementing necessary investments.

CORPORATE GOVERNANCE REPORT

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

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

This Corporate Governance Report pertains to the 2019 financial year and has been prepared in accordance with the Swedish Annual Accounts Act and the Code's regulations. Probi's Articles of Association and additional information about Probi's Corporate Governance are available at www.probi.com, under 'Investor Relations.'

Application of the Code

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

General Meeting of Shareholders

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

The Annual General Meeting was held in Lund on 7 May 2019. The Board of Directors, auditors and Nomination Committee were elected at the AGM, which also resolved on guidelines for the remuneration of senior executives, as described in the following. The

Board of Directors was also authorised during the period prior to the 2020 AGM, on one or more occasions, to:

- make decisions regarding a new rights issue of up to a total of 1,164,412 shares. This authorisation includes the right to resolve to disapply the shareholders' preemptive rights and that payment is to be made in cash, in kind, or offsetting debt. When disapplying the shareholders' preemptive rights, the issue price is to be set on normal market terms. At the date of the resolution by the AGM, full exercise of the authorisation would have entailed 9% dilution of the share capital and voting rights. The Board did not exercise this authorisation during 2019.
- make decisions regarding the buyback of own shares. This authorisation includes acquisitions on Nasdaq Stockholm of own shares in a number that at no time exceeds 10% of all outstanding shares. According to the authorisation, any acquisition is to take place on Nasdaq Stockholm at a price within the registered price interval at the time of acquisition, meaning the spread between the highest and lowest selling price. Payment for the shares is to be made in cash. The Board did not exercise this authorisation in 2019.
- make decisions regarding the transfer of treasury shares. This authorisation includes a transfer of not more than the number of shares held by the company at the time of transfer. Any transfer may only take place at a price within the registered price span on Nasdaq Stockholm on each occasion, meaning the spread between the highest and lowest selling price. The Board was also authorised, with or without applying the shareholders' preemptive rights, to make decisions on the transfer of treasury shares in a manner other than that described above. Transfers may be made in return for cash payment, in the form of property other than cash or through the offsetting of debt. The Board did not exercise this authorisation during 2019.

Nomination Committee

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

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

The AGM on 7 May 2019 resolved that the Nomination Committee should consist of four owner representatives. Heinz-Jürgen Bertram (CEO Symrise AG) (convenor), Bengt Jeppsson (Professor at the Department of Surgery at Lund University), Marianne Flink (Swedbank Robur Funds) and Jannis Kitsakis (Fourth Swedish National Pension Fund) were re-elected as members of the Nomination Committee. The Nomination Committee's proposals are presented in conjunction with the official notification of the AGM. Shareholders who wish to contact the Nomination Committee can do so in accordance with the information provided on Probi's website: www.probi.com.

Board of Directors

According to Probi's Articles of Association, the Board is to consist of no fewer than three and no more than seven members, with no more than three deputies, and be elected at the AGM. The company's Articles of Association lack specific stipulations concerning the appointment and dismissal of Board Members and concerning amendments to the Articles of Association. The AGM on 7 May 2019 resolved to elect a Board consisting of five ordinary members with no deputies. In accordance with the Nomination Committee's proposal, the Meeting resolved on the re-election of Board Members Jean-Yves Parisot, Jonny Olsson, Charlotte Hansson and Irène Corthésy Malnoë and the new election of Jörn Andreas. Jean-Yves Parisot was re-elected Chairman of the Board. A presentation of the Board Members is available on the company's website www.probi.com and in the printed version of the 2019 Annual Report on pages 84-85.

The AGM resolves on principles and monetary limits for Board fees. For 2019, the Board's fees were fixed at KSEK 1,750, of which KSEK 500 for the Chairman of the Board and KSEK 250 for each of the other four Board members. A resolution was also made concerning remuneration for work on committees. The Chairman of the Audit Committee is to receive KSEK 100 and each member KSEK 50. The Chairman of the Remuneration Committee is to receive KSEK 30 and each member KSEK 20.

For a brief period, Board members may perform consulting services for Probi. This is pursuant to a Board decision and only if it is deemed to be the most cost-efficient and advantageous option for the company. This type of consulting fee is recognised in the Annual Report. For information regarding Board fees, see Notes 10 and 31.

CEO

A presentation of the CEO is available on the company's website www.probi.com and in the printed version of the 2019 Annual Report on page 86.

Auditors

The 2019 AGM elected the registered accounting firm Ernst & Young AB with Authorised Public Accountant Peter Gunnarsson as auditor-in-charge for the period up to the 2020 AGM.

Work of the Board and its formal work procedures

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

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

The Board annually prepares a procedure regulating the division of work and responsibilities between the Board, Chairman and CEO. The work procedure also defines the spheres of responsibility of the Audit and Remuneration Committees. This work proce-

cedure is adopted at the Board's statutory meeting, which is held in conjunction with the AGM.

The Chairman of the Board is responsible for continuously monitoring the company and ensuring that all Board Members continuously receive the relevant information for making decisions and evaluating Probi. The Chairman must consult with the CEO on strategic issues, supervise Board meetings and ensure that Board matters do not contravene the regulations regarding conflicts of interest stipulated by the Companies Act. The Board annually establishes instructions for the CEO. This include guidelines for the ongoing administration, accounting and asset management and internal control of the company. These instructions also cover the CEO's authorisations and disclosure requirements towards the Board.

The Board is to convene no fewer than four scheduled Board meetings distributed equally during the year and hold one statutory meeting. In addition to regular items, the scheduled Board meetings in 2019 focused primarily on strategic and structural issues involving Probi's long-term development and growth. The Board of Directors also held a further five minuted meetings, mainly by telephone, in 2019. These meetings addressed matters relating to such items as strategic investment decisions, negotiations of commercial agreements and the adoption of quarterly and year-end reports.

Audit Committee

The task of the Audit Committee is to assist the Board of Directors in its fulfilment of the Board's supervisory obligations in terms of internal control, audits, any internal audits, risk management, accounting and financial reporting, and to prepare matters involving the procurement of audit and other services as well as preparing certain accounting and audit matters that are to be addressed by the Board. The sphere of responsibility of the Audit Committee is defined in the Board of Directors' work procedure and in the instructions for the Audit Committee. The Audit Committee maintains continuous contact with the company's auditors, who personally report their findings and observations at least twice annually. The auditors also provide information on the priority areas that future audits are to examine, while the Audit Committee informs the auditors about issues or areas that it wishes them to specifically highlight.

Charlotte Hansson was appointed Chair of the Audit Committee and Jörn Andreas

and Jonny Olsson were appointed members of the Committee. The company's auditor and CFO regularly attend the Audit Committee's meetings.

Remuneration Committee

The task of the Remuneration Committee is to assist the Board of Directors by providing proposals concerning remuneration issues and regularly monitoring and evaluating remuneration structures and remuneration levels for the CEO and other members of the company's executive management. The Committee's work also includes providing proposals concerning policies for remuneration and other terms and conditions of employment for the CEO and senior executives that are to be resolved by the AGM. The sphere of responsibility of the Remuneration Committee is defined in the Board of Directors' work procedure and in the instructions for the Remuneration Committee. For information regarding salaries and remuneration of the CEO and other senior executives, see Note 10. Jean-Yves Parisot was appointed Chairman and Jonny Olsson member of the Remuneration Committee.

Board members' meeting attendance in 2019

Name	Year elected	Independent of the company	Independent of major shareholders	Attendance at Board meetings	Attendance at Audit Committee meetings	Attendance at Remuneration Committee meetings
Jean-Yves Parisot	2015	Yes	No	9/9		1/1
Jan Nilsson*	2010	Yes	Yes	3/9		
Jonny Olsson	2015	Yes	Yes	9/9	8/8	1/1
Anna Malm Bernsten*	2017	Yes	Yes	3/9	2/8	
Charlotte Hansson	2017	Yes	Yes	9/9	8/8	
Scott Bush*	2017	Yes	Yes	3/9		
Irène Corthésy Malnoë	2018	Yes	Yes	9/9		
Jörn Andreas	2019	Yes	No	5/9	5/8	

* stepped down as Board member at the AGM on 7 May 2019

The Board's internal control report

According to the Companies Act and the Swedish Code of Corporate Governance, the Board is responsible for the internal control of financial reporting. This report is limited to the internal control of financial reporting.

Authorisation and responsibility are documented and recognised in internal guidelines and instructions. These encompass matters such as the division of responsibilities among the Board, the Audit Committee, the Remuneration Committee and the CEO, accounting and reporting instructions and attestation instructions for the Parent Company. The purpose of the instructions in these documents is to provide reasonable assurance regarding the quality and reliability of the company's external financial reporting and to minimise the risk of irregularities and improper benefits to other parties at the expense of the company.

The Board monitors the company's financial development through reporting at Board meetings and through continuous financial reporting. The CEO is responsible for prepa-

ring and presenting reports at each Board meeting, with the following principal content for the period in question:

- Sales and market development and status of R&D projects.
- Balance sheet, income statements and cash flow statements.
- Investments and tied-up capital.
- Key ratios.
- Forecasts for current quarters and full-year.

The CEO must also, in accordance with the established time schedule, submit a financial report to the Board members.

Quality of financial reporting

The Board is responsible for ensuring the quality of the company's financial reporting. The information submitted by executive management is continuously evaluated by the Board and the Audit Committee. In this work, it is essential to ensure that actions are taken concerning potential shortcomings that are detected and that the adopted quality

improvements are implemented. The Remuneration Committee accounts for this work concerning contact with the company's auditor. Considering the size and risk exposure of the company, and the follow-up and control procedures, it has not been deemed warranted to establish a specific internal audit function. Each year, the question of establishing a specific internal audit function is to be addressed by the Board.

Information and communication

The Board has adopted a communication policy that specifies procedures and systems designed to ensure that Probi provides the market with relevant, reliable, correct and current information concerning the company's development and financial position.

FINANCIAL STATEMENTS

Consolidated statement of comprehensive income

Currency: SEK 000s	Note	2019	2018
Net sales	6,7	626,192	604,117
Operating expenses			
Cost of goods sold	8,10,13,29	-334,546	-326,087
Gross profit		291,646	278,030
Sales and marketing expenses	8,10,13	-105,113	-91,854
Research and development expenses	8,10,13	-31,046	-32,728
Administrative expenses	8,9,10,13	-45,989	-54,700
Other operating income		2,044	2,368
Operating profit/EBIT	6	111,542	101,116
Financial income		1,423	1,565
Financial expenses	13	-4,123	-6,275
Exchange-rate gain/loss from financing activities		681	2,154
Financial result	11	-2,019	-2,556
Earnings before income taxes		109,523	98,560
Income taxes	12	-23,636	-22,310
Net income (attributable in its entirety to Parent Company shareholders)		85,887	76,250
Other comprehensive income			
Components that will be reclassified to net income			
Exchange rate difference resulting from the translation of foreign operations		36,040	67,003
Cash flow hedge		99	526
Income taxes payable on these components		-21	-116
Total other comprehensive income		36,118	67,413
Total comprehensive income for the year		122,005	143,663
Earnings per share before and after dilution, SEK		7.54	6.69

Consolidated statement of financial position

Assets			
Currency: SEK 000s	Note	2019	2018
Non-current assets			
Intangible assets			
Capitalised development costs	14	42,775	44,294
Customer base	15	297,832	311,177
Technology and other intangible assets	16	131,317	138,424
Goodwill	17	316,202	304,561
Activated customer remuneration	31	9,822	-
Total intangible assets		797,948	798,456
Tangible assets			
Buildings and land	18	1,415	2,004
Plant and machinery	19	11,392	17,910
Equipment, tools, fixtures and fittings	20	2,958	3,478
Work in progress	21	31,021	5,770
Right-of-use assets	13	60,535	-
Total tangible assets		107,320	29,162
Financial assets			
Deferred tax assets	12	6,008	1,530
Total financial assets		6,008	1,530
Total non-current assets		911,276	829,148
Current assets			
Inventories	23	79,497	68,676
Current receivables			
Trade receivables	24,25	83,341	106,188
Other current receivables	24,29	4,577	938
Prepaid expenses and accrued income	26	3,957	5,181
Total current receivables		91,875	112,307
Cash and cash equivalents	24	206,960	199,299
Total current assets		378,332	380,282
Total assets		1,289,608	1,209,430

Shareholders' equity and liabilities			
Currency: SEK 000s	Note	2019	2018
Equity			
Share capital		58,221	58,221
Other contributions received		600,205	600,205
Cumulative translation differences and other reserves		60,186	24,069
Accumulated profit		433,514	345,903
Total equity		1,152,126	1,028,398
Non-current liabilities			
Lease liabilities	13,24	46,612	-
Other non-current liabilities		4,952	6,772
Total non-current liabilities		51,564	6,772
Current liabilities			
Borrowings	24,27	-	118,481
Trade payables	24	37,631	31,459
Tax liabilities		11,996	-
Lease liabilities	13,24	14,556	-
Other current liabilities	24,29	6,362	5,809
Accrued expenses and deferred income	28	15,372	18,511
Total current liabilities		85,918	174,260
Total equity and liabilities		1,289,608	1,209,430

Consolidated statement of cash flows

Currency: SEK 000s	Note	2019	2018
Net income		85,887	76,250
Adjustments to reconcile net income with cash provided from operating activities			
Income taxes		23,636	22,310
Interest result		2,082	4,473
Amortisation, depreciation and impairment of non-current assets		71,891	53,821
Other non-cash expenses and income		-162	2,995
Cash flow before working capital changes		183,334	159,849
Changes in trade receivables and other current assets		11,744	-29,363
Change in inventories		-8,359	6,095
Changes in trade payables and other current liabilities		3,229	11,290
Income taxes paid		-16,337	-20,005
Cash flow from operating activities		173,611	127,866
Investing activities			
Payments for investing in intangible assets	14,15,16,17	-8,418	-10,237
Payments for investing in property, plant and equipment	18,19,20,21	-26,731	-3,802
Divestment of property, plant and equipment	20	32	-
Cash flow from investing activities		-35,117	-14,039
Financing activities			
Interest paid		-2,986	-5,478
Interest received		1,423	1,565
Redemption of bank borrowings	27	-119,000	-70,200
Lease commitments paid		-12,451	-
Cash flow from financing activities		-133,014	-74,113
Net change in cash and cash equivalents		5,480	39,714
Effects of changes in exchange rates		2,181	4,038
Total changes		7,661	43,752
Cash and cash equivalents, 1 January		199,299	155,547
Cash and cash equivalents, 31 December		206,960	199,299

Consolidated statement of changes in shareholders' equity

Currency: SEK 000s	Share capital	Other contributions received	Cumulative translation differences	Reserves	Accumulated profit	Total equity
Opening balance, 1 Jan 2018	58,221	600,205	-43,073	-271	269,653	884,735
Net income	-	-	-	-	76,250	76,250
Other comprehensive income	-	-	67,003	410	-	67,413
Total comprehensive income	-	-	67,003	410	76,250	143,663
Dividends	-	-	-	-	-	-
Total transactions with shareholders	-	-	-	-	-	-
Closing balance, 31 Dec 2018	58,221	600,205	23,930	139	345,903	1,028,398
Effects of IFRS 16 adoption					1,723	1,723
Opening balance, 1 Jan 2019	58,221	600,205	23,930	139	347,627	1,030,122
Net income	-	-	-	-	85,887	85,887
Other comprehensive income	-	-	36,039	78	-	36,117
Total comprehensive income	-	-	36,039	78	85,887	122,004
Dividends	-	-	-	-	-	-
Total transactions with shareholders	-	-	-	-	-	-
Closing balance, 31 Dec 2019	58,221	600,205	59,969	217	433,514	1,152,126

Parent Company's income statement

Currency: SEK 000s	Note	2019	2018
Net sales	7	368,372	297,465
Other revenue	7	5,864	5,381
Total operating revenue	7	374,236	302,846
Cost of goods sold	8,10,13,29	-122,760	-101,167
Gross profit		251,476	201,679
Sales and marketing expenses	8,10,13	-55,673	-48,674
Research and development expenses	8,10,13	-31,084	-32,728
Administrative expenses	8,9,10,13	-34,183	-38,285
Operating profit		130,536	81,992
Interest income		322	6,266
Interest expenses		-698	-5,451
Other financial income		2,767	17,405
Other financial expenses		-3,241	-16,081
Financial result	11	-850	2,139
Earnings before income taxes		129,686	84,131
Income taxes	12	-28,368	-18,958
Net income		101,318	65,173

Other comprehensive income

Currency: SEK 000s	2019	2018
Net income	101,318	65,173
Components to be reclassified to net income		
Cash flow hedge	100	526
Income taxes payable on these components	-21	-116
Total other comprehensive income	79	410
Total comprehensive income	101,397	65,583

Parent Company's balance sheet

Assets			
Currency: SEK 000s	Note	2019	2018
Non-current assets			
Intangible assets			
Capitalised development costs	14	42,775	44,294
Technology and other intangible assets	16	12,298	11,526
Activated customer remuneration	31	9,822	-
Total intangible assets		64,895	55,820
Tangible assets			
Buildings and land	18	-	340
Property, plant and equipment	20	2,282	2,642
Total tangible assets		2,282	2,982
Financial assets			
Participations in Group companies	22	909,320	909,320
Total financial assets		909,320	909,320
Total non-current assets		976,497	968,122
Current assets			
Inventories	23	8,503	3,522
Current receivables			
Trade receivables	24,25	57,004	65,476
Other current receivables	24,29	3,489	820
Prepaid expenses and accrued income	26	3,754	2,627
Total current receivables		64,247	68,923
Cash and bank balances	24	113,395	133,361
Total current assets		186,145	205,806
Total assets		1,162,642	1,173,928

Shareholders' equity and liabilities			
Currency: SEK 000s			
	Note	2019	2018
Restricted equity			
Share capital (no. of shares: 11,644,125)		58,221	58,221
Statutory reserve		21,140	21,140
Reserve for capitalised development costs		33,292	32,254
Total restricted equity		112,653	111,615
Non-restricted equity			
Share premium reserve		579,065	579,065
Accumulated profit		314,898	250,686
Net income		101,318	65,173
Total non-restricted equity		995,281	894,924
Total equity		1,107,934	1,006,539
Provisions			
Deferred tax liability	12	61	40
Total provisions		61	40
Non-current liabilities			
Liabilities to Group companies		4,035	4,035
Total non-current liabilities	24	4,035	4,035
Current liabilities			
Borrowings	24,27	-	118,481
Trade payables	24	24,968	26,077
Short-term payable, Group companies		1,892	2,090
Tax liabilities		11,925	-
Other current liabilities	24,29	4,662	5,140
Accrued expenses and deferred income	28	7,165	11,526
Total current liabilities		50,612	163,314
Total equity and liabilities		1,162,642	1,173,928

Parent Company's cash flow statement

Currency: SEK 000s	Note	2019	2018
Net income		101,318	65,173
Adjustments to reconcile net income with cash provided from operating activities			
Income taxes		28,368	18,958
Interest result		913	-136
Amortisation, depreciation and impairment of non-current assets		10,609	8,358
Other non-cash expenses and income		-256	181
Cash flow from operating activities before working capital changes		140,952	92,534
Changes in trade receivables and other current assets		-5,406	-24,335
Change in inventories		-4,981	1,087
Changes in trade payables and other current liabilities		-5,604	16,492
Income taxes paid		-16,337	-20,005
Cash flow from operating activities		108,624	65,773
Investing activities			
Payments for investing in intangible assets	14,15,16,17	-8,418	-10,237
Payments for investing in property, plant and equipment	18,19,20,21	-778	-537
Redemption of loans, subsidiaries	20	-	44,992
Cash flow from investing activities		-9,196	34,218
Financing activities			
Interest paid		-717	-5,478
Interest received		323	6,173
Redemption of bank borrowings	27	-119,000	-70,200
Realised currency changes, bank borrowings		-	12,208
Dividends paid		-	-
Cash flow from financing activities		-119,394	-57,297
Net change in cash and cash equivalents		-19,966	42,694
Effects of changes in exchange rates		-	-
Total changes		-19,966	42,694
Cash and cash equivalents, 1 January		133,361	90,667
Cash and cash equivalents, 31 December		113,395	133,361

Parent Company's statement of changes in shareholders' equity

Currency: SEK 000s	Share	Statutory	Reserve for capitalised development expenses	Share premium reserve	Accumulated profit	Total equity
Opening balance, 1 Jan 2018	58,221	21,140	24,843	579,065	257,686	940,955
Net income	-	-	-	-	65,173	65,173
Other comprehensive income ¹	-	-	-	-	411	411
Total comprehensive income	-	-	-	579,065	65,584	65,584
Reserve for capitalised development costs	-	-	7,411	-	-7,411	-
Total transfer between categories in equity	-	-	7,411	-	-7,411	-
Dividends	-	-	-	-	-	-
Total transactions with shareholders	-	-	-	-	-	-
Closing balance, 31 Dec 2018	58,221	21,140	32,254	579,065	315,859	1,006,539
Opening balance, 1 Jan 2019	58,221	21,140	32,254	579,065	315,859	1,006,539
Net income	-	-	-	-	101,318	101,318
Other comprehensive income ¹	-	-	-	-	77	77
Total comprehensive income	-	-	-	-	101,395	101,395
Reserve for capitalised development costs	-	-	1,038	-	-1,038	-
Total transfer between categories in equity	-	-	1,038	-	-1,038	-
Dividends	-	-	-	-	-	-
Total transactions with shareholders	-	-	-	-	-	-
Closing balance, 31 Dec 2019	58,221	21,140	33,292	579,065	416,216	1,107,934

¹ Of which 77 (411) pertains to reserve for fair value of cash-flow hedges.

NOTES

Note 1 General information

Probi Aktiebolag (publ) with its registered residence in Lund, Sweden, was founded 1991 and is a leading player in the field of probiotics.

Probi's vision is to be a world leader in probiotics and to help people live healthier lives. With world-class research and effective products, Probi is the natural choice for customers, employees and partners who want to share our passion for probiotics.

Probi offers dedicated probiotic expertise and partnership all the way from R&D to finished products. Probi's manufacturing is certified according to Good Manufacturing Practice (GMP) and produces proven and effective probiotics in custom-made formats with value-adding delivery technologies.

The company's research relates to living microorganisms with scientifically proven health benefits. Fields of research are gut health, immune system and nutrient absorption, iron absorption, bone health and stress and recovery. Probi's customers are leading companies active in the Consumer Healthcare and Functional Food business areas.

The Group comprises the Parent Company, Probi AB, and four subsidiaries: Probi Asia-Pacific Pte. Ltd., Probi USA Inc., Probi Food AB (dormant) and Probi Feed AB (dormant). In turn, Probi AB is a subsidiary of Symrise AG, Corp. Reg. No. HRB 200436, with its registered office in Holzminden, Germany. Consolidated financial statements for Symrise AG are available at www.symrise.com.

Probi's shares are listed on Nasdaq Stockholm, Mid Cap.

At the end of the reporting period, the number of shares outstanding was 11,394,125 (11,394,125). The average number of shares outstanding was 11,394,125 (11,394,125). The company has no outstanding convertible loans or warrants, so dilution does not occur. In 2011, Probi bought back its own shares and at the end of 2019, held a total of 250,000 shares in treasury.

Note 2 Accounting and measurement policies

The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act, 'RFR 1, Supplementary accounting regulations for Groups' and International Financial Reporting Standards (IFRS).

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

New and revised standards

For the 2019 financial year, the Group applied IFRS 16 Leases to replace IFRS 17 Revenue from Contracts with Customers for the first time. The main purpose of the new standard is to recognise operating leases in the balance sheet. Probi has identified about ten leases that are affected by the new standard. These leases mainly relate to rental fees for premises and company cars, but a few leases also relate to technical equipment. None of the agreements have an extension option. Probi has decided to apply the simplified approach for transition to IFRS 16, which means the effects of the standard have been adjusted in the opening balances for the 2019 financial year, without

restating the comparative figures. The lease liability is measured at the present value of remaining lease payments using the incremental borrowing rate at 1 January 2019. In addition, the asset is measured at an amount corresponding to the lease liability, adjusted for pre-paid expenses. Probi has decided not to recognise short-term leases and leases for which the underlying asset has a low value according to the new standard. Probi has calculated an average incremental borrowing rate of 3.4% based on a borrowing rate adjusted by a risk factor for the economic environment in which the transaction occurs.

The effects of the new IFRS 16 standard on the income statement and balance sheet are presented in the tables below.

EFFECTS OF IFRS 16 (KSEK)	
Assets	
Right-of-use assets	71,729
Prepaid expenses	-1,071
Liabilities	
Lease liabilities	70,658
Deferred tax assets	237
Other non-current liabilities	-1,960
Net effect on shareholders' equity	1,723
Remaining lease payments for operating leases at 31 December 2018	
78,589	
Exempted leases	
short-term leases	-135
low-value leases	-946
Effects of discounting with average incremental borrowing rate at 1 January 2019	-6,850
Recognised liabilities attributable to adoption of IFRS 16 at 1 January 2019	70,658
Liabilities attributable to finance leases at 31 December 2018	-
Lease liabilities at 1 January 2019	70,658
Depreciation of leases	-14,199
Lease expenses	14,691
Operating profit (EBIT)	492
Financial costs	-2,269
Tax	434
Earnings effect for the period	-1,343

The IASB has submitted the interpretative statement IFRIC 23 Uncertainty over income tax treatments, which, with effect from 1 January 2019, provides clarification on how to assess and report a transaction in the event of uncertainty in income tax management. The company has not identified any transactions with this type of uncertainty and the assessment is that the new guidance will not affect the accounts for 2019.

New and revised accounting standards and interpretations not yet effective

No new or revised standards have been identified that will affect the company's accounts.

2.1 Basis of preparation of the consolidated financial statements

The Parent Company's functional currency is the Swedish krona (SEK), which is also the reporting currency for both the Parent Company and the Group.

All amounts stated have been rounded to the nearest thousand kronor, unless otherwise stated. The valuation basis is the cost, unless otherwise stated.

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

The Parent Company applies the same accounting policies as the Group, with the exceptions of IFRS 16 Leases and supplements stipulated in RFR 2 Accounting for legal entities. The accounting policies for the Parent Company are stipulated in section 2.16 entitled "The Parent Company's accounting policies".

2.2 Consolidated financial statements

The consolidated financial statements include the financial statements of the Parent Company and for those of all subsidiaries. All companies over which the Group obtained control, according to the requirements of IFRS 10, are fully consolidated as subsidiaries. Subsidiaries are included in the consolidated financial statements from the date on which the controlling influence is transferred to the Group. Subsidiaries are excluded from the consolidated financial statements from the date on which the controlling influence ceases.

Balance sheets of foreign subsidiaries are measured at the exchange rate on the closing day and income statements at the average exchange rate. Exchange rates are obtained from the Swedish Riksbank.

2.3 Segment reporting

The Management Group has analysed the Group's internal reporting and determined that the Group's operations are controlled and evaluated according to the following segments:

- **Consumer Healthcare:** develops, manufactures and markets Probi's probiotics. Customers are pharmaceutical companies and other companies specialised in probiotics and self-care products. Revenue is derived from sales of goods ranging from raw materials in bulk to finished products in consumer packaging.
- **Functional Food:** develops food that contains Probi's probiotics. Development takes place in partnership with food companies. Development takes place in partnership with leading food companies. Revenues are mainly derived from royalties based on partner-generated sales.

Sales and gross profit are recognised for this segment, and monitored on a regular basis by the CEO (the highest ranking decision-maker) together with management. The segments' assets are not monitored against the company's total assets. For the 2020 financial year, the company's segment reporting will be changed and results will be reported per region. This reflects how the company will be organised moving forward. For further information about segment reporting, see Note 6.

2.4 Net sales

Probi's net sales comprise revenue from sales of own products and royalty revenue from business partners who conduct licensed sales of goods containing Probi's products. Probi recognises revenue when the performance obligation has been met for each of the company's operations, as

described per revenue category below. The performance obligation is the actual goods or royalty, and revenue is recognised in the period when it was provided. Probi's payment terms range from advance payments to 90 days, depending on delivery-specific factors. For further information about the Group's allocation of revenue, refer to Note 7.

- **Income from goods sold:** Income from goods sold is recognised at the point in time when the goods are transferred to the customer, in accordance with agreed delivery terms. Any customer discounts reduce the income in the corresponding period.
- **Royalty revenue:** Royalty revenue is related to product distribution in a distinct market and these agreements constitute obligations over a period of time and revenue is recognised as the performance obligations are fulfilled. Royalty revenue is mainly recognised as a percentage based on the licensee's recognition of the market value of consumer products containing Probi's products and ingredients.

2.5 Income tax

Current income tax includes tax payable or recoverable in respect of the current year, and adjustments of current tax in respect of prior years. Deferred tax is calculated on the temporary differences arising between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets referring to loss carryforwards or other future fiscal deductions are recognised to the extent that it is likely that the deductions can be offset against surpluses in conjunction with future taxation.

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

2.6 Intangible assets

- **Goodwill:** Goodwill is tested at least annually for impairment and is measured at cost less accumulated impairment losses. Goodwill impairments are not reversed. Gains or losses on the sale of a unit include the residual carrying amount of the goodwill referring to the divested unit. Goodwill is allocated among the smallest cash-generating units in connection with impairment testing.
- **Capitalised development costs:** Research costs are expensed on an ongoing basis. Development costs are recognised as assets from the date on which it is deemed that the project or activity to which they relate will lead to a technically and commercially viable product or lead in some other way to future economic benefit for the company. When Probi deems that the criteria with regard to identifiability, control, future economic benefit and the ability to reliably measure cost have been met, these development costs are capitalised. Capitalised development costs include direct costs for materials, services and personnel, with a premium for a reasonable portion of indirect costs. Development costs recognised as assets are amortised over their expected useful life, which is normally five years. Amortisation commences when the asset is ready for use and charged to cost of goods sold. The value of capitalised assets not yet ready for use is tested annually for impairment. Such testing could lead to the value of the asset being impaired. The asset's carrying amount is reduced and the reduction is recognised in operating profit as an impairment loss. Capitalised assets can also be scrapped. In which case the entire carrying

amount of the asset will be derecognised from the statement of financial position and recognised in operating profit as a disposal.

- **Customer base:** The customer base is a part of the intangible assets identified in the acquisition of Nutraceutix, which became effective on 3 October 2016. The amortisation period for the customer base is 15 years. The asset is tested at least once annually for impairment.
- **Technology and other intangible assets:** Technology and other intangible assets are part of the intangible assets identified in the acquisition of Nutraceutix, which became effective on 3 October 2016. The amortisation period for technology is 15 years and 10 years for other intangible assets. Other intangible assets also include patent expenses with an amortisation period of 10 years. Annual fees and other additional fees are expensed on an ongoing basis. The asset is tested at least once annually for impairment.

2.7 Tangible assets

Tangible assets are measured at cost less depreciation. The cost includes expenses that are directly attributable to the acquisition of the asset. Additional charges are added to the carrying amount of the asset or recognised as a separate asset, depending on which method is appropriate, and only when it is likely that the future economic benefits associated with the asset will accrue to the Group, and when the cost of the asset can be reliably measured.

All other forms of repairs and maintenance are recognised as costs in profit or loss during the period in which they arise.

Tangible assets are depreciated using the straight-line method as follows:

- Buildings and land, which in Probi's case refers to right-of-use assets and leasehold improvements, are depreciated over the remaining term of the current lease.
- Plant and machinery 3-10 years.
- Equipment, tools, fixtures and fittings 3-10 years.

Gains on the divestment of tangible assets are recognised under Other operating income, and losses under Operating expenses.

2.8 Impairment of non-financial assets

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

2.9 Leases

As of the 2019 financial year, the Group has applied the new standard IFRS 16 Leases, which means that all leases, except for short-term and low-value leases, are recognised on the balance sheet. These exceptions are recognised on a straight-line basis over the lease term as an operating expense. Probi has identified about ten leases that are affected by the new standard. See Note 2 'New and changed standards' and Note 13 for further information. For the accounting policies applied in 2018, refer to the 2018 Annual Report, Note 2.9.

2.10 Financial instruments

The Group's financial instruments are classified and recognised in the balance sheet in accordance with IFRS 9 and include cash and cash

equivalents, accounts receivable, accounts payable, bank loans and currency forward contracts.

- **Cash and cash equivalents:** Cash and cash equivalents include cash and bank balances. Cash and cash equivalents do not include any current investments.
- **Accounts receivable:** Accounts receivable arise when the Group supplies goods or services directly to a customer without intending to trade in the receivable. Accounts receivable are recognised at nominal value less any decline in value. The Group applies the simplified method for calculating expected credit losses. This method entails that the expected losses throughout the term of the receivable are used as the starting point for accounts receivable. The expected credit loss rates are based on qualitative judgements, the customers' payment history and the number of days of delays. Accounts receivable are written off when there is no reasonable expectation of repayment. Credit losses on accounts receivable are recognised in EBIT. For further information, refer to Note 25.
- **Trade payables:** Accounts payable are commitments to pay for goods or services acquired in operating activities from suppliers. Accounts payable are classified as current liabilities if they fall due within one year; otherwise they are recognised as non-current liabilities.
- **Receivables and liabilities in foreign currencies:** Receivables and liabilities in foreign currencies are recognised at the closing-day rate. Exchange-rate effects on operating receivables and liabilities are recognised in EBIT, while exchange-rate effects on financial receivables and liabilities are recognised in net financial items.
- **Bank loans:** The Group's liability to external credit institutions is measured at amortised cost.
- **Currency forward contracts:** All contracts pertain to hedging of currency exposure resulting from customer receipts in USD and supplier payments in USD and are initially and subsequently measured at fair value in the balance sheet. When applying hedge accounting, the relationship between the hedging instrument and the hedged item is documented on an ongoing basis. An assessment of the hedge effectiveness is also documented, both at the inception of the hedge and on an ongoing basis. Effectiveness refers to the degree to which fair value and cash flow changes in the hedging instrument offset corresponding changes in the hedged item. If the hedge accounting criteria are met, the effective portion of change in fair value when derivatives held for cash flow hedges are remeasured is recognised in other comprehensive income and accumulated in the hedging reserve in shareholders' equity. The cumulative hedging gain or loss that was recognised in the hedging reserve is reversed to profit or loss in the same period as the hedged cash flow affects profit or loss. Measurement gains/losses from the derivative financial instrument will be reclassified to sales or cost of goods sold depending on the underlying transaction (accounts receivable or accounts payable in foreign currencies). After reclassification, these hedging gains and losses will be offset against the actual currency gains and losses from operating business in cost of goods sold. Measurement gains/losses are recognised in the financial result insofar as currency risk hedges are used to hedge the financial activity. Any ineffective portion of the change in value is recognised immediately in profit or loss. If the hedging relationship is interrupted but cash flow is still expected to occur, the cumulative change in value is recognised in the hedging reserve until the underlying cash flow for the hedging transaction is no longer expected to occur, and the cumulative

change in value recognised in the hedging reserve is immediately transferred to profit or loss. In 2019, Probi applied hedge accounting for derivatives in order to hedge expected operating flows in USD. Hedge accounting was not applied for derivatives whose purpose is to hedge financial receivables and liabilities. See Note 29 for further information about the financial derivatives.

2.11 Inventories

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

2.12 Provisions

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

2.13 Remuneration of employees

Pensions

Pensions are classified as defined-contribution or defined-benefit plans. Obligations resulting from defined-contribution plans are fulfilled by paying premiums to independent authorities or companies that administrate the plans. Most of Probi's employees in Sweden are covered by the ITP plan 1 via continuous payments to Collectum.

This is recognised as a defined-contribution scheme. The majority of Probi's employees in the US are covered by a 401(k) plan, which is a defined-contribution plan. All pension plans are thus recognised as defined-contribution plans over the period during which the employees performed the service to which the contribution relates.

Severance payments

Severance payments are made when an employment contract is terminated by Probi prior to pensionable age or when an employee accepts voluntary redundancy in exchange for such payment. A severance payment is recognised when there is an obligation that employees be made redundant in accordance with set rules, without the option of re-employment, or when there is an obligation to provide remuneration upon termination of employment based on an offer made to encourage the individual to take voluntary redundancy.

Bonus plans and variable remuneration

Probi recognises a liability and a cost for bonus plans and variable remuneration when there is a legal obligation to do so according to the employment agreement or after a special decision by the Remuneration Committee.

2.14 Acquisition and sale of treasury shares

When acquiring and selling treasury shares, the proceeds, including fees, are recognised as a decrease or increase in shareholders' equity. Repurchased shares are not recognised as an asset in the balance sheet and any gain or loss is not recognised in profit or loss.

2.15 Statement of cash flows

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

2.16 Parent Company's accounting policies

The Parent Company applies the same accounting policies as the Group, with the exceptions and supplements stipulated in "RFR 2 Accounting for legal entities" and in accordance with the Swedish Annual Accounts Act (ÅRL). This means that the Parent Company prepares its financial statements using all IFRSs adopted by the EU, when this is possible within the framework of the Swedish Annual Accounts Act, and with regard to the relationship between reporting and taxation. The Parent Company posts a provision to the development cost reserve in restricted equity, in accordance with the Swedish Annual Accounts Act

The Parent Company annually impairment tests participations in subsidiaries based on analyses of future cash flows in the subsidiaries. If events or changes in circumstances indicate that an impairment loss may need to be recognised, then tests are carried out more frequently.

The Parent Company recognises revenues from secondary activities as Other Income.

Amended accounting policies

IFRS 16 Leases, which superseded IAS 17 on 1 January 2019, is not applied by the Parent Company. Leases are expensed linearly over the lease period.

New and revised accounting standards and interpretations not yet effective

No new or revised standards have been identified that will affect the company's accounts.

Note 3 Financial risk factors

Probi's business activities are exposed to various financial risks. These can be divided into market risks (including currency risks and interest rate risks), credit risks and liquidity risks. Probi's Financial Policy, which describes the management of financial risks, is revised and adopted by the Board on an annual basis.

3.1 Market risk

Currency risk

Probi is exposed to several financial risks that primarily arise from the purchase and sale of products in foreign currency. Exchange rates affect the Group's earnings and cash flows. In 2019, 90% of Probi's revenue was billed in foreign currencies, of which 77% in USD and 13% in EUR. The company's financial policy is established by the Board and contains guidelines for the management of various types of financial risk exposure. The objective is to minimise currency exposure, and thus the currency risk, to the greatest possible extent. According to the company's financial policy, the average hedge ratio, i.e. hedged exposure as percentage of total exposure, shall be 75%.

The Board has approved currency hedging through the use of forward contracts with maturities of up to twelve months, provided that the arrangement qualifies for hedge accounting. The corporate finance function in the Group is responsible for identifying and effectively limiting the Group's financial risks.

For more information, refer to Note 29.

A sensitivity analysis shows that the effect of a 5% change in the USD/SEK exchange rate on operating profit in 2019 would have been +/- MSEK 1.2, and \pm MSEK 47.2 on shareholders' equity.

Interest-rate risk

At the end of the financial year, the Probi Group had no external loans and no interest-rate risk therefore exists. In the event that the company's credit facilities are used, interest-rate risk exposure will arise. The company will then assess whether reasonable changes in interest rates would affect the Group's earnings so materially that there would be a need to hedge interest rates through financial instruments.

3.2 Credit risk

Credit risk is related to the counterparties' creditworthiness and requires a measurement of whether the counterparty can fulfil its obligations. The customers' financial performance is monitored on an ongoing basis. During recent years, Probi has suffered no material bad debt losses. For further information, see Note 25.

Probi minimizes its counterparty credit risk in financial transactions by entering into transactions only with leading financial institutions and with industrial companies that have a high credit rating (BBB + or higher), and investing in liquid cash funds only with financially secure institutions and companies (BBB + or higher).

3.3 Liquidity risk

Cash-flow forecasts are established regularly to ensure that the Group has sufficient cash funds to satisfy requirements in operating activities. For the portion of cash and cash equivalents that are not required for operating activities, alternative investments may be considered if this can be expected to generate a better return on investment.

Note 4 Important estimates and assessments for accounting purposes

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

Impairment testing of capitalised development costs

In 2019, Probi carried out impairment tests to determine the recoverable amount of the projects that had been capitalised at 31 December 2019. The value in use, meaning the present value of the anticipated future cash flow from the products encompassed by the capitalised development costs, did not indicate any impairment requirement. Accordingly, with reasonable assurance, these costs will generate revenues for Probi in the years ahead.

Goodwill impairment testing

Goodwill is tested annually for impairment and measured at cost less accumulated impairment losses. Goodwill impairments are not reversed. Gains or losses on the sale of a unit include the residual carrying amount of the goodwill referring to the divested unit. Goodwill is allocated among the smallest cash-generating units in connection with impairment testing. Any acquired goodwill is allocated at the acquisition date to the cash-generating units that are expected to benefit from the synergies deriving from the business combination. In determining the value in use of the cash-generating units, the company makes assessments on market trends, consumer preferences and category dynamics. More information about these assumptions can be found in Note 17.

Revenue recognition

For agreements with volume discounts calculated on an annual basis, the amount of the discount is continuously estimated during the year, and finally determined at the end of the financial year. The estimates are based on delivered and forecasted yearly volumes. There are no other considerable revenue-related assessments.

Note 5 Management of capital

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

Probi's financial objectives:*Growth*

To generate growth that outperforms the market. In 2019, Probi's growth was 4% (-1).

Margin

Growth is to be combined with an EBITDA margin exceeding 20%. In 2019, Probi's EBITDA margin was 29% (26), or 27% adjusted for IFRS 16.

Proposed allocation of profit in the Parent Company

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

Profit brought forward	314,898,117
Share premium reserve	579,064,772
Net income	101,317,555
Total	995,280,444

The Board proposes that the profits at the disposal of the AGM be distributed as follows:

that a dividend of SEK 1.00 per share be paid to shareholders	11,394,125
to be carried forward	983,886,319
Total	995,280,444

The profit brought forward by the Group totalled KSEK 433,514 according to the consolidated statement of financial position and other contributions received amounted to KSEK 600,205.

Note 6 Segment information

Probi's business is organised in two business areas: Consumer Healthcare (CHC) and Functional Food (FF).

Consumer Healthcare

Consumer Healthcare develops, manufactures and markets Probi's probiotics. Customers are pharmaceutical companies and other companies specialised in probiotics and self-care products. Revenue is derived from sales of goods ranging from raw materials in bulk to finished products in consumer packaging.

Functional Food

Functional Food develops food that contains Probi's probiotics. Development takes place in partnership with food companies. Development

takes place in partnership with leading food companies. Revenues are mainly derived from royalties based on partner-generated sales.

There are no sales or other transactions between the two segments. Probi does not allocate its assets per segment.

OPERATING INCOME PER BUSINESS AREA

Group 2019	CHC	FF	Corporate	Total
Net sales	583,719	42,473	-	626,192
Cost of goods sold	-331,628	-2,918	-	-334,546
Sales and marketing costs	-96,881	-8,232	-	-105,113
Research and development costs	-22,619	-8,427	-	-31,046
Administrative expenses	-42,148	-3,841	-	-45,989
Other operating income	2,042	2	-	2,044
Operating profit	92,485	19,057	-	111,542

Result from financial items	-	-	-2,019	-2,019
Earnings before tax	92,485	19,057	-2,019	109,523

Group 2018	CHC	FF	Corporate	Total
Net sales	566,797	37,320	-	604,117
Cost of goods sold	-323,715	-2,372	-	-326,087
Sales and marketing costs	-83,032	-8,822	-	-91,854
Research and development costs	-24,337	-8,391	-	-32,728
Administrative expenses	-50,530	-4,170	-	-54,700
Other operating income	2,338	30	-	2,368
Operating profit	87,521	13,595	-	101,116

Result from financial items	-	-	-2,556	-2,556
Earnings before tax	87,521	13,595	-2,556	98,560

Probi's five largest customers account for 53% of the Group's sales, or MSEK 332, whereof 49% is accounted for in CHC and 4% in FF.

OPERATING REVENUE DISTRIBUTED BY GEOGRAPHIC AREAS

2019	CHC	FF	Total
US	447,386	12,840	460,226
Americas, excluding the US	8,687	-	8,687
Sweden	33,510	27,370	60,880
EMEA, excluding Sweden	52,516	59	52,575
APAC	41,620	2,204	43,824
Net sales	583,719	42,473	626,192

2018	CHC	FF	Total
US	429,449	6,889	436,338
Americas, excluding the US	7,977	-	7,977
Sweden	30,370	28,181	58,551
EMEA, excluding Sweden	41,782	18	41,800
APAC	57,219	2,232	59,451
Net sales	566,797	37,320	604,117

For the 2020 financial year, the company's segment reporting will be changed and results will be reported per region. This reflects how the company will be organised moving forward. Below is the restated segment reporting for the 2019 and 2018 financial years.

GROSS PROFIT BY REGION, NEW SEGMENTS

2019	Americas	EMEA	APAC	Total
Net sales	468,913	113,455	43,824	626,192
Cost of goods sold	-275,017	-42,195	-17,334	-334,546
Gross profit	193,896	71,260	26,490	291,646

2018	Americas	EMEA	APAC	Total
Net sales	444,315	100,351	59,451	604,117
Cost of goods sold	-270,961	-32,167	-22,959	-326,087
Gross profit	173,354	68,184	36,492	278,030

Note 7 Revenue distribution

REVENUE DISTRIBUTION

Group 2019	CHC	FF	Total
Goods	578,758	5,162	583,920
Royalties	4,961	37,311	42,272
Net sales	583,719	42,473	626,192

Group 2018	CHC	FF	Total
Goods	561,763	3,918	565,681
Royalties	5,034	33,402	38,436
Net sales	566,797	37,320	604,117

Parent Company 2019	CHC	FF	Total
Goods	37,215	5,257	42,472
Royalties	5,965	319,935	325,900
Net sales	43,180	325,192	368,372

Other revenue	5,864	-	5,864
Total revenue	49,044	325,192	374,236

Parent Company 2018	CHC	FF	Total
Goods	254,581	3,918	258,499
Royalties	5,564	33,402	38,966
Net sales	260,145	37,320	297,465

Other revenue	5,351	30	5,381
Total revenue	265,496	37,350	302,846

Note 8 Cost distribution

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Product costs	-212,691	-210,478	-108,116	-90,911
Currency changes from operating activities	-2,473	2,804	-2,473	1,079
Employee benefit expenses	-135,886	-130,577	-50,470	-47,866
Other external costs	-91,708	-112,307	-72,031	-74,798
Depreciation/amortisation and disposal of non-current assets	-71,891	-53,821	-10,610	-8,358
Total	-514,650	-504,379	-243,700	-220,854

Note 9 Auditors' fees

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Deloitte				
Audit assignment	-	197	-	-
Audit-related services	-	27	-	27
Tax consultancy	-	34	-	34
Other services	-	5	-	5
Total Deloitte	-	263	-	66
Ernst & Young				
Audit assignment	924	577	681	347
Audit-related services	135	117	135	117
Tax consultancy	-	22	-	22
Other services	-	-	-	-
Total Ernst & Young	1,059	716	816	486
Total	1,059	979	816	552

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

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

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Sweden	41	38	41	38
of whom women	29	27	29	27
Abroad				
Singapore	3	2	-	-
US	121	124	-	-
Total abroad	124	126	-	-
of whom women	52	51	-	-
Total	165	164	41	38
of whom women	81	78	29	27

DISTRIBUTION OF WOMEN AND MEN ON THE BOARD AND EXECUTIVE MANAGEMENT

	2019		2018	
	Women	Men	Women	Men
Board of Directors	2	3	3	4
CEO and Management Group	2	7	2	7

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
SALARIES AND REMUNERATION				
Board of Directors	1,763	1,700	1,763	1,700
CEO and Management Group	16,410	16,465	9,801	12,401
Other employees	82,498	78,908	21,887	20,970
Total	100,671	97,073	33,451	35,071

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Social security contributions, total	24,370	22,635	17,102	15,687
Of which pension costs:	7,421	6,824	5,972	5,575
Board Members	-	-	-	-
CEO and Management Group	2,528	1,980	2,327	1,883
Other employees	4,893	4,844	3,645	3,691

REMUNERATION AND OTHER BENEFITS TO BOARD MEMBERS

	PARENT COMPANY 2019			
	Board of Directors	Rem. Comm.	Aud. Comm.	Total
Jörn Andreas	188	-	37	225
Anna Malm Bernsten	50	-	10	60
Scott Bush	50	-	-	50
Charlotte Hansson	238	-	92	330
Irène Corthésy Malnöe	238	-	-	238
Jan Nilsson	50	5	-	55
Jonny Olsson	238	15	47	300
Jean-Yves Parisot	475	30	-	505
Total	1,527	50	186	1,763

REMUNERATION AND OTHER BENEFITS TO BOARD MEMBERS

	PARENT COMPANY 2018			
	Board of Directors	Rem. Comm.	Aud. Comm.	Total
Anna Malm Bernsten	200	-	30	230
Scott Bush	200	-	-	200
Charlotte Hansson	200	-	52	252
Irène Corthésy Malnöe	150	-	-	150
Jan Nilsson	200	15	-	215
Jonny Olsson	200	-	30	230
Jean-Yves Parisot	400	23	-	423
Total	1,550	38	112	1,700

REMUNERATION AND OTHER BENEFITS TO CEO AND MANAGEMENT

	2019				
	Base salary	Variable rem.	Other benefits	Pension costs	Total
Tom Rönnlund, CEO	2,689	397	79	809	3,974
Other management, average (8)	11,409	1,351	484	1,720	14,964
Total					
	2018				
	Base salary	Variable rem.	Other benefits	Pension costs	Total
Peter Nählstedt, CEO	3,837	-	31	840	4,708
Ole Sjøgaard Andersen, CEO	2,728	-	-	-	2,728
Other management, average (5)	8,014	1,186	669	1,140	11,010

The CEO was entitled to a maximum bonus of 50% of annual base

salary. Other management was entitled to a maximum bonus of 40% of annual base salary. For senior executives employed in the US organisation, a variable cash payment may be paid capped at one annual salary. The outcome is based on fulfilment of quantitative and qualitative goals established annually by the Board. The Remuneration Committee is entitled to deviate from the aforementioned guidelines if the Board finds specific reasons to motivate this in isolated cases.

The notice period for the CEO is four months if given by the CEO. If notice is given by the company, the notice period is twelve months. The retirement age for the CEO is 65. There are no other severance pay or pension agreements within the company other than those described above.

The CEO's remuneration is determined by the Board of Directors and that of other management personnel by the CEO and the Chairman of the Board. The company has no outstanding and unrecognised pension commitments, as all pensions for senior executives are defined-benefit pensions.

Note 11 Financial income and expenses

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Interest income	1,423	1,565	322	6,266
Exchange-rate gains	2,767	17,411	2,767	17,405
Exchange-rate losses	-2,086	-15,257	-2,086	-15,257
Interest expenses	-2,967	-5,451	-698	-5,451
Other financial expenses	-1,156	-824	-1,155	-824
Total	-2,019	-2,556	-850	2,139

The interest result for full-year 2019 was MSEK -1.5 (-3.9), of which MSEK -2.3 (-) is attributable to IFRS 16. Exchange-rate gains and losses arising from the remeasurement of loans, cash and cash equivalents in foreign currencies, or market valuation and realisation of forward contracts, are recognised in exchange rate gains/losses from financing activities. A gain of MSEK 0.7 (2.2) arose in 2019, mainly due to the strengthening of the USD against the SEK. For 2019, MSEK 1.2 (0.8) was expensed for fees to the financial institution that issued external loans.

Note 12 Income tax

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Current tax for the year	-28,381	-18,994	-28,368	-18,958
Deferred tax	4,906	-3,364	-	-
Tax effect of changed tax rate	-161	48	-	-
Change in deferred tax	4,745	-3,316	-	-
Total income tax	-23,636	-22,310	-28,368	-18,958

Reconciliation of effective tax rate

Earnings before tax	109,523	98,560	129,686	84,131
Nominal tax according to parent company 21.4% (22.0)	-23,438	-21,683	-27,753	-18,509
Adjustment of tax attributable to preceding years	-159	-	-218	-
Tax effect of non-deductible expenses	-626	-518	-397	-449
Tax effect of foreign subsidiaries	722	-206	-	-
Tax effect of changed tax rate	-161	48	-	-
Tax effect from value adjustments of deferred tax	-	-	-	-
Other tax	26	49	-	-
Total effective tax	-23,636	-22,310	-28,368	-18,958

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Change in deferred tax for the year				
Temporary differences in deferred tax	-5,060	-4,064	40	-76
Tax effect of changed tax rate	-161	48	-	-
Deferred tax assets in capitalised loss carryforwards	9,699	926	-	-
Total change in deferred tax for the year	4,478	-3,090	40	-76

Change in deferred tax liability for the year

Temporary differences in deferred tax	-	-	-61	-40
Total change in deferred tax liability for the year	-	-	-61	-40

Total change in deferred tax for the year	4,478	-3,090	-21	-116
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DEFERRED TAX ASSETS AND LIABILITIES, 2019	GROUP			PARENT COMPANY		
	DEFERRED	DEFERRED	NET DEFERRED	DEFERRED	DEFERRED	NET DEFERRED
	TAX ASSETS	TAX LIABILITIES	TAX	TAX ASSETS	TAX LIABILITIES	TAX
Intangible assets	5,650	-16,691	-11,041	-	-	-
Equipment, tools and fixtures	29	-12,234	-12,205	-	-	-
Financial assets	-	-	-	-	-61	-61
Inventories	495	-261	234	-	-	-
Accounts receivable and other receivables	4	-	4	-	-	-
Other provisions and current liabilities	13,536	-258	13,278	-	-	-
Loss carryforwards	15,737	-	15,737	-	-	-
Subtotal	35,451	-29,444	6,007	-	-61	-61
Offsetting	-29,443	29,444	-	-	-	-
Total	6,008	-	6,008	-	-61	-61

DEFERRED TAX ASSETS AND LIABILITIES, 2018	GROUP			PARENT COMPANY		
	DEFERRED	DEFERRED	NET DEFERRED	DEFERRED	DEFERRED	NET DEFERRED
	TAX ASSETS	TAX LIABILITIES	TAX	TAX ASSETS	TAX LIABILITIES	TAX
Intangible assets	5,058	-10,754	-5,696	-	-	-
Equipment, tools and fixtures	-	-972	-972	-	-	-
Financial assets	-	-	-	-	-40	-40
Inventories	860	-	860	-	-	-
Accounts receivable and other receivables	102	-	102	-	-	-
Other provisions and current liabilities	1,266	-229	1,037	-	-	-
Loss carryforwards	6,199	-	6,199	-	-	-
Subtotal	13,485	-11,955	1,530	-	-40	-40
Offsetting	-11,955	11,955	-	-	-	-
Total	1,530	-	1,530	-	-40	-40

At 31 December 2019, the Group's loss carryforwards pertaining to federal tax in the US amounted to MSEK 64.8 (26.1). Including additional loss carryforwards pertaining to state tax in the US, the Group's total loss carryforwards corresponded to a deferred tax asset of

MSEK 15.7 (6.2) at 31 December 2019. All loss carryforwards were capitalised at this date. Company management is of the opinion that based on the Group's current and future structure, the prerequisites for utilising the deficit are warranted.

Note 13 Leases

Leases include lease of premises, production equipment, office equipment and company cars. The nominal value of future minimum lease payments for operating leases is allocated as follows:

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Lease payments for the year	-	18,020	4,719	4,642
Falls due for payment within one year	-	14,712	4,821	4,713
Falls due for payment after one, but within five years	-	52,341	8,703	12,634
Falls due for payment after more than five years	-	11,536	-	-

The Group's expenses for short-term leases and leases for which the underlying asset has a low value amounts to MSEK 0.5 for 2019.

COST DISTRIBUTION IFRS 16 LEASES

	GROUP	
	2019	2018
Depreciation of leases		
Buildings and land	-13,895	-
Plant and machinery	-13	-
Equipment, tools and fixtures	-291	-
Total depreciation of leases	-14,199	-
Financial expenses, leases		
Buildings and land	-2,262	-
Plant and machinery	0	-
Equipment, tools and fixtures	-7	-
Total financial expenses leases	-2,269	-
Total expenses attributable to leases	-16,468	-

IFRS 16 LEASES IN THE BALANCE SHEET			
	GROUP		
	2019	2018	
Buildings and land			
Opening value	71,464	-	
Acquisitions	-	-	
Depreciation for the year	-13,895	-	
Translation differences	2,286	-	
Closing residual value, Buildings and land	59,855	-	
Plant and machinery			
Opening value	22	-	
Depreciation for the year	-13	-	
Translation differences	1	-	
Closing residual value, Plant and machinery	10	-	
Equipment, tools and fixtures			
Opening value	244	-	
Acquisitions	761	-	
Disposals	-44	-	
Depreciation for the year	-291	-	
Closing residual value, Equipment, tools, fixtures and fittings	670	-	
Total leases on the balance sheet	60,535	-	

LEASE LIABILITIES			
	GROUP		
	2019	2018	
Opening balance	70,658	-	
Additional lease liabilities	761	-	
Interest expenses	157	-	
Paid lease liabilities	-12,547	-	
Translation differences	2,139	-	
Closing lease liabilities	61,168	-	

Note 14 Capitalised development costs

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Opening cost	74,693	67,282	74,693	67,282
New acquisitions	4,932	7,411	4,932	7,411
Closing accumulated cost	79,625	74,693	79,625	74,693
Opening depreciation/amortisation	-19,348	-15,186	-19,348	-15,186
Depreciation/amortisation for the year	-6,451	-4,162	-6,451	-4,162
Closing accumulated depreciation/amortisation	-25,799	-19,348	-25,799	-19,348
Opening depreciation/amortisation	-11,051	-11,051	-11,051	-11,051
Closing accumulated depreciation/amortisation	-11,051	-11,051	-11,051	-11,051
Closing residual value	42,775	44,294	42,775	44,294

Note 15 Customer base

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Opening cost	366,090	335,940	-	-
Translation differences	14,121	30,150	-	-
Closing accumulated cost	380,211	366,090	-	-
Opening amortisation	-54,913	-27,994	-	-
Amortisation for the year	-25,737	-23,647	-	-
Translation differences	-1,729	-3,272	-	-
Closing accumulated amortisation	-82,379	-54,913	-	-
Closing residual value	297,832	311,177	-	-

The customer base is a part of the intangible assets identified in the acquisition of Nutraceutix, which became effective on 3 October 2016.

Note 16 Technology and other intangible assets

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Opening cost	230,047	214,491	75,474	72,648
New acquisitions	3,486	2,826	3,486	2,826
Translation differences	5,963	12,730	-	-
Closing accumulated cost	239,496	230,047	78,960	75,474
Opening amortisation	-91,623	-75,498	-63,948	-61,389
Amortisation for the year	-15,685	-14,476	-2,714	-2,559
Translation differences	-871	-1,649	-	-
Closing accumulated amortisation	-108,179	-91,623	-66,662	-63,948
Closing residual value	131,317	138,424	12,298	11,526

Technology and other intangible assets are part of the intangible assets identified in the acquisition of Nutraceutix, which became effective on 3 October 2016. This category also includes capitalised patents and licenses with a closing residual value amounting to MSEK 12.3 (11.5).

Note 17 Goodwill

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Opening cost	304,561	279,706	-	-
Translation differences	11,641	24,855	-	-
Closing accumulated cost	316,202	304,561	-	-

In accordance with IAS 36, goodwill is tested for impairment at least once per year. If events or changes in circumstances indicate that an impairment loss may need to be recognised, then tests are carried out more frequently.

The largest component of goodwill, an amount of KUSD 33,642, arose from the 2016 acquisition of Nutraceutix and consists largely of the synergies and economies of scale from combining the operations of Probi and Nutraceutix.

For impairment tests, goodwill is to be allocated to the cash-generating unit within the Group that is intended to benefit from the synergies of the business combination. Every unit with goodwill allocated to it represents the lowest level within the Group at which goodwill is monitored for internal management purposes. The units are not larger than an operating segment as defined in IFRS 8. Probi's lowest cash-generating units at which goodwill is monitored are the operating segments Consumer Healthcare (CHC) and Functional Food (FF). Goodwill resulting from the business combination of Nutraceutix is allocated in its entirety to the CHC segment.

The Group's total goodwill at the end of 2019 amounted to MSEK 316.2 (304.6), of which MSEK 313.4 (301.8) was allocated to CHC and MSEK 2.8 (2.8) to FF. The year-on-year increase was attributable to changed exchange rates.

Probi performs the annual impairment test in the fourth quarter for the CHC cash-generating unit. In view of materiality, the FF cash-generating unit has not been tested for impairment.

The recoverable amount is represented by value in use and was determined as the present value of future cash flows. The future cash flows were obtained from the Probi Group's budget and business plan. The calculation of the present value of estimated future cash flows is mainly based on assumptions relating to future selling prices and/or sales volumes and costs while taking into account any changed economic circumstances.

When applying value in use, the cash-generating unit is measured as currently used. Net cash inflows outside of the planning period are determined on the basis of long-term business expectations using individual growth rates derived from the respective market information.

The business plan is based on a detailed planning horizon for 2020-2023. A growth rate of 2.0% was assumed for the calculation of perpetuity. The cash flows determined in this manner were discounted with a weighted average capital cost (WACC) factor before tax of 7.25% for CHC. Capital costs and borrowing costs were weighted with a capital structure based on a group of comparable companies. Capital market data and data from comparable companies were used to determine capital costs and borrowing costs. There were no indications of impairment for the financial year.

Probi's management believes that no reasonable possible change in any of the above key assumptions would cause the CHC's recoverable amount to fall below the carrying amount.

Note 18 Buildings and land

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Opening cost	7,551	6,934	3,588	3,588
Acquisitions	353	306	-	-
Disposals	-	-	-	-
Translation differences	-	311	-	-
Closing accumulated cost	7,904	7,551	3,588	3,588
Opening amortisation	-5,547	-3,922	-3,248	-2,795
Amortisation for the year	-1,011	-1,491	-340	-453
Translation differences	69	-134	-	-
Closing accumulated amortisation	-6,489	-5,547	-3,588	-3,248
Closing residual value	1,415	2,004	0	340

The expense in the Parent Company is related to improvements in connection with the renovation and expansion of Probi's leased premises in Lund. The consolidated statements also include improvement expenses for leased premises in (WA) and Lafayette (CO), USA.

Note 19 Plant and machinery

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Opening cost	38,750	35,147	-	-
Acquisitions	187	435	-	-
Disposals	-	-	-	-
Translation differences	1,493	3,168	-	-
Closing accumulated cost	40,430	38,750	-	-
Opening depreciation	-20,840	-10,837	-	-
Depreciation for the year	-7,506	-8,750	-	-
Depreciation of disposed equipment	-	-	-	-
Translation differences	-692	-1,253	-	-
Closing accumulated depreciation	-29,038	-20,840	-	-
Closing residual value	11,392	17,910	-	-

Note 20 Equipment, tools, fixtures and fittings

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Opening cost	13,584	12,991	12,571	12,555
Acquisitions	779	1,058	778	537
Disposals	-2,954	-521	-2,910	-521
Translation differences	39	56	-	-
Closing accumulated cost	11,448	13,584	10,439	12,571
Opening depreciation	-10,106	-9,324	-9,929	-9,266
Depreciation for the year	-1,301	-1,294	-1,104	-1,184
Disposals	2,921	521	2,876	521
Translation differences	-4	-9	-	-
Closing accumulated depreciation	-8,490	-10,106	-8,157	-9,929
Closing residual value	2,958	3,478	2,282	2,642

Note 21 Work in progress

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Opening cost	5,770	3,399	-	-
Acquisitions	25,413	2,002	-	-
Translation differences	-162	369	-	-
Closing accumulated cost	31,021	5,770	-	-

Work in progress mainly pertained to the upgrading programme at the manufacturing unit in Redmond, Washington, in the US.

Note 22 Participations in Group companies

	2019	2018
Carrying amount	909,320	909,320

Specification of the Parent Company's shareholding in Group companies

	Share of equity	Share of votes	No. of shares	Carrying amount	Shareholders' equity
Probi Asia-Pacific Pte. Ltd. 201537643C, Singapore	100%	100%	50,000	298	2,214
Probi Food AB 556354-1951, Lund	100%	100%	10,000	3,931	3,935
Probi Feed AB 556540-4364, Lund	100%	100%	1,000	100	100
Probi USA Inc, USA 81-2766100, Delaware	100%	100%	100	904,991	944,612

Note 23 Inventories

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Raw materials and consumables	34,248	30,373	-	-
Semi-finished goods	28,780	23,071	-	-
Finished goods	16,469	15,232	8,503	3,522
Total	79,497	68,676	8,503	3,522

For inventory valuation principles, refer to Note 2.11.

Note 24 Financial assets and liabilities

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Financial assets				
Derivatives designated as hedging instruments				
Currency forward contracts measured at fair value through profit or loss	306	28	306	28
Currency forward contracts measured at fair value through other comprehensive income	307	180	307	180
Financial assets measured at amortised cost				
Participation in group companies	-	-	909,320	909,320
Accounts receivable	83,341	106,188	57,004	65,476
Cash and cash equivalents	206,960	199,299	113,395	133,361
Total financial assets	290,914	305,695	1,080,332	1,108,365
Financial liabilities				
Derivatives designated as hedging instruments				
Currency forward contracts measured at fair value through profit or loss	27	-	27	-
Currency forward contracts measured at fair value through other comprehensive income	21	-	21	-
Financial liabilities measured at amortised cost				
Liabilities to Group companies more than five years	-	-	4,035	4,035
Bank loans	-	119,000	-	119,000
Trade payables	37,631	31,459	24,968	26,077
Current lease liabilities	14,556	-	-	-
Non-current lease liabilities, 1-5 years	41,036	-	-	-
Non-current lease liabilities, >5 years	5,576	-	-	-
Total financial liabilities	98,847	150,459	29,051	149,112

Derivatives designated as hedging instruments reflect the positive measurement at fair value of currency forward contracts connected to hedges of cash flow forecasts in USD. The valuation is determined according to level 2 in the value hierarchy.

Note 25 Accounts receivable

Carrying amount corresponds to the fair value of accounts receivable.

GROUP						
31 Dec 2019	Current	Overdue <30 days	Overdue 30-60 days	Overdue 61-90 days	Overdue >90 days	Total
Unbilled accounts receivable	2,220	-	-	-	-	2,220
Billed accounts receivable	70,896	6,032	1,448	2,574	354	81,304
Provision for expected credit losses	-37	-6	-1	-3	-136	-183
Total accounts receivable	73,079	6,026	1,447	2,571	218	83,341
Expected credit losses (%)	0.1%	0.1%	0.1%	0.1%	38.4%	0.2%

GROUP						
31 Dec 2018	Current	Overdue <30 days	Overdue 30-60 days	Overdue 61-90 days	Overdue >90 days	Total
Unbilled accounts receivable	2,482	-	-	-	-	2,482
Billed accounts receivable	87,299	10,258	3,716	1,656	1,370	104,299
Provision for expected credit losses	-90	-10	-4	-2	-487	-593
Total accounts receivable	89,691	10,248	3,712	1,654	883	106,188
Expected credit losses (%)	0.1%	0.1%	0.1%	0.1%	35.5%	0.6%

PARENT COMPANY						
31 Dec 2019	Current	Overdue <30 days	Overdue 30-60 days	Overdue 61-90 days	Overdue >90 days	Total
Unbilled accounts receivable	2,220	-	-	-	-	2,220
Billed accounts receivable	49,157	4,611	361	483	335	54,947
Provision for expected credit losses	-37	-6	-1	-2	-117	-163
Total accounts receivable	51,340	4,605	360	481	218	57,004
Expected credit losses (%)	0.1%	0.1%	0.3%	0.4%	34.9%	0.3%

PARENT COMPANY						
31 Dec 2018	Current	Overdue <30 days	Overdue 30-60 days	Overdue 61-90 days	Overdue >90 days	Total
Unbilled accounts receivable	2,482	-	-	-	-	2,482
Billed accounts receivable	59,135	3,859	-	-	57	63,051
Provision for expected credit losses	-31	-2	-	-	-24	-57
Total accounts receivable	61,586	3,857	-	-	33	65,476
Expected credit losses (%)	0.1%	0.1%	-	-	42.1%	0.1%

	CHANGE IN PROVISION FOR EXPECTED CREDIT LOSSES			
	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Opening provision for expected credit losses, 1 January	593	336	57	-
New provisions and increase in existing provisions	163	237	163	57
Utilised amounts	-57	-	-57	-
Unutilised amounts reversed	-549	-	-	-
Currency effects	33	20	-	-
Closing provision for expected credit losses, 31 December	183	593	163	57

Note 26 Prepaid expenses and accrued income

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Prepaid rent	-	1,090	1,103	1,090
Insurance premiums	1,500	681	455	313
Prepaid marketing and sales costs	754	1,506	726	722
IT costs	961	-	800	122
Other items	742	1,904	670	380
Total	3,957	5,181	3,754	2,627

Note 27 Owed to credit institutions

	CURRENCY	NOMINAL AMOUNT	UTILISED AMOUNT	UNUTILISED AMOUNT	INTEREST RATE TERMS	MATURITY
Bank loans (revolving lines of credit)	SEK	162,583	-	162,583	Stibor + 1.4 %	27 Jul 2020
Accrued interest	SEK		-			
Capitalised arrangement fees	SEK		-			
Carrying amount at end of year			-			
Overdraft facility	SEK	30,000	-	30,000	Stibor + 1.1 %	27 Jul 2020
Total		192,583		192,583		

CHANGES IN LOANS TO CREDIT INSTITUTIONS

	2018	Cash flow	Foreign exchange movement	Amortisation	2019
Short-term loans	119,019	-119,019		-	-
Capitalised borrowing costs	-538	-		538	-
Total	118,481	-119,019		538	-

Probi AB has a financing agreement with Handelsbanken that was signed on 27 July 2016 and runs until 27 July 2020. The agreement includes a revolving credit facility in an original amount of MUSD 35 and an overdraft facility of MSEK 30. As of the fourth quarter of 2018, in accordance with this agreement, Probi has elected to denominate the revolving credit facility in SEK. The scope of the revolving loan was reduced by the equivalent of MUSD 1.4 per quarter and at year-end, was MSEK 162.6.

Both the overdraft facility and revolving credit facility were unused at 31 December 2019. The use of the revolving credit facility is fixed for a period of three months at a time, which is why the loan is classified as short-term.

The financing agreement contains two financial conditions or key ratios/covenants, which must be fulfilled during the contractual term. According to these conditions, the KPIs of net debt/EBITDA and interest coverage ratio must not deviate from agreed levels.

Note 28 Accrued expenses and deferred income

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Accrued holiday pay including social security contributions	7,109	6,512	2,379	2,503
Accrued administration and selling expenses	2,134	7,270	1,833	6,988
Accrued variable remuneration to employees	4,837	3,866	2,630	1,998
Other items	1,292	863	323	37
Total	15,372	18,511	7,165	11,526

Note 29 Hedge accounting

Anticipated operating cash flows – hedge accounting

	DUE DATE	IN ORIGINAL CURRENCY	AMOUNTS TO RECEIVE (+) OR PAY (-) KSEK	VALUE CHANGE 31 DEC 2019 KSEK	VALUATION 31 DEC 2019 KSEK	
Amount to be sold	29 Jan 2020	KUSD	400	3,862	123	3,985
Amount to be sold	27 Feb 2020	KUSD	600	5,785	184	5,969
Amount to be sold	27 Feb 2020	KUSD	1,900	17,714	-21	17,693
Amount to be sold	27 Mar 2020	KUSD	1,000	9,626	305	9,931
Amount to be sold	27 Apr 2020	KUSD	400	3,718	-5	3,713
Amount to be sold	27 May 2020	KUSD	550	5,106	-8	5,098
Amount to be sold	29 Jun 2020	KUSD	250	2,317	-4	2,313
Amount to be sold	27 Jul 2020	KUSD	100	926	-2	924
Amount to be sold	27 Aug 2020	KUSD	350	3,236	-4	3,232
Amount to be sold	28 Sep 2020	KUSD	250	2,308	-2	2,306
Amount to be sold	27 Oct 2020	KUSD	200	1,844	-1	1,843
Amount to be sold	27 Nov 2020	KUSD	300	2,763	0	2,763
Amount to be sold	28 Dec 2020	KUSD	300	2,759	1	2,760
			6,600	61,964	566	62,530

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Opening changes in value	208	-136	208	-136
Realised hedging instruments	-208	136	-208	136
New acquisitions	566	208	566	208
Closing changes in value	566	208	566	208

Note 30 Pledged assets and contingent liabilities

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Chattel mortgages	800	800	800	800
Bank guarantee, Swedish Customs	268	268	268	268
Total pledged assets	1,068	1,068	1,068	1,068

The company has no contingent liabilities.

Note 31 Activated customer remuneration

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Additions for the year	9,822	-	9,822	-
Closing activated customer remuneration	9,822	-	9,822	-

Note 32 Related-party transactions

Related-party transactions recognised in the statement of comprehensive income:

	GROUP		PARENT COMPANY	
	2019	2018	2019	2018
Symrise AG (largest shareholder)	124	104	-	55
Symrise AG (largest shareholder)	-154	-247	-85	-195
Probiotic Consulting LLC, related party:				
Scott Bush (Board member)	-45	-200	-45	-200

The purchase and sale of goods and services to and from related parties is conducted on normal market terms. There were no other related-party transactions during the reporting period. For information about board remuneration, see Note 10.

Note 33 Events after the balance-sheet date

In March 2020, Probi formed a joint venture with the US based Viva5 Group. The standalone company, VivaPro LLC, will focus on spore-forming bacterias and its potential commercial applications. Probi will own 49% of the shares, but has an option to acquire additional shares at a later stage to become a majority shareholder in the company.

During the first quarter of 2020, COVID-19 broke out and Probi has taken a number of measures to protect the company's operations and reduce the spread of the virus. At the time of signing this annual report, the impact had been limited and there were no confirmed cases of COVID-19 among the company's employees, limited disruptions in the supply chain and no negative impact on customer demand. At present, it is not possible to make an assessment of the extent to which this may affect the business going forward, but the company management continuously assesses the potential financial impact.

Five-year summary

Income statement (KSEK)	2019	2018	2017	2016	2015
Net sales	626,192	604,117	612,244	443,475	215,711
Cost of goods sold	-334,546	-326,087	-334,321	-172,990	-65,231
Gross profit	291,646	278,030	277,923	270,485	150,480
Sales and marketing expenses	-105,113	-91,854	-79,899	-54,773	-38,325
Research and development expenses	-31,046	-32,728	-36,606	-47,930	-30,614
Administrative expenses	-45,989	-54,700	-58,554	-48,036	-18,743
Other operating income/expenses	2,044	2,368	1,223	219	270
Operating profit/EBIT	111,542	101,116	104,087	119,965	63,068
Financial result	-2,019	-2,556	-11,762	6,718	22
Earnings before income taxes	109,523	98,560	92,325	126,683	63,090
Income taxes	-23,636	-22,310	-23,233	-24,836	-14,051
Net income	85,887	76,250	69,092	101,847	49,039
Balance sheet (KSEK)	2019	2018	2017	2016	2015
Intangible assets	788,126	798,456	767,690	868,160	43,582
Tangible assets	107,320	29,162	34,389	41,490	4,581
Financial assets	6,008	1,530	4,621	8,478	-
Current assets	181,194	180,983	148,487	188,691	36,697
Cash and cash equivalents	206,960	199,299	155,547	103,136	143,024
Total assets	1,289,608	1,209,430	1,110,734	1,209,955	227,884
Equity	1,152,126	1,028,398	884,736	892,067	187,239
Non-current liabilities	51,564	6,772	5,781	5,796	122
Current liabilities	85,918	174,260	220,217	312,092	40,523
Total equity and liabilities	1,289,608	1,209,430	1,110,734	1,209,955	227,884
Cash flow statement (KSEK)	2019	2018	2017	2016	2015
Cash flow from operating activities before working capital changes	183,334	159,849	181,632	134,795	69,157
Working capital changes	-9,723	-31,983	-35,944	-45,010	-7,211
Cash flow from operating activities	173,611	127,866	145,688	89,785	61,946
Cash flow from investing activities	-35,117	-14,039	-26,263	-930,052	-19,463
Cash flow from financing activities	-133,014	-74,113	-48,045	800,185	-7,640
Net change in cash and cash equivalents	5,480	39,714	71,380	-40,082	34,843
Effects of changes in exchange rates	2,181	4,038	-18,969	194	-
Total changes	7,661	43,752	52,411	-39,888	34,843
Cash and cash equivalents at 1 January	199,299	155,547	103,136	143,024	108,181
Cash and cash equivalents at 31 December	206,960	199,299	155,547	103,136	143,024
Key figures	2019	2018	2017	2016	2015
Gross margin, %	46.6%	46.0%	45.4%	61.0%	69.8%
EBITDA, MSEK	183.4	154.9	157.3	152.6	69.2
EBITDA excl effect from IFRS 16, MSEK	168.7	154.9	157.3	152.6	69.2
EBITDA margin, %	29.3%	25.6%	25.7%	34.4%	32.1%
EBITDA margin excl effect from IFRS 16, %	26.9%	25.6%	25.7%	34.4%	32.1%
Average number of employees	165	163	182	74	32
Share data	2019	2018	2017	2016	2015
Earnings per share before and after dilution, SEK	7.54	6.69	6.06	10.73	5.38
Share price on closing day, SEK	222.00	360.00	340.00	475.50	141.50
Market capitalisation on closing day, MSEK	2,529	4,102	3,874	5,418	1,290
Number of outstanding shares on closing day	11,394,125	11,394,125	11,394,125	11,394,125	9,115,300
Average number of outstanding shares	11,394,125	11,394,125	11,394,125	9,495,104	9,115,300

For definitions of key ratios, refer to page 76.

EXPLANATION OF KPIS

Definition of the alternative performance measures not defined in IFRS

The company presents some financial measures in the annual report that are not defined in IFRS. The company believes that these measures provide valuable supplementary information to investors and company management. Since not all companies calculate alternative performance measures in the same way, they are not always comparable with the measures used by other companies. However, these non-IFRS measures should not be considered substitutes for financial reporting measures prepared in accordance with IFRS.

The following alternative performance measures are presented in the annual report:

Currency: SEK 000s unless stated otherwise

Net sales adjusted for currency effects

Net sales adjusted for currency effects is defined as net sales for the year translated at the preceding year's exchange rates and is used to measure underlying net sales.

Calculated as net sales for the year adjusted with the effect of the preceding year's exchange rates:

	2019	2018	2017	2016	2015
Net sales	626,192	604,117	612,244	443,475	215,711
Currency effects	-21,280	-13,614	843	-5,067	-
Net sales adjusted for currency effects	604,912	590,503	613,087	438,408	215,711

Gross margin

Gross margin is defined as gross profit divided by net sales and is used to measure product profitability.

Calculated as gross profit divided by net sales:

	2019	2018	2017	2016	2015
Gross profit	291,646	278,030	277,923	270,485	150,480
Net sales	626,192	604,117	612,244	443,475	215,711
Gross margin	46.6%	46.0%	45.4%	61.0%	69.8%

Operating expenses

Operating expenses is defined as the sum of cost of goods sold, sales and marketing costs, research and development costs, administration expenses, other operating income and other operating expenses and is used to measure the sum of the company's total expenses before financial result and tax.

Calculated as the sum of cost of goods sold, sales and marketing costs, research and development costs, administration expenses, other operating income and other operating expenses:

	2019	2018	2017	2016	2015
Cost of goods sold	-334,546	-326,087	-334,321	-172,990	-65,231
Sales and marketing expenses	-105,113	-91,854	-79,899	-54,773	-38,325
Research and development expenses	-31,046	-32,728	-36,606	-47,930	-30,614
Administration expenses	-45,989	-54,700	-58,554	-48,036	-18,743
Other operating income and expenses	2,044	2,368	1,223	219	270
Operating expenses	-514,650	-503,001	-508,157	-323,510	-152,643

Operating profit/EBIT

Operating profit/EBIT is defined as net income before financial income and expenses and tax for the period and is used as a measure of the company's profitability.

Calculated as net income less financial income and expenses and tax:

	2019	2018	2017	2016	2015
Net income	85,887	76,250	69,092	101,847	49,039
Financial result	2,019	2,556	11,762	-6,718	-22
Income taxes	23,636	22,310	23,233	24,836	14,051
Operating profit/EBIT	111,542	101,116	104,087	119,965	63,068

Operating margin

Operating margin is defined as operating profit divided by net sales and is used to measure the company's profitability.

Calculated as operating profit divided by net sales:

	2019	2018	2017	2016	2015
Operating profit/EBIT	111,542	101,116	104,087	119,965	63,068
Net income	626,192	604,117	612,244	443,475	215,711
Operating margin	17.8%	16.7%	17.0%	27.1%	29.2%

EBITDA

EBITDA is defined as operating profit/EBIT before depreciation/amortisation and impairment and is used as a measure of the company's profitability.

Calculated as operating profit/EBIT increased with depreciation/amortisation and impairment:

	2019	2018	2017	2016	2015
Operating profit/EBIT	111,542	101,116	104,087	119,965	63,068
Amortisation, depreciation and impairment	71,891	53,821	53,231	32,603	6,176
EBITDA	183,433	154,937	157,318	152,568	69,244

EBITDA excluding effect from IFRS 16

EBITDA excluding effect from IFRS 16 is defined as EBITDA excluding effects from the implementation of IFRS 16 and is used to compare EBITDA between periods.

Calculated as EBITDA less effects from IFRS 16:

	2019	2018	2017	2016	2015
EBITDA	183,433	154,937	157,318	152,568	69,244
Effects from IFRS 16	-14,691	-	-	-	-
EBITDA excluding effect from IFRS 16	168,742	154,937	157,318	152,568	69,244

EBITDA margin

EBITDA margin is defined as EBITDA divided by net sales and is used to measure the company's profitability before depreciation/amortisation and impairment of tangible and intangible assets.

Calculated as EBITDA divided by net sales:

	2019	2018	2017	2016	2015
EBITDA	183,433	154,937	157,318	152,568	69,244
Net income	626,192	604,117	612,244	443,475	215,711
EBITDA margin	29.3%	25.6%	25.7%	34.4%	32.1%

EBITDA margin excluding effect from IFRS 16

EBITDA margin excluding effect from IFRS 16 is defined as EBITDA excluding effects from the adoption of IFRS 16 divided by net sales and is used to compare the EBITDA margin between periods.

Calculated as EBITDA excluding effects from IFRS 16 divided by net sales:

	2019	2018	2017	2016	2015
EBITDA excluding effect from IFRS 16	168,742	154,937	157,318	152,568	69,244
Net income	626,192	604,117	612,244	443,475	215,711
EBITDA margin excluding effect from IFRS 16	26.9%	25.6%	25.7%	34.4%	32.1%

Market capitalisation on the closing date

Market capitalisation on the closing date is defined as the share price at the end of the period multiplied by the number of shares outstanding and is used to measure the company's market capitalisation at the end of the period.

Calculated as share price at the end of the period multiplied by the number of shares outstanding:

	2019	2018	2017	2016	2015
Share price at the end of the period	222.00	360.00	340.00	475.50	141.50
Number of outstanding shares	11,394,125	11,394,125	11,394,125	11,394,125	9,115,300
Market cap on closing date, MSEK	2,529	4,102	3,874	5,418	1,290

SIGNATURES FOR THE ANNUAL REPORT

The Annual Report and consolidated financial statements were approved for issuance by the Board on 26 March 2020. The consolidated statement of comprehensive income and statement of financial position, as well as the Parent Company's income statement and balance sheet will be presented to the Annual General Meeting on 13 May 2020 for adoption.

The Board of Directors and CEO affirm that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU,

and that they provide a true and fair view of the Group's financial position and earnings. The Annual Report has been prepared in accordance with generally accepted accounting standards and provides a true and fair view of the Parent Company's financial position and earnings.

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

Lund, 26 March 2020

Jean-Yves Parisot
Chairman of the Board

Jörn Andreas
Board member

Charlotte Hansson
Board member

Irène Corthésy Malnoë
Board member

Jonny Olsson
Board member

Tom Rönnlund
CEO

Our audit report was submitted on 30 March 2020
Ernst & Young AB

Peter Gunnarsson
Authorised Public Accountant

AUDITOR'S REPORT

To the general meeting of the shareholders of Probi AB (publ), corporate identity number 556417-7540

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Probi AB (publ) for the year 2019. The annual accounts and consolidated accounts of the company are included on pages 41-79 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 47-49. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group. Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are

independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Capitalized development cost

Description

Book value of capitalized development cost amounts to 42,8 MSEK in the consolidated statement of financial position and in the financial statement of the parent company per 31 December 2019. Development expenditure is recognized as an asset if the product or pro-

cess are technologically and commercially useful and if the company has sufficient resources to complete the development and then sell or use the intangible asset in their production. On a regular basis the company tests if events or changes in conditions indicate any impairment requirement. Impairment testing for projects are made through calculation of net present value of future cash flows. Projects lacking estimated future economic benefits are impaired. Forecasted future cashflows are based on assumptions of future revenues.

The initial recognition of capitalized development costs and the impairment tests performed are based on assumptions applied by the company and represent significant amounts. We have thus determined capitalized development cost to represent a key audit matter.

A description of the accounting policies and important assumptions applied are included in note 2 and note 4. Note 14 contains information about the amounts of capitalized development cost, depreciation and impairment.

How our audit addressed this key audit matter

During our audit we have evaluated and tested the company's process for assessing if an expenditure fulfills the criteria for being capitalized as development cost. We have also evaluated and tested the company's process for assessing indications of impairment and tested the impairment test, for example by review of the reasonableness of assumptions of future revenues. We have also examined whether the disclosures in the annual report are appropriate.

Other intangible assets and shares in group companies

Description

Other intangible assets such as customer relations, technologies and goodwill amount to 745,4 MSEK in the consolidated statement of financial position and shares in subsidiaries amounts to 909,3 MSEK in the financial statement of the parent company per 31 December 2019. The company evaluates whether the book value of these assets exceeds its recoverable amount on an annual basis or upon indications of declining value.

The recoverable amount is determined for each cash-generating unit through means of a calculation of net present value of future cash flows. Future cash flows are based on various assumptions by management such as development in earnings, growth, investment needs and discount rates.

A description of the impairment tests is included in note 17. Note 15 through 17 includes information about the amounts of cost, depreciation and impairment. Note 22 contains a specification of shares in subsidiaries including carrying amounts.

How our audit addressed this key audit matter

During our audit we have evaluated and tested the company's process for constructing the impairment test, for example by evaluating the accuracy of forecasts and assumptions made historically. With the support of our valuation specialists, we have examined the company's method and model for conducting impairment tests. We have evaluated and tested the company's sensitivity analysis and conducted independent sensitivity analysis for key assumptions. We have evaluated the chosen discount rate and assumptions on long-term growth with support of our valuation specialists. We have examined whether the disclosures in the annual report are appropriate.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 2-40 and 84-88. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the

audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit

conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty

exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Probi AB (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated (loss be dealt with) in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situ-

ation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additio-

nal audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 47-49 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has

been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of Probi AB (publ) by the general meeting of the shareholders on the 7 May 2019 and has been the company's auditor since the 2 May 2018.

Malmö, 30 March 2020

Ernst & Young AB

Peter Gunnarsson

Authorized Public Accountant

BOARD OF DIRECTORS



Jean-Yves Parisot

Chairman of the Board, born 1964.

Education: MBA and DVM (Doctor in Veterinary Medicine)

History: Chairman of the Board since 2015. President of Diana, a division of the Symrise Group. Formerly senior roles at Air Liquide, Danisco, Rhodia, Rhône-Poulenc, Merial and Pfizer.

Other Board assignments: Chairman of the Board, VetAgroSup

Shares in the company: –

Independent in relation to the company: Yes

Independent in relation to major shareholders: No



Jörn Andreas

Board member, born 1980.

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

History: Board member since 2019. Senior Vice President Corporate Projects at Symrise. Jörn has experience from both a previous assignment as Board member (2014-2016) of Probi and as CFO of the company. In addition to these assignments, he has experience from positions as Head of Division and Head of Business Development/M&A at Symrise AG. Jörn was also employed at The Boston Consulting Group, Hamburg and Bayer AG, Leverkusen, Germany.

Other Board assignments: -

Shares in the company: -

Independent in relation to the company: Yes

Independent in relation to major shareholders: No



Charlotte Hansson

Board member, born 1962.

Education: Candidate of Sciences in Biochemistry, University of Copenhagen, Market & Economics, IHM (Institute for Higher Market Education), Stockholm.

History: Board member since 2017. Owner and CEO of Scandinavian Insight Consulting AB. Formerly senior roles at MorgonTidig Distribution KB, Jetpak Group AB, Danzas ASG Eurocargo AB, Carl Zeiss AB and Beckman Coulter.

Other Board assignments: Green Cargo AB, Orio AB (Chairperson), DistIT AB, Momentum Group AB, Link Top Holding A/S (Chairperson) and STENA Trade & Industry AB

Shares in the company: 500

Independent in relation to the company: Yes

Independent in relation to major shareholders: Yes



Irène Corthésy Malnoë

Board member, born 1958.

Education: PhD in Molecular Biology, Lausanne University and Master in Technology Enterprise, IMD Business School.

History: Board member since 2018. Senior consultant and partner at Skyviews Life Science. Formerly Chief Scientific Officer and Board member of Nestlé Health Science, senior roles at Nestlé Research Center and the Division of Gastroenterology, at Lausanne University Hospital.

Other Board assignments: –

Shares in the company: –

Independent in relation to the company: Yes

Independent in relation to major shareholders: Yes



Jonny Olsson

Board member, born 1964.

Education: Master of Business Administration degree

History: Board member since 2015. Owner and CEO of Jonny Olsson Consulting AB. Formerly senior roles at Tetra Pak, Oriflame and Ericsson.

Other Board assignments: -

Shares in the company: 1,284

Independent in relation to the company: Yes

Independent in relation to major shareholders: Yes

MANAGEMENT



Tom Rönnlund CEO, born 1972.

Education: M.Sc. Business and Economics, Stockholm University.

History: Tom Rönnlund joined Probi as CEO in 2019. Before joining Probi, Tom served as CEO for Navamedic ASA, a stock-listed Norwegian pharmaceutical and medtech company. Tom has more than 20 years' experience working in the healthcare industry, and has held several positions in sales, marketing and general management at IQVIA (formerly IMS Health) and in international biopharmaceutical companies such as Bristol-Myers Squibb and Eli Lilly.

Shares in the company: 1,000



Henrik Lundkvist CFO, born 1977.

Education: M.Sc. Business and Economics, Lund University.

History: Henrik Lundkvist joined Probi as CFO in January 2019 from GCE Group, a global manufacturer of gas control equipment, where he served as CFO since 2015. Prior to this, he held senior finance positions at E.ON Sverige AB and began his career as an auditor with Ernst & Young.

Shares in the company: 150



Niklas Brandt Vice President IT, born 1959.

Education: Business Administration degree, Lund University.

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

Shares in the company: 1,250



Shane Judge Vice President Global Sales & Marketing, born 1968.

Education: B.Sc. Chemical Engineering, Iowa State University.

History: Shane Judge joined Probi in 2020 as Head of Global Sales & Marketing.

Shane has solid international pharmaceutical and biotechnological experience in sales and marketing, and has previously held senior roles in teams that launched various brands. Before joining Probi, Shane held positions at Eli Lilly, The Medicines Company and Sunovion Pharmaceuticals.

Shares in the company:-



Basudha Bhattarai-Johansson

 Vice President HR, born 1983.

Education: B.Sc. Psychology, Hood College.

History: Basudha Bhattarai-Johansson joined Probi as Vice President HR in 2020. Before joining Probi, Basudha was employed at Bristol-Myers Squibb, a global biopharm company, where she served as HR Director for the Nordic region. Her previous positions include various HR roles at IQVIA (formerly IMS Health).

Shares in the company: –



Titti Niskanen

 Lead R&D, born 1965.

Education: B.Sc. Chemistry and Microbiology, Stockholm University; PhD Neuroscience, Karolinska Institute, Stockholm.

History: Titti Niskanen joined Probi in 2015 as Clinical Project Director, responsible for project management and clinical operations. Titti has extensive experience of pharmaceutical development within several therapeutic areas, both from pharmaceutical and biotech companies. Prior to joining Probi, Titti held positions within R&D and project management at Astra Zeneca, Biolnvent International AB and Camurus AB.

Shares in the company: 25



Niklas Larsson

 Lead Scientific Affairs, born 1970.

Education: PhD Analytical Chemistry, Lund University.

History: Niklas Larsson joined Probi in 2008 as Research Director. Prior to joining Probi, he worked within research for Novo Nordisk and as R&D Director for a venture capital funded medical devices company in Denmark.

Shares in the company: –



Andy McShea

 Vice President Operations, born 1970.

Education: B.Sc. Cell Biology and Immunology, PhD Bioengineering.

History: Andy McShea joined Probi as Vice President Operations in 2018. Prior to joining Probi, Andy worked for a Houston-based Private Equity fund managing the operations of portfolio businesses in food, regenerative medicine and medical devices. Before that, he served as Vice President of Biology and Chemistry at CombiMatrix Corp and Chief Operating Officer at Theo Chocolate. Andy began his career as a scientist working for companies such as Novartis and Bristol Myers Squibb.

Shares in the company: –

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Tuesday, 13 May 2020 at 3.00 p.m. at Elite Hotel, Ideon Gateway, Scheelevägen 27, Lund, Sweden.

Right to participate

To be entitled to participate in the Annual General Meeting, shareholders must be registered in the shareholders' register maintained by Euroclear Sweden AB as of Wednesday, 6 May 2020 and shall have notified the company of their intention to participate by Wednesday, 6 May 2020.

Shareholders whose shares are registered with a trustee must temporarily re-register their shares in their own name with Euroclear Sweden AB in order to participate in the Meeting. Such registration must be

completed by Wednesday, 6 May 2020. This means that shareholders must notify the trustee of their intention to temporarily re-register these shares in ample time before this date.

Notification of participation

Notification of participation in the Meeting can be made:

- in writing to the address Annual General Meeting, Probi AB, Ideongatan 1A, SE-223 70 Lund, Sweden
- by e-mail to: bolagsstamma@probi.com
- by calling +46 (0)46 286 89 14

The notification should include the following:

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

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

FINANCIAL CALENDAR FOR 2020

Interim report Q1 2020	24 April 2020
Annual General Meeting for 2019	13 May 2020
Interim report Q2 2020	17 July 2020
Interim report Q3 2020	21 October 2020
Year-end report 2020	9 February 2021

CONCEPT AND DESIGN: GIVAKT

TEXT: ASPEKTA, PROBI

TRANSLATION: THE BUGLI COMPANY

PHOTOGRAPHY: PETER WESTRUP, ISTOCK

ILLUSTRATION: NIKKI SCHMIDT

PRINT: EXAKTA, MALMÖ 2020

2019 ANNUAL REPORT

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