

FIRST IN PROBI- OTICS



IT'S IN OUR DNA

In the early 1990s, a number of researchers in Lund concluded that the high mortality rate of intensive care patients was probably due to a weakened intestinal barrier, which allows harmful bacteria to leak from the gut into the body. Could bacteria be used to strengthen the intestinal barrier? The foundation for Probi was laid and the company was established in 1991.

Probi has built its success on strategically following trends and linking them to solid research and development as well as commercial uses. This business objective is always present in our laboratories – we never touch a test tube before we know there is a potential market.

Probi has been growing steadily for several years, particularly in the US market. We also completed a major acquisition of the US company Nutraceutix in 2016, and are now building a global probiotics group. We are now one of the few companies in the world with all probiotics management under one roof.

Today, Probi markets a broad portfolio of probiotic products:

- **Probi Premium™** is a range of exclusive and patented health concepts based on well-documented probiotic strains.
- **Probi Select™** is a completely new range that was launched in 2017. The range contains selected probiotic strains that are clinically documented for more general health claims targeted at broad target groups.
- **Probi Livebac®** contains a long range of probiotic strains for customised multi-strain offerings.
- **Probi Biotract®** is a unique probiotic delivery system available for controlled release and protection of sensitive probiotic strains.

It's in our DNA – first in probiotics

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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.

THIS IS PROBI

Probi AB is a Swedish publicly traded bioengineering company. 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 was founded by researchers in Sweden in 1991 and is now a multinational company with four sites in the US, Sweden and Singapore.

Probi has created a strong product portfolio, primarily in the digestive health and immune system niches, which was broadened in 2016 with the acquisition of US company Nutraceutix. Probi has its own fermentation and production capacity in GMP-certified facilities. In Probi's two business areas –

Consumer Healthcare and Functional Food – and in partnership with leading food, healthcare and pharmaceutical companies, Probi develops, markets and sells probiotics in the form of powder, capsules, tablets and fruit juice drinks.

Probi's product portfolio

Today, Probi markets a broad portfolio of probiotic products:

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

PROBI SELECT™ is a completely new range that was launched in 2017. The range contains selected probiotic strains that are clinically documented for more general health claims targeted at broad target groups.

PROBI LIVEBAC® contains a long range of probiotic strains for customised multi-strain offerings.

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

Commercial research

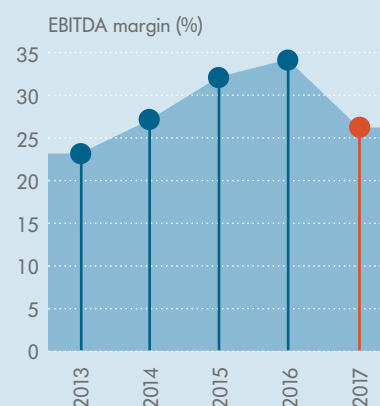
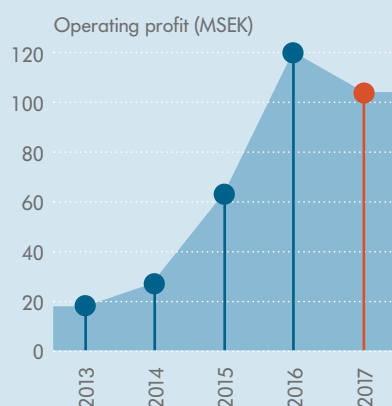
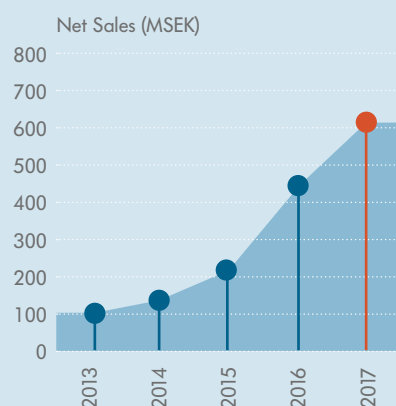
Probi conducts extensive and structured research and development, and all projects are based on customer needs. In recent years, several trials have presented findings that are important for Probi's future development, in both the long and the short term. Probi holds more than 400 patents worldwide.

More than 40 countries

Probi's products are marketed and sold or in the process of being launched in slightly more than 40 countries, and the geographic spread is increasing gradually.

168 employees

At the end of 2017, Probi had (168) 200 employees, including 128 in the US, 38 in Sweden and two in Singapore.



SIGNIFICANT EVENTS IN 2017

612
msek

Net sales rose to MSEK 612 (444).

104
msek

Operating profit declined to MSEK 104 (120).

26
%

The EBITDA margin decreased to 26% (34).

168
employees

The number of employees in Probi was 168 (200) at 31 December 2017.

FIRST QUARTER

- Probi Select™ – patented and documented probiotics for digestive health and the immune system – was launched.

SECOND QUARTER

- Successful conclusion of the integration process and strengthening of Probi USA's sales and marketing organisation.
- The launch of a research programme focused on next-generation probiotics and prebiotics in partnership with the Rowett Institute at the University of Aberdeen.

THIRD QUARTER

- Destocking by a major customer in the North American market impacts net sales and earnings in the second half of 2017 and the first quarter of 2018.
- Positive initial results from a programme to develop a probiotic platform for children. The results demonstrate strengthened immune function and delayed onset of gluten intolerance.
- Launch of Probi® Fast Melt, a tasty and convenient way to take a daily probiotic supplement.
- The distribution agreement with Ipsen was expanded to include Italy, the largest market in Europe for probiotic dietary supplements.

FOURTH QUARTER

- Major agreement with a global FMCG (fast-moving consumer goods) company regarding the launch of a Functional Food product containing Probi's gut health bacteria in North America in 2019.
- New application to the European Food Safety Authority (EFSA) related to health claims for Probi FerroSorb®.
- Kréol, a sparkling probiotic drink filled with Probi® Plantarum 6595, launched in Australia.
- Probiotic yoghurt containing Probi's LP299V® launched in South Korea by the Asian food and beverage company Lotte.
- US Food and Drug Administration (FDA) issued a GRAS (Generally Recognized As Safe) No Objection Letter for Probi's LP299V® bacterial culture.
- First launch of Probi FerroSorb® in the North American market initiated by a new customer with a strong brand in dietary supplements.

PROBIOTICS ON EVERYONE'S LIPS

New research shows that the one-to-two kilograms of bacteria carried by every human in their gut flora should be considered a separate organ. There is a connection between gut flora and a range of health problems – from allergies to metabolic disorders, such as cardiovascular disease.

Gut flora is currently one of the hottest fields of research in life sciences. Of all studies ever published on this topic, more than half were presented between 2015 and 2017. The topic often garners a great deal of attention now, even in mass media. As a result, there is a strong and growing interest in probiotics among both customers and consumers.

This will create major opportunities in the long term, and with our complete value chain – ranging from R&D to manufacturing and sales – Probi is well-equipped to meet the growing demand. Our investments in research and development, as well as production and sales, will continue.

Destocking in North America

In the second half of 2017, one of our largest customers in the North American market launched a destocking programme, which is expected to continue into the first quarter of 2018. The customer is expected to resume its orders of the relevant products in the second quarter of this year. Probi has a very close relationship with this customer and we are

running several projects together, both in North America and Rest of the World.

In Functional Food, we have been working intensively for many years to bring in new customers and projects. In 2017, we launched a drink in Australia and a yoghurt in South Korea. In late 2017, we signed a major agreement that is expected to have a significant impact on Probi's earnings and revenue after the launch, which is planned for the second half of 2019. The agreement constitutes key recognition of our products and expertise in Functional Food, and once again shows that we are able to achieve breakthroughs with the largest players in the market.

2017 was our first full year as owner of Probi USA (formerly Nutraceutix). We successfully maintained the level of sales, number of customers and key employees, and strengthened the sales organisation. Synergy sales are expected to drive growth in North America, now that Probi's documented probiotic strains are beginning to reach the US market. In late 2017, we sold the first Probi FerroSorb® products in the US (which also are manufactured in our facility there), secured the first purchase orders for Probi Select™ and exported the US-manufactured Probi Livebac® culture to Asia.

Probi has been running a comprehensive clinical research and development programme for many years. In 2018, extensive findings will be presented in the fields of bone health, stress, digestive health and

immune response, and used to develop new products and customer projects. We are now a large company and can invest even more in research. The research budget for 2018 is our largest ever. We are also involved in a number of collaborations with various partners, mainly universities, all over the world.

Probi is now a complete probiotic company, with R&D, production, sales and marketing. A few years ago, we made the strategic decision to become a probiotic ingredient company and to sell our products globally to various brand owners. This has enabled us to optimise our leverage of Probi's unique and broad expertise in probiotics, microbiology and clinical trials.

We will continue building on this process – to develop our existing strengths, and to add more products through our own R&D, and by in-licensing other probiotic products.

Probi's growth opportunities are favourable. We are currently focused on organic growth. We are the fourth-largest probiotic player in the world, and because of our size, customers are now approaching us in regard to even larger projects. Geographically, our journey has only just begun. With our broad product portfolio, we could essentially serve the entire market. There are still many countries to reach, and in those countries we have reached, customers do not usually have more than one of our products.

Probi has held a strong position in the



North American market for some years. With a stronger sales organisation, I see major potential for further sales growth there. A new sales force and a broader product portfolio will also create opportunities for growth in the European market. I see our greatest potential in Asia, with major markets such as China and Japan. We have strengthened our Asian organisation with a new manager, based in Singapore.


To accelerate sales in selected markets, we will be intensifying our partnerships with distributors – particularly in Asia, with a focus on China.

Probi's employees share a passion for probiotics and their beneficial effects on human health. In 2017, we worked intensively and made good progress to merge all of our different parts into one company, to deliver synergies at multiple levels. We are now taking this process with us into 2018 to create

continued profitable growth together. Together with the rest of the organisation, I am looking forward to continued successful and profitable growth in one of the world's most interesting markets.

Lund, March 2018

Jean-Yves Parisot
Chairman of the Board



**WITH
ROOTS
IN LUND
UNIVERSITY
AND THE 1980S**



A research project at Lund University in Sweden laid the foundation for Probi in the mid-1980s. Based on promising research, in which specific probiotics were used to save the lives of critically ill patients, Probi was founded in 1991. At the same time, a patent application was lodged for the company's most studied bacterial strain, *Lactobacillus plantarum* 299v.

Probi's commercial phase began in 1994 when the company signed a licensing agreement with Skånemejerier, which led to the market launch of ProViva in Sweden.

During the late 1990s and first half of the 2000s, extensive research and development began that was designed to pave the way for the international expansion that commenced in 2005 through collaboration with Lallemand and the launch of Probi's gut health capsule, Probi Digestis®. Probi's immune health product platform, Probi Defendum®, was launched in 2010.

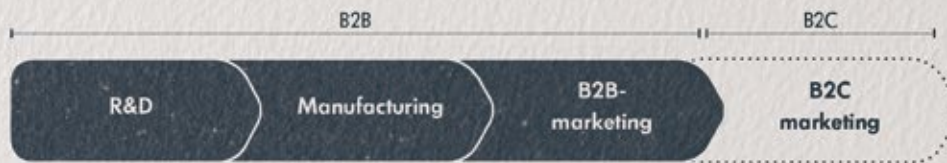
The first agreement in US for dietary supplements was signed the following year. This was followed by more and Probi began a period of strong expansion in the important North American market.

A positive outcome in clinical trials to evaluate iron absorption led to the launch of Probi FerroSorb® in 2016.

Following the acquisition of US company Nutraceutix in 2016, Probi became a complete probiotics group with R&D, fermentation, production, marketing and sales.

A COMPLETE PROBIOTICS GROUP





Following the acquisition of the US company Nutraceutix, Probi now has its own production capacity and is thereby a fully integrated probiotics group with its own value chain.

Probi's own laboratory in Lund performs microbiological analyses to ensure product quality, and analyses samples from clinical trials. The laboratory also conducts comprehensive stability analyses of new and existing products. Knowledge is protected under intellectual property laws and used to develop concepts and products that can be commercialised.

The Product & Application Development department is responsible for product formulation. Different formulation technologies are used for different types of products and applications, such as drinks, tablets and capsules.

Probiotics manufacturing includes fermentation, formulation, packaging and distribution. Probi's bacterial cultures are cultivated and processed in Redmond, Washington, in the US. In Lafayette, Colorado, capsules and tablets are produced and packaged for distribution to consumers.

Probi's own manufacturing facility in the US strengthens the company's position in the value chain, and enables the strategic choice between producing internally or buying externally.

Probi's quality functions are responsible for overall quality, both internally and from suppliers. Evaluations and, in some cases, inspections are performed regularly to ensure quality. For Probi's production facilities in the US and the other activities conducted by Operations, the focus moving forward will be to quality-assure the entire value chain, which is a prerequisite for Probi's continued rapid growth.

Probi currently markets and conducts sales of probiotics and probiotic solutions to other B2B operators in more than 40 countries, that market and sell products to consumers through multiple channels.

**BROADEST
PRODUCT
PORTFOLIO
IN THE
MARKET**



Today, Probi markets a broad portfolio of probiotic products:

PROBI PREMIUM™

is a range of exclusive and patented health concepts based on well-documented probiotic strains.

PROBI SELECT™

is a completely new range that was launched in 2017. The range contains selected probiotic strains that are clinically documented for more general health claims targeted at broad target groups.



PROBI LIVEBAC®

contains a long range of probiotic strains for customised multi-strain offerings.

PROBI BIO-TRACT®

is a unique probiotic delivery system available for controlled release and protection of sensitive probiotic strains.



WELL- DOCUMENTED SUCCESS



The development and careful documentation of Probi's own probiotic bacterial strains and their health benefits is central to the company's commercial success. The process from concept to finished product usually takes about five years.

Since the company's foundation nearly 25 years ago, Probi has continued to document the health benefits of its probiotics. Because of this approach, Probi now has among the best-documented bacterial strains in the world. Probi's success in the US in recent years is largely based on this sound clinical documentation.

Probi's efficient R&D department is organised into three units:

- Research & Scientific Support conducts studies and documents the health benefits of bacteria. This unit monitors international research in the field and ensures that Probi's work follows the latest findings in the area.
- Project Management & Clinical Trials is responsible for ensuring that Probi has an effective process for both product development projects and more long-term research projects, with the aim of reducing time-to-market and improving the quality of each project.
- Discovery works at the frontline of research to identify new and interesting development opportunities, and secure the company's future competitiveness through collaboration with internationally renowned academic research groups.

To ensure high quality, Probi has intensified its collaboration with researchers and specialists in fields relevant to existing products and to new clinical projects at a number of research institutions and clinics around the world.

WE ARE
STILL
HUNGRY



Growth in the probiotics market remains very strong. According to Euromonitor, average total market growth is expected to be 7% annually up to 2022. Global sales of probiotics totalled USD 39 billion in 2017 at the consumer level, and are expected to reach USD 55 billion by 2022.

Probi is well-positioned to capitalise on this growth, not least by its strong position in the North American market. In addition, the company is gradually building up a greater presence in Asia, where major markets like China, Japan and South Korea hold considerable potential for Probi.

Probi is now one of the top four global, integrated probiotic companies. Our overall objective is growth that outperforms the market. To achieve this goal, we are focused on the following four strategic areas:

- Develop existing products in existing markets. This will mainly be effected by broadening our distribution and expanding our marketing and sales campaigns. Probi works closely with its B2B partners to provide the best-possible support, thereby creating opportunities for growth in existing markets.
- New markets. There is major potential for continued international growth. The strategy is to launch the existing wide range of product platforms in new geographic markets with significant growth opportunities. Probi essentially sees opportunities for growth in all global markets, especially in Asia.
- Continuously launch new products. Probi's research strategy is to develop additional product platforms and to have several clinical development projects, with the aim of developing new, and strengthening existing, platforms.
- Establishment in new indications. Technical advances in microbiome research have increased opportunities to demonstrate the efficacy of probiotics in new indications. Probi partners with leading research teams to commercialise new platforms in new indications.

BUSINESS CONCEPT, STRATEGY

Probi operates in the global healthcare products market. The company offers probiotics of the highest quality to food, healthcare and pharmaceutical companies.

Vision

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.

Mission

Probi contributes to the global development of probiotics through curiosity, passion and research. At Probi, we work with our partners as we focus on consumers' health.

Business concept

Probi offers probiotics with proven health benefits to leading food and consumer healthcare companies. Probi's exclusive focus on probiotics offers flexibility, expertise and partnership all the way from R&D and marketing, to the production of finished products.

Two business areas

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

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. The regulatory status of the products is either food or consumer healthcare products, depending on the market. Revenue is derived from sales of goods in bulk or consumer packaging.

Functional Food

Functional Food develops food that contains Probi's probiotics. Development takes place in partnership with food companies, in order to commercialise and market products with high volume potential. Revenue is mainly derived from royalties from partner-generated sales.

Probi's product portfolio

Today, Probi markets a broad portfolio of probiotic products:

- Probi Premium™ is a range of exclusive and patented health concepts based on well-documented probiotic strains.
- Probi Select™ is a completely new range that was launched in 2017. The range contains selected probiotic strains that are clinically documented for more general health claims targeted at broad target groups.
- Probi Livebac® contains a long range of probiotic strains for customised multi-strain offerings.

- Probi Biotract® is a unique probiotic delivery system available for controlled release and protection of sensitive probiotic strains.

Financial objectives

Probi's overall objectives are to generate a return for its owners, and to generate funds for developing the business operations and creating growth. The Management Team manages and controls the company based on the guidelines and financial objectives adopted by the Board.

Growth

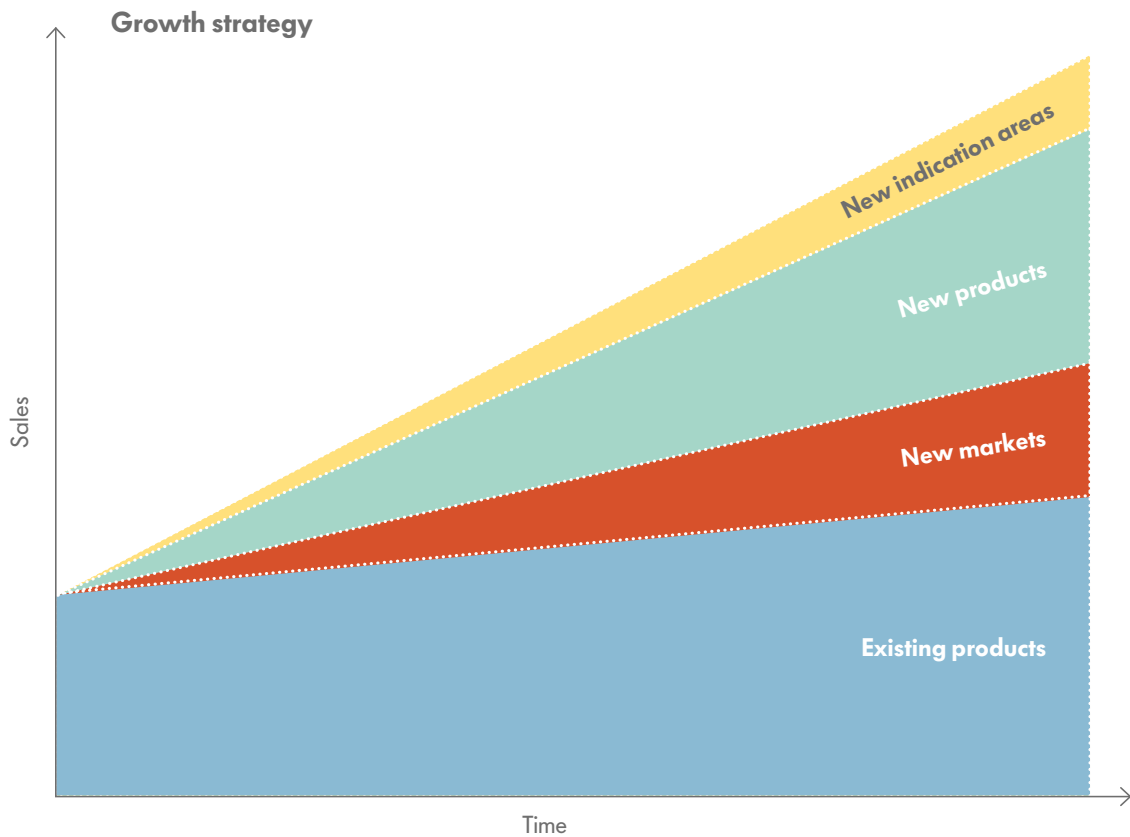
To generate growth that outperforms the market. During 2017, Probi experienced growth of 38% (106) including acquired operations. Organic growth in existing operations was a negative 11% (positive: 71). Adjusted for currency effects, organic growth was a negative 11% (positive: 67).

Margin (EBITDA)

Growth is to be combined with a profit margin (EBITDA) exceeding 20%. Probi's EBITDA margin for 2017 was 26% (34). Adjusted for currency effects, the EBITDA margin for 2017 was 26% (34).

Strategy

Probi's strategic focus is on probiotic-based products, for which Probi has world-leading, patented technology.



Probi's growth strategy

Probi's growth strategy encompasses investments in four areas: existing products, new markets, new products and new indications. Growth may be achieved organically or through acquisitions in all of these areas.

Existing products in existing markets

Probi works continuously to secure growth for existing products in existing markets. This will mainly be effected through broader distribution and expanded marketing and sales campaigns. Probi works closely with its B2B partners to provide the best-possible support, thereby creating opportunities for growth in existing markets.

New markets

Probi believes there is major potential for continued international growth. The strategy is to launch the existing wide range of product platforms in new geographic markets. Probi essentially sees opportunities for growth in all global markets, especially in Asia.

New products

Probi's research strategy is to develop additional product platforms and to have several ongoing clinical development projects, with the aim of developing new, and strengthening existing, platforms. A key part of the strategy is to customise specific product concepts based on Probi's broad and deep clinical expertise.

The strategy also includes developing new product applications based on the existing platforms, which may include targeted products that combine probiotics with vitamins or minerals, for example.

New indications

Technical advances in microbiome research have increased opportunities to demonstrate the efficacy of probiotics in new indications. Probi partners with leading microbiome research teams with the aim of commercialising new platforms in promising new indications in the future.

KEY TRENDS IN THE GLOBAL PROBIOTICS MARKET

The global market for probiotics continues to be driven by a number of overall consumer-related factors and by ever-increasing research into the importance of the gut flora to our health.

Consumer-driven factors

Sharp global population growth and rapid urbanisation are drivers of the growth in industrially produced food and beverages. Consumers are also becoming increasingly aware of the contents of food and how it is produced. Demand is increasing for products that are healthy and nutritious, while also being safe and sustainable. The trend of plant-based food represents a fundamental shift in how people are relating to food. A growing proportion of consumers are rejecting dairy products and meat for environmental or health reasons, or for ethical reasons. This is leading to increased demand for alternatives to traditional dairy products based on, for example, oats, soya or almonds, which are highly suitable for combining with probiotics to further boost the health benefits.

Because the general and global interest in health, training and well-being among consumers remains strong, demand is increasing for products such as probiotics that offer beneficial health effects.

The middle classes are growing in large parts of the world and the resulting increase in purchasing power also benefits demand for products of this type. An increasingly aging population is resulting in higher costs for healthcare and pharmaceuticals in many countries, which is increasing demand for health products and self-care. As people

age, the microbiota (intestinal microflora) change, which can have negative effects on health. It has been demonstrated that products containing probiotics can have positive health effects.

Scientific advances broadening use

Increasingly intensive research in recent years indicates that gut flora is of major importance to our health. Research into intestinal microflora and probiotics has increased as new technology has made it possible to analyse the human microbiome. Research findings also show the potential health efficacy of probiotics for metabolic and psychological conditions, alongside more established areas such as the gastrointestinal tract and the immune system. Due to these results, the development of probiotics for new indication areas is increasing, which is expected to contribute to continued growth in the longer term as well, as the market becomes wider and larger.

Market size and growth

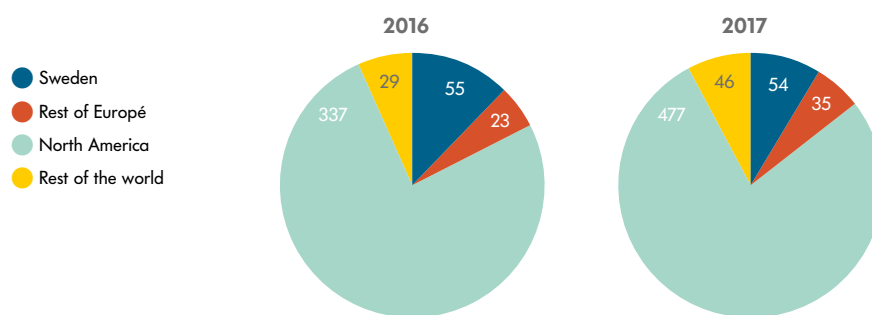
According to Euromonitor, the global market for probiotics sold to consumers is expected to grow by an annual average of about 7% up to 2022. Global sales of probiotic products totalled USD 39 billion in 2017 at the consumer level and the market is expected to reach USD 55 billion by 2022. According to Euromonitor, functional food products account for about 90% of global probiotics sales and consumer healthcare products for about 10%.

Market players

The probiotics market is fragmented and characterised by cooperative arrangements in the form of partnerships and other types of business relationships between various players. In recent years, market consolidation has commenced due to a number of global ingredients

companies implementing acquisitions of probiotic companies. Various categories of players operate in the market, including research and development firms, manufacturing firms, sales companies and brand owners. There are also a number of integrated players that are active across the entire B2B value chain. The leading players include Chr. Hansen, DuPont/Danisco and Lallemand. Unlike Probi, none of them focus exclusively on probiotics. Chr. Hansen and DuPont/Danisco have a well-developed sales and distribution network and large-scale production. In addition to a focus on the value chain, most of the other players are geographically focused on a particular regional market.

Geographic distribution of Probi's net sales (MSEK)



Europe – Market size and growth for probiotics

USD billion	2013A	2017A	2022E	CAGR 2013-2017A	CAGR 2017-2022E
Consumer Healthcare market	1.0	1.4	1.9	7.8%	5.9%
Functional Food market	6.1	6.1	6.7	-0.1%	1.9%
Total	7.1	7.5	8.6	1.1%	2.7%

North America – Market size and growth for probiotics

USD billion	2013A	2017A	2022E	CAGR 2013-2017A	CAGR 2017-2022E
Consumer Healthcare market	1.3	2.3	4.0	15.9%	11.3%
Functional Food market	4.7	5.7	7.2	4.8%	4.6%
Total	6.0	8.0	11.2	7.5%	6.8%

APAC – Market size and growth for probiotics

USD billion	2013A	2017A	2022E	CAGR 2013-2017A	CAGR 2017-2022E
Consumer Healthcare market	0.8	1.2	1.9	10.2%	9.5%
Functional Food market	13.0	18.1	27.5	8.7%	8.7%
Total	13.8	19.3	29.4	8.8%	8.8%

CAGR=Compound Annual Growth Rate

Source: Based on information from Euromonitor





A GROWING PRODUCT PORTFOLIO FACING INCREASINGLY STRINGENT QUALITY STANDARDS

In 2017, a large part of the work in the Operations department focused on the integration of Nutraceutix. Production has now commenced of the new Probi Select™ product range and is being carried out both internally, and through external suppliers. This is in line with the company's strategy of finding the right balance between producing internally and buying externally to continuously ensure the safest and most efficient alternative.

In just a short time, Probi has progressed from three bacterial strains and a few products to a significantly broader portfolio. Sales are carried out in two market segments, Functional Food and Consumer Healthcare, which are subject to varying quality standards. Adjusting to this broadening of the business represented an important part of the work carried out in Operations in 2017.

Operations focuses on delivering the right product at the right time to the right customer at the right price. Finding a balance between proprietary manufacturing and partnerships with contract suppliers is key. Multiple factors are taken into consideration when making such decisions, such as volume, access, demand, price and geographic area.

Operations has overall responsibility for production and supply, product and application development, and quality and regulatory issues. Operations interfaces with the entire organisation, and focuses on

the customer, both internally and externally.

Thanks to a growing probiotics market, Probi is able and willing to devote even greater focus to proprietary production. At its own facilities, Probi worked throughout the year to combine the knowledge of its various units in order to develop and optimise its processes. Probi also analysed its internal production under the "Requirements for expansion" preliminary project to determine what needs to be done to prepare for a potential production expansion.

During the summer, Probi launched a new product format with a fast-melt formulation, a project that required a new contract manufacturer with whom Probi worked intensively during the year to ensure product quality.

Bacteria cultures are cultured and processed in the fermentation facility in Redmond, Washington, and capsules and tablets are produced and packaged for consumers in Lafayette, Colorado. Both facilities are GMP



certified. In 2017, Probi established a fermentation laboratory in Redmond.

The Product & Application Development department is responsible for product formulation. Different formulation technologies are used for different types of products and application areas, such as drinks, tablets and capsules. The choice of packaging is important and influenced by external factors, such as the climate where the product will be sold.

Probi's laboratory performs microbiological analyses to ensure product quality, and analyses samples from clinical trials. The laboratory also has a comprehensive stability programme for new and existing products.

The quality departments in the US and Sweden are responsible for overall quality, both internally and from suppliers. Evaluations and, in some cases, inspections are performed regularly to ensure quality.

Operations' duties



Consumer Healthcare business area

RELEVANT TO MORE CUSTOMERS

During the year, Consumer Healthcare made major and important strides towards broadening its customer base and increasing sales through integration of the US company Nutraceutix, which was acquired in 2016. With several new product offerings and new expertise throughout the value chain – from concept development to proprietary production and packaging – Probi is creating flexibility and thereby becoming relevant to more customers worldwide.

Consumer Healthcare is Probi's business area for dietary supplements, offering probiotics in tablet, capsule and powder form. The business area utilises a large number of sales channels, from pharmacies to health food stores and supermarkets the world over, where various players offer products containing Probi's bacterial strains under their own brands.

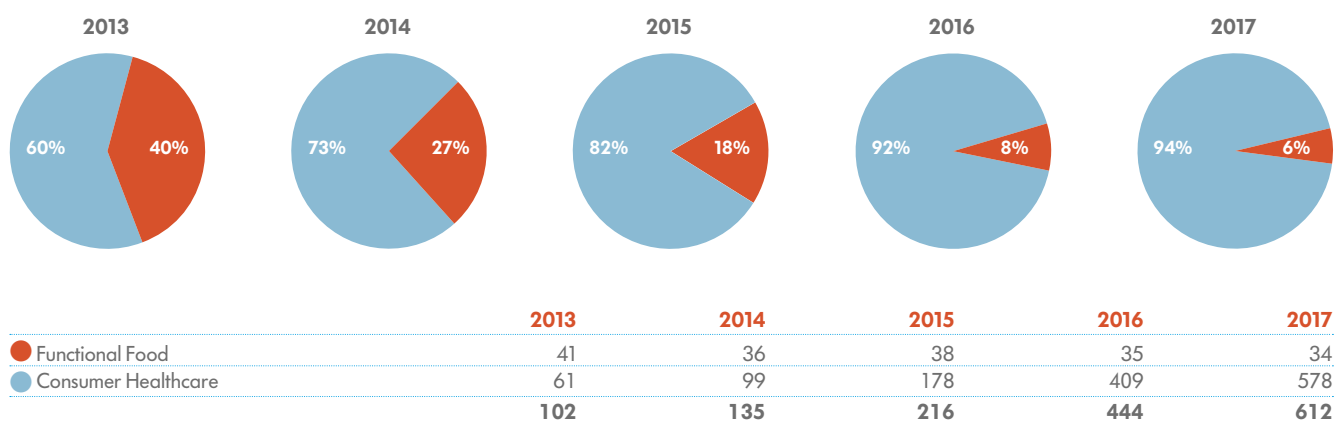
In 2017, net sales in the business area rose MSEK 169.5 to MSEK 578.0 (408.5). The acquired operations accounted for MSEK 233.6 of this increase. Excluding the acquisition, the business area's net sales declined MSEK 64.1, mainly due to the destocking carried out by one of Probi's largest customers in North America during the year.

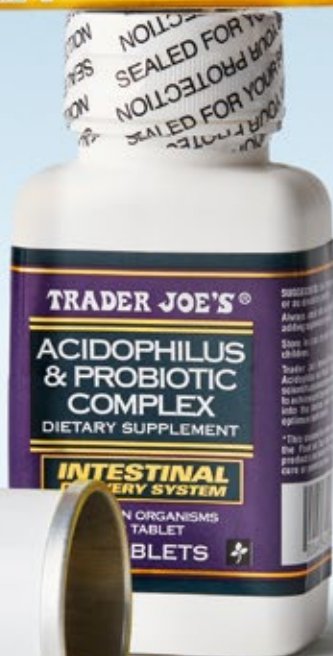
The integration of Nutraceutix has given Probi an even stronger presence in the North American market by broadening the customer base and expanding the product range. These new products are attributable not only

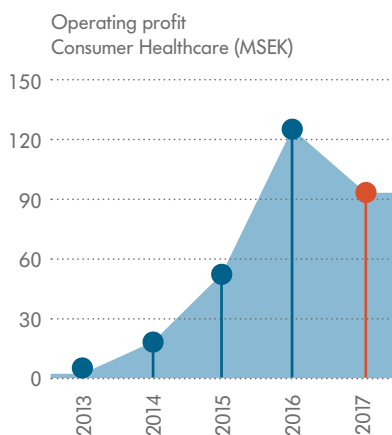
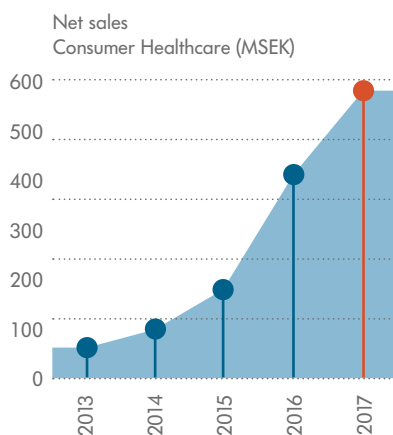
to the acquired company, but also to Probi's existing library of bacterial strains not previously launched on the market. The acquisition has enabled Probi to offer products in most major market segments. By using different probiotic bacterial strains with varying degrees of documented health benefits, Probi's offering is now relevant to significantly more customers than ever before.

The integration of Nutraceutix also means that Probi now has the capacity to address the entire value chain. While the main focus was previously on research and product development, with production and packaging handled by external parties, Probi now manages the entire chain in-house, from concept to packaged product. This higher level of expertise and wider range means that Probi can meet the needs of new customers. This has also made Probi a relevant player to more potential customers.

Share of Group net sales (MSEK and %)







Consumer Healthcare business area

Consumer Healthcare develops, manufactures and markets Probi's probiotics. Customers are pharmaceutical companies and other companies specialised in probiotics and self-care products. The regulatory status of the products is either food or consumer healthcare products, depending on the market. Revenue is derived from sales of goods in bulk or consumer packaging.

The North American market, which is Probi's largest market, has displayed double-digit annual growth for many years. This growth rate slowed in 2017 due to a somewhat lower launch rate, which in turn was the result of a stabilisation in the number of players in the market. Probi expects the North American market to grow by 5 to 7 percent in 2018.

Compared with Europe, the US market has long been characterised by a higher level of consumer demand for multi-strain products in the form of dietary supplements rather than enriched foods. These supplements contain multiple bacterial strains with a high CFU count, which is the unit used to estimate the number of bacteria. These operations involve a high degree of innovation, since the market requires continuous renewal. Consumers in the market are eager to learn more and expect to be able to choose from a wide range under a specific brand. Nutra-ceutix has been well-established in this market for many years.

The fastest-growing market segment, however, is products with scientifically well-documented solutions, which is Probi's original core competence. One example is

a new customer, which is currently a typical multi-strain company, with a strong dietary supplement brand that is now launching Probi's iron absorption concept, FerroSorb®, in the US. Other growing customer categories for Probi's Premium and Select ranges include direct-to-consumer companies like Amazon, and multi-level marketing companies.

In Asia, Consumer Healthcare's sales rose in a market that showed overall positive growth, but is highly fragmented in regions with varying degrees of maturity. While some markets are mature, such as Japan and South Korea, India and China are in the early stages of growth with major potential. Nonetheless, the business area reported successful sales in South Korea with premium products in our partner companies Sanofi and Dongkook. New customer segments were reached in India due to our differentiated customer offering in partnership with USV. The Chinese market is growing sharply, but is also challenging in terms of regulation. Permit applications and product registrations are comprehensive and time-consuming processes.

Sales increased in Europe due to a combination of new and existing customers. Probi's agreement from 2016 with the French company Ipsen continued to deliver favourable results. The agreement is related to sales of a capsule featuring the LP299V® bacterial strain in a total of 18 markets, including the major markets of Russia and China. Italy – the largest probiotics market in Europe – was also added during the year. During the year, Ipsen launched the product in France, the Baltic countries, the Czech Republic and Romania. Launches in new countries will continue in 2018.

During the year, the business area also launched a new product for modern on-the-go consumers and younger target groups. In this new Probi® Fast Melt product format, which Bringwell launched in Sweden in autumn 2017 under the name of Probi Mage® Powder Shot, Probi's probiotics will be available as a tasty, easily soluble powder that can be consumed directly from a modern stick pack.



NYHET - PORTIONSPÅSAR

EN OM
DAGEN

PROBI:MAGE®

Med levande bakteriekultur



Snabbt och gott
Direkt i munnen - utan vatten

POWDER SHOT

Lactobacillus plantarum 299v
Patenterad och kliniskt dokumenterad.



KOSTTILLSKOTT

21
PORTIONSPÅSAR

Probi är ett svenskt företag, ledande inom probiotisk forskning



Functional Food business area

FAVOURABLE CONDITIONS FOR GROWTH

In the Functional Food business area, Probi's bacterial strains are added to food. After several years of stagnation, we can once again feel optimistic about the future. In 2017, an agreement was signed for the North American market that will have a significantly positive effect on future revenue and earnings.

In 2017, net sales in Functional Food amounted to MSEK 34.2 (35.0). A lower royalty rate in one agreement offset the positive volume growth in all regions, especially in Sweden, where Proviva once again showed sustained volume growth in 2017.

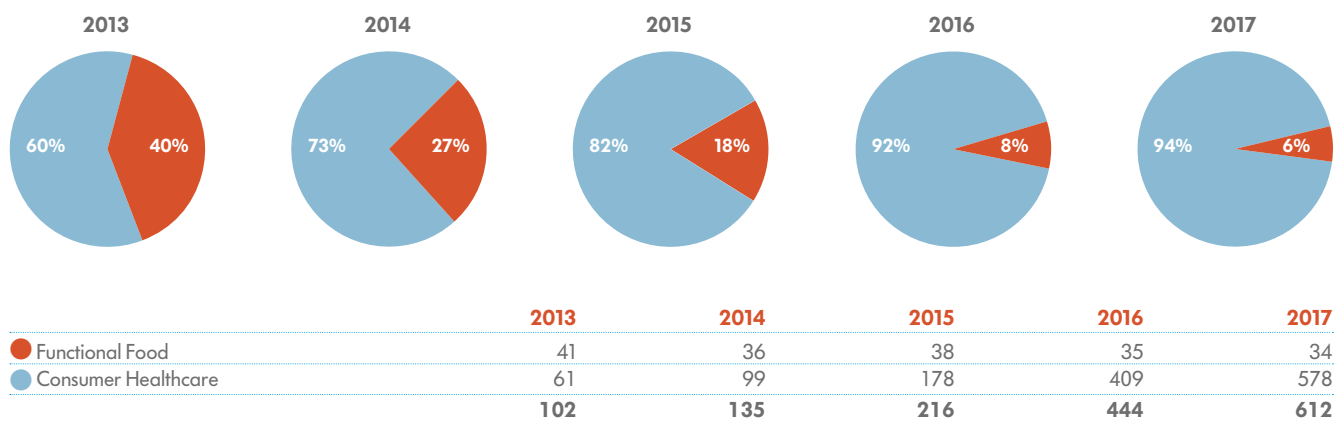
Functional Food is Probi's origin – adding a bacterial strain to food in a controlled manner so that the probiotics survive in the food environment. This is a complex process, and requires a long period of development for each type of food – from fruit juice drinks to dairy or plant-based foods.

Probi's main market for Functional Food has historically been Europe. However, restrictive EU regulation on health claims made on foods has hampered the rate of new

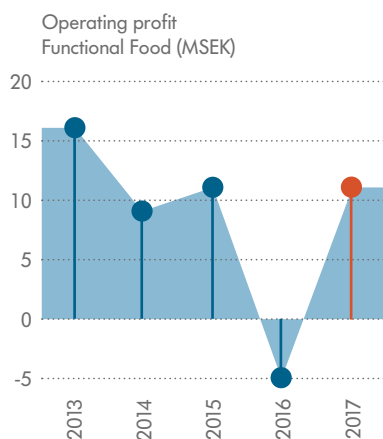
launches in Europe, and Probi has therefore focused on establishment in other markets, both east and west. In 2017, Probi took some decisive steps that have led to considerably more optimism about the future of this business area.

At year-end, Probi Functional Food signed a major agreement with a global FMCG company (fast-moving consumer goods) regarding the launch of a product containing Probi's digestive health bacteria. The agreement covers North America, with a launch in the second half of 2019 and possibly more markets. The agreement will have a significantly positive effect on the business area's revenue and earnings.

Share of Group net sales (MSEK and %)







Functional Food business area

Functional Food develops food that contains Probi's probiotics, with development taking place in partnership with food companies, in order to commercialise and market products with high volume potential. Revenue is mainly derived from royalties from partner-generated sales.

During the year, the South Korean dairy company Lotte launched a flavoured yoghurt containing Probi's premium strain LP299V®, which is now well-established. This was a milestone because it shows that LP299V® works well in a flavoured dairy product, and because the launch was a key market event for Probi in Asia.

ProViva was relaunched in the Swedish market with new recipes, flavours and packaging design and a new marketing concept. This was the result of a comprehensive development process between Probi and the customer. ProViva is showing growth and is just one of many successful customer partnerships.

In addition, The Natural Beverage Company launched a sparkling fruit juice drink, Kréol, in three flavours in Australia and New Zealand. The drink contains the *Lactobacillus Plantarum* DSM 6595 strain, which is included in the Probi Select™ product range.

Another milestone was reached during the year in relation to the US market. The US Food and Drug Administration (FDA) evaluated Probi's submission of a GRAS Notice and determined Probi's oldest, most well-documented and most-sold LP299V® bacterial

strain as safe to use. In November 2017, the FDA issued a No Objection Letter on the GRAS status (Generally Recognized As Safe) of LP299V®. The FDA's recognition will open important doors to the US market, because many food producers require this designation. During the year, the business area developed several new applications. Development is based on how Probi's bacterial strains interact chemically with food environments. One application comprises a bacterial strain grown specifically to function in one particular food. Every unique type of food requires its own application formulation. In 2017, a number of functional applications were developed for yoghurt, milk and plant-based foods, such as oat and soya-based products. In addition, an extensive project was introduced to create a distributor network. In Asia, in particular, potential customers often prefer to negotiate and conclude agreements with local operators.

Due to a larger product range resulting from the acquisition of Nutraceutix, new applications and favourable progress in the clinical documentation of our products, the future potential is good.



HIGH LEVEL OF AMBITION AND NEW INDICATIONS

In 2017, Probi's ambition to be a relevant supplier to more customers was reflected by more ongoing clinical trials than ever before in the history of the company. A total of 15 trials were ongoing during the year, several in completely new indications. New findings and applications also expanded the patent portfolio.

For centuries, people have been eating fermented foods, such as sour milk, sauerkraut, sausages, pickled herring and cheese. Fermentation was a method for keeping and storing food, without it going bad. Over the past years, research has shown that fermented foods contain beneficial bacteria that is very important to our health. Human intestines contain one to two kilograms of bacteria that actively contribute to a healthy and well-functioning gut. The bacteria break down fibres and release substances that we would otherwise lose. The gut is also the largest immunological organ in the body, representing

some 70% of our entire immune system by having intestinal bacteria stimulate our immune system. Accordingly, the composition of the microbiome (intestinal microflora) is critical to our health and imbalances can lead to gastrointestinal problems such as diarrhea, constipation and bowel inflammation, and also to disruptions to the immune system, resulting in sensitivity to infections.

Extensive research also indicates that the gut flora may be highly significant for additional health disorders, such as metabolic conditions (including obesity, diabetes and cardiovascular diseases), allergies and also diseases related to stress and depression.

The composition of the microbiome can be impacted by bad eating habits, infections, antibiotic treatment and other external factors. Eating probiotics is a well-established way of restoring and maintaining balance in the gut flora. Probiotics support the bacteria that are naturally present in the GI tract and prevent colonisation by pathogenic bacteria. This can take many forms, such as the release of bacteriocins – antibiotic-like substances that kill other bacterial strains – by probiotics, or by competing against pathogenic bacteria for the same colonising areas on the intestinal wall.

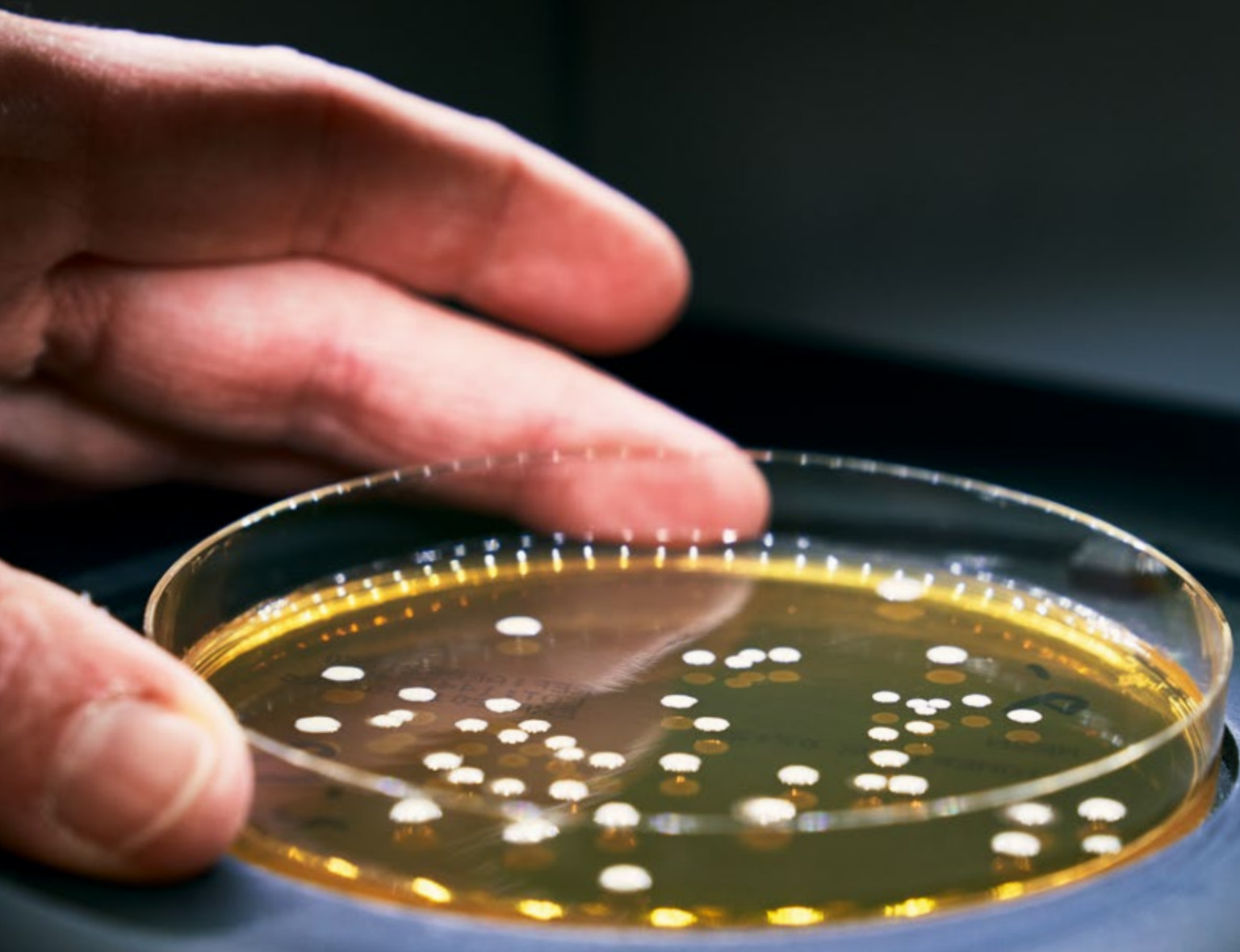
Probiotic research faces many challenges. It involves finding the exact bacteria from

millions of possible bacterial strains with a desired effect. The bacterial strain must be able to survive passage through the acidic environment of the stomach and reach the right place in the GI tract to perform its purpose. It must also be possible to conduct clinical trials on humans to demonstrate the positive health effects.

In 2017, Probi conducted more clinical trials than ever before in the history of the company. Four clinical trials were concluded during the year, one concerning a new indication, and all with positive outcomes. In addition, a supplement to an already concluded trial was completed.

Several new clinical trials and major research collaborations have commenced. All are progressing as planned and most are expected to conclude in 2018. They include an immune support trial on children, a gastric health trial on children, a trial in iron absorption in pregnant women in which we are investigating whether our Probi FerroSorb® product can prevent the development of iron deficiency during pregnancy, and a trial to confirm the efficacy of probiotics in reducing bone loss in postmenopausal women.

A trial focused on acute stress is also included. The link between the GI tract and the brain, and its impact on mental conditions





such as stress, anxiety and depression, has attracted a great deal of attention recently. The current stress trial is aimed at substantiating the potentially protective effect of probiotics.

In addition, a trial aimed at meeting the EU regulation regarding health claims in relation to the ability of Probi FerroSorb® to boost iron absorption was concluded. The outcome of the trial was positive and will now serve as the basis for a renewed application to the European Food Safety Authority (EFSA). To date, no health claims for probiotic products have been approved since the EU introduced clinical documentation requirements more than ten years ago. The European probiotics market has subsequently showed weak or no growth during this period. Probi believes that an EFSA approval would provide a major and strategic competitive advantage over other market players.

Patents are an important part of Probi's business model because they protect scientific

discoveries and enable the company to develop unique customer offerings. Probi's current patent portfolio contains 27 different patent families with a total of 471 individual patents covering probiotic strains, their usage and delivery technologies. The 407 granted patents and 64 patent applications have an estimated maximum duration which ranges from 2018 to 2038. The uses and applications of Probi's most important commercial strain, LP299V®, are protected by 275 granted patents and covered by 35 patent applications. In geographic terms, the patents cover the key markets, including US, Canada, Europe, Japan, China, South Korea, India, Russia, Brazil, Mexico and South Africa.

In summer 2017, Probi was granted a patent in the US for FerroSorb's iron absorption concept. The patent covers methods for treating anaemia and for increasing non-haem iron absorption by administration of LP299V®. To compensate for the US Patent and Trade-

mark Office's prolonged pendency period, the patent's duration was extended by 1,450 days, which means that Probi's patent will not expire until 2030.

Probi's patent application for use in the prevention or treatment of osteoporosis has now been granted in Russia. This is the fourth approval in this patent family of applications, following earlier approvals in New Zealand, Japan and Australia.



How it works

Not all types of lactic acid bacteria are probiotics, only those strains with reported beneficial effects on human health. Typically a probiotic strain is live and thus able to survive the passage through the acidic conditions of the stomach in order to be most beneficial for humans. It must also be proven clinically safe.

Finding the right bacterial strain among the vast array of flora in the human gut is an extremely laborious task. Selecting a bacterial species, such as *Lactobacillus plantarum* with which Probi works, is not always enough. Ideally the studies should be carried out at strain level – or the smallest unit – to evaluate the benefits of the bacteria. Different strains have different effects – one may be beneficial for digestive problems like flatulence, others for preventing colds.

All clinical trials performed by Probi are randomised, double-blind and placebo-controlled. This means that the subjects in the

trial are assigned randomly to the group that receives the active substance (the probiotic), or the group that receives a control product without the active substance (a placebo). The subjects do not know which group they belong to, or whether they are receiving the active product or a control product.

In order to communicate the health benefit of a product to consumers, scientific evidence must be obtained to prove that the product really does provide the desired benefit – such as relieving digestive problems for people taking antibiotics. The levels of evidence required, in regard to the number and scope of scientific studies, varies in different parts of the world.

Trials concluded in 2017

- A trial in irritable bowel syndrome (IBS) with 200 participants showed that 30% more of those subjects that received Probi Digestis[®] (LP299V[®]) reported an improvement in their IBS symptoms compared with those who received a placebo. These findings also led to a new patent application from Probi.
- A pilot trial using a completely new method of measuring the efficacy of Probi Digestis[®] (LP299V[®]) on flatulence and bloating produced positive results and led to the start-up of a larger trial using the same method.
- One of Probi's largest-ever clinical trials, with nearly 900 research subjects, showed that Probi Defendum[®] (*L. plantarum* HEAL9 + *L. Paracasei* 8700:2) protects against recurring colds and reduced the number of cold episodes by 30% compared with a placebo.
- A trial in a completely new indication was conducted on a group of children genetically predisposed to the onset of gluten intolerance. The trial results showed that Probi's probiotics support the immune system of these children in a manner that may delay the onset of gluten intolerance.
- In 2016, Probi received a negative opinion for a health claim application in Europe related to increased non-haem iron absorption based on the use of Probi FerroSorb[®] (LP299V[®]). The application was rejected on the grounds that the trial design could lead to systematically erroneous results. A study to investigate this has been implemented and the results of this confirmed that no systematic error in the product's favour could be expected from the design used. Towards the end of the year, Probi submitted a new application to the European Food Safety Authority (EFSA) related to health claims for Probi FerroSorb[®].

New trials and indications

- Based on the results of the successful pilot trial of the efficacy of Probi Digestis[®] (LP299V[®]) on flatulence and bloating, a larger trial using the same method was initiated.
- In collaboration with a major customer, a first trial in the field of sports was launched during the year. The trial evaluated whether Probi's probiotics could positively affect stamina and physical performance.
- Probi's first trial in the gut-brain axis – the link between the GI tract and the central nervous system – commenced in 2017. The trial, which is based on promising results from a previous pilot trial, is focused on demonstrating the positive effects of Probi's probiotics on acute stress. The trial is a collaboration with researchers from Lund University.

Long-term academic partnerships

During the spring, Probi commenced a new long-term research collaboration with Dr Karen Scott from the Rowett Institute at the University of Aberdeen. The aim of the collaboration is to isolate and characterise completely new bacterial strains, meaning microorganisms that have not previously been used in consumer products, but that may prove useful for next-generation probiotic products. The collaboration with Karen Scott is part of Probi's Discovery platform, which aims to identify and implement long-term research programmes together with leading researchers from academic institutions, providing scope for investment in projects that will eventually lead to products.

The research collaboration with Professor Michiel Kleerebezem from the Host-Microbe Interactomics Group at Wageningen University in the Netherlands is progressing as planned. The goal is to create a future product platform. The collaboration has now been expanded to also include Professor Henk Schols, a prominent expert in analytical chemistry and prebiotics.

In addition to the above projects, further progress has been made in the areas of oral health and skincare in the joint development projects with Symrise AG and relevant patent filings have been made.



A FORWARD-LOOKING ORGANISATION

Early 2017 was characterised by the integration of the US operations. The rest of the year was dedicated to setting shared, organisational objectives and preparing Probi for a significantly increased presence in the market.

The acquisition of Nutraceutix in 2016 directly increased the number of employees at Probi from just under 40 to about 200. As a result, a long-term process commenced in 2017 to ensure that the entrepreneurial spirit that has always symbolised Probi can also be maintained and strengthened in the future, in a growing, international organisation. This process focused on two areas:

Retaining and continuously attracting high-performing employees

It is essential that Probi maintains its competitive edge as an attractive employer. Probi's specialised competence in both R&D and marketing is the company's key success factor. Probi is now an international company, with the new career opportunities that brings. At the same time, Probi's organisation is still small enough to maintain an efficient decision-making

process and keep its entrepreneurial spirit alive. This enables Probi to offer an environment where all employees can feel comfortable and committed to a joint vision.

Preparing the organisation for current and future business needs

Probi's core is world-class probiotics research and development. At the same time, a growing business increases the need to focus on customer relationships. During the year, securing the entire organisation's support for marketing and sales has been a top priority. This process included the identification of joint and transparent objectives, which has strengthened the commitment of all employees to our business.

Personnel policy

Probi offers a dynamic and inclusive workplace, in which employees have many opportunities for development and are expected take on a high level of responsibility. Probi has grown considerably in recent years, which has brought interesting and challenging development opportunities for many employees.

Probi's operations are based on the following five fundamental values:

Credibility

We deliver on our promises and our products do what we say. We are experts in our field.

Our reputation as a serious player in the industry is rock solid.

Dedication

Our work involves research and products that improve health. We never look for the easiest route but always take one step extra to make sure we succeed. Our business model is flexible, we help our customers surpass their expectations.

Courage

We dare to try new routes by challenging ourselves and established ways of thinking. We break new ground and establish partnerships with world-leading companies. Our research takes on the most difficult challenges in our field.

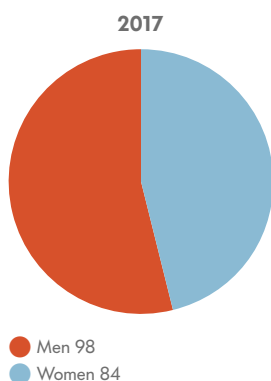
Curiosity

By studying new fields, we find new solutions. We always want to move on and acquire new knowledge of how our products can improve human health. We always want to learn more about our customers' needs so that we can jointly develop new business solutions.

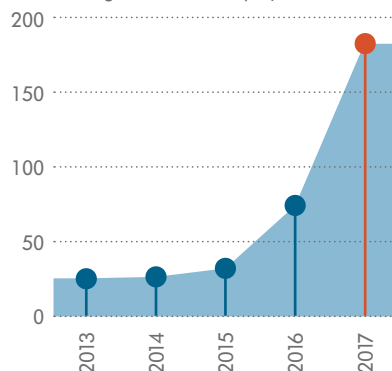
Clarity

Our messages are straightforward and we define our goals clearly. We explain where the company is heading and tell things as they are, both to each other and to our business partners.

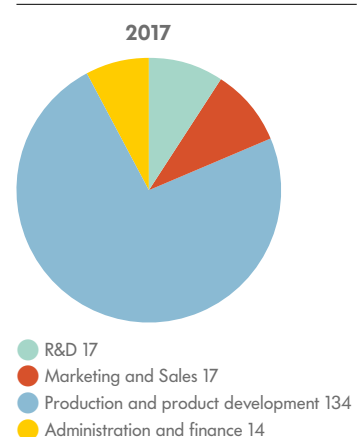
Gender distribution



Average number of employees



Employees distributed by function





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 2017, 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 2017, the number of registered shareholders was 5,120, compared with 4,729 at 31 December 2016. Of the total number of shares, institutional ownership accounted for about 86.4% (84.5), private owners 13.6% (15.5) and foreign owners 56.5% (58.2). Europe accounts for the largest proportion of shares held by foreign owners, corresponding to 55.8% (55.9) of the total number of shares. Probi's principal owner,

Symrise AG, held 50.3% of the capital and 51.4% 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 2012-2017.

Share performance

In 2017, Probi's share price declined 28% and was quoted at a closing price of SEK 340.00 (475.50) at year-end. OMX Stockholm PI rose 6% during the year. The highest and lowest prices in 2017 were SEK 613.00 (510.00) and SEK 290.00 (101.90), respectively. On 31 December 2017, Probi's market capitalisation was MSEK 3,874 (5,418). During 2017, 6,116,665 (2,931,918) Probi shares were traded on Nasdaq OMX Stockholm. The average turnover of shares per trading day was 24,369 (11,589).

Dividend policy

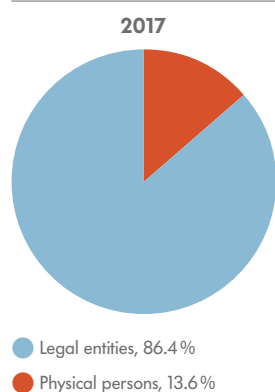
In future, the dividend will be based on Probi's earnings level and financial position, as well as requirements for the financing of available expansion and acquisition opportunities. On an annual basis, the Board will evaluate the potential to pay a dividend and, in so doing, will balance the shareholders'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

Based on an assessment of Probi's course of business and strategic investment decisions in 2017, the Board and the CEO propose that the 2018 Annual General Meeting resolves that no dividends will be paid for the 2017 financial year and that the Parent Company's retained earnings of MSEK 836,8 be carried forward. Dividend to shareholders in 2016 was SEK 1.00 per share corresponding to a total dividend of MSEK 11.4.

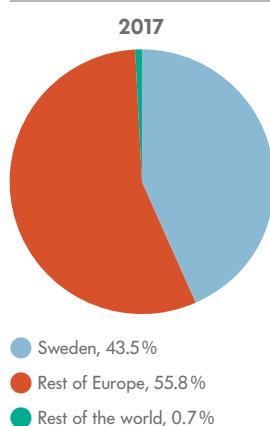
Options programme

Probi has no outstanding convertible loans and no outstanding warrants.

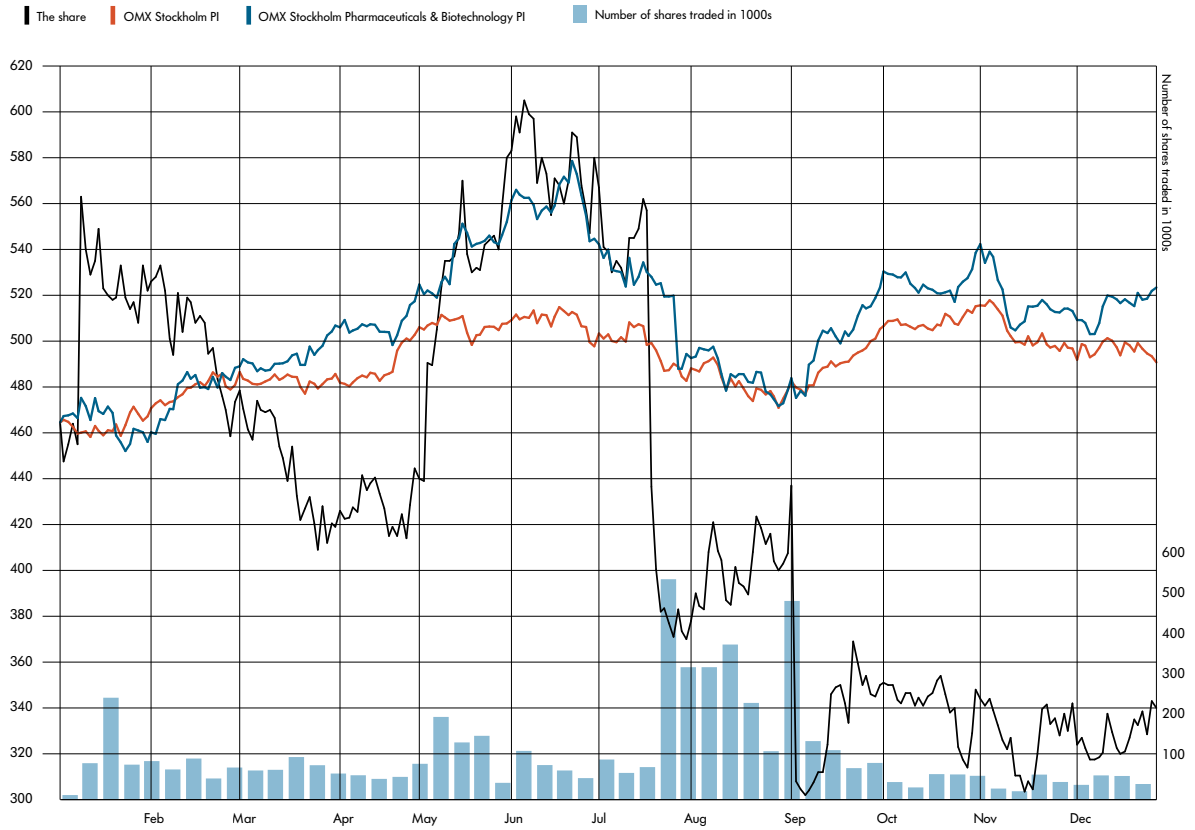
Distribution institutional/legal entities – private owners (no. of shares)



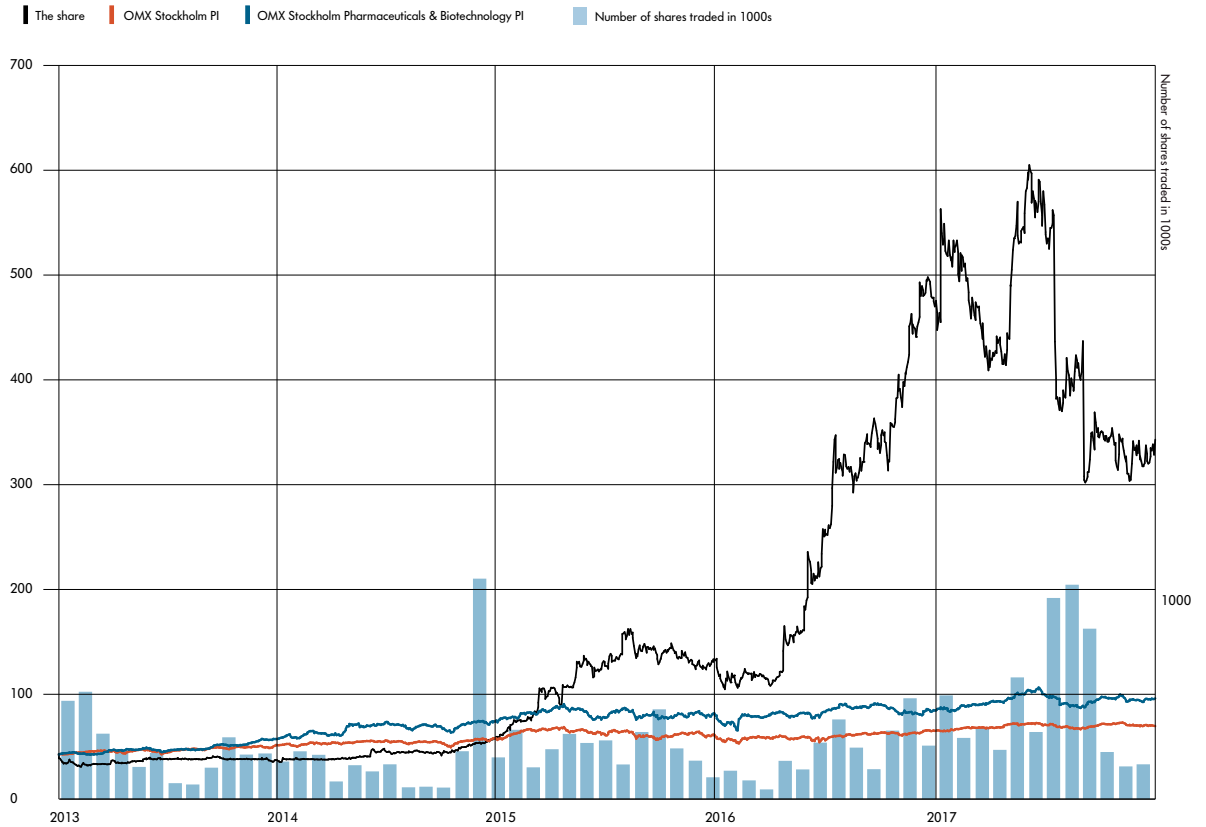
Distribution Swedish – foreign shareholders (no. of shares)



The share 2017



The share 2013–2017



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	5,856,050	50.3	51.4
Swedbank Robur fonder	1,333,000	11.4	11.7
Fjärde AP-fonden	891,541	7.7	7.8
Handelsbanken Fonder	445,271	3.8	3.9
SEB	255,845	2.2	2.2
Avanza pension	147,485	1.3	1.3
Solveig Johannesson	68,150	0.6	0.6
Andra AP-fonden	59,388	0.5	0.5
Nordnet pension	56,640	0.5	0.5
Other	2,280,755	19.6	20.1
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	4,367	456,528	3.9
501 – 1 000	382	284,457	2.4
1 001 – 5 000	290	592,427	5.1
5 001 – 10 000	32	226,520	1.9
10 001 – 15 000	15	182,142	1.6
15 001 – 20 000	7	124,622	1.1
20 001 -	27	9,777,429	84.0
Total	5,120	11,644,125	100.0

Five-year summary

Income statement (TSEK)	2017	2016	2015	2014	2013
Net sales	612,244	443,475	215,711	135,242	102,210
Cost of goods sold	-334,321	-172,990	-65,231	-44,670	-30,998
Gross profit	277,923	270,485	150,480	90,572	71,212
Sales and marketing expenses	-79,899	-54,773	-38,325	-22,096	-20,351
Research and development expenses	-36,606	-47,930	-30,614	-27,773	-21,486
Administration expenses	-58,554	-48,036	-18,743	-13,989	-11,940
Other operating income/expenses	1,223	219	270	335	708
Operating Profit/EBIT	104,087	119,965	63,068	27,049	18,143
Financial result	-11,762	6,718	22	1,041	1,348
Earnings before income taxes	92,325	126,683	63,090	28,090	19,491
Income taxes	-23,233	-24,836	-14,051	-6,325	-4,446
Net income	69,092	101,847	49,039	21,765	15,045
	31 December	31 December	31 December	31 December	31 December
	2017	2016	2015	2014	2013
Balance sheet (TSEK)					
Intangible assets	487,984	559,358	40,820	27,250	25,429
Goodwill	279,706	308,802	2,762	2,762	2,762
Property, plant and equipment	34,389	41,490	4,581	4,864	2,359
Deferred tax assets	4,621	8,478	-	43	-
Current assets	148,487	188,691	36,697	32,889	27,864
Cash and cash equivalents	155,547	103,136	143,024	108,181	91,301
Total assets	1,110,734	1,209,955	227,884	175,989	149,715
Equity	884,736	892,067	187,239	145,953	131,025
Non-current liabilities	5,781	5,796	122	145	132
Current liabilities	220,217	312,092	40,523	29,891	18,558
Liabilities and equity	1,110,734	1,209,955	227,884	175,989	149,715
	2017	2016	2015	2014	2013
Cash Flow (TSEK)					
Cash flow from operating activities before working capital changes	181,632	134,795	69,157	36,030	23,229
Working capital changes	-35,944	-45,010	-7,211	-46	271
Cash flow from operating activities	145,688	89,785	61,946	35,984	23,500
Cash flow from investing activities	-26,263	-930,052	-19,463	-13,486	-13,844
Cash flow from financing activities	-48,045	800,185	-7,640	-5,618	-5,640
Net change in cash and cash equivalents	71,380	-40,082	34,843	16,880	4,016
Effects of changes in exchange rates	-18,969	194	-	-	-
Total changes	52,411	-39,888	34,843	16,880	4,016
Cash and cash equivalents as of 1 January	103,136	143,024	108,181	91,301	87,285
Cash and cash equivalents as of 31 December	155,547	103,136	143,024	108,181	91,301
	2017	2016	2015	2014	2013
Key figures					
Gross Margin %	45.4%	61.0%	69.8%	67.0%	69.7%
EBITDA, MSEK	157.3	152.6	69.2	36.2	23.1
EBITDA Margin %	25.7%	34.4%	32.1%	26.8%	22.6%
Average number of employees	182	74	32	26	25
Share data					
Earnings per share before and after dilution, SEK	6.06	10.73	5.38	2.39	1.65
Share price on closing day, SEK	340.00	475.50	141.50	61.50	39.50
Market capitalization on closing day, MSEK	3,874	5,418	1,290	561	360
Number of outstanding shares on closing day	11,394,125	11,394,125	9,115,300	9,115,300	9,115,300
Average number of outstanding shares	11,394,125	9,495,104	9,115,300	9,115,300	9,115,300

For definitions of key ratios refer to page 82.

PROBI AB (PUBL)

Annual Report and consolidated financial statements
for 2017 financial year



DIRECTORS' REPORT

The Board of Directors and 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 2017. Address: Ideon Gamma 1, SE-223 70 Lund, Sweden.

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 is conducted using live microorganisms with scientifically proven health benefits. The main fields of research are digestive health, immune response and nutrient absorption. Probi's customers are leading companies active in the Consumer Healthcare and Functional Food business areas.

Significant events in 2017

- In the third quarter, Probi was informed that one of the company's largest customers in the North American market had commenced a major destocking programme due to excessive purchasing and subsequent efforts to reduce their safety stock. Net sales for the third quarter were impacted by less than MSEK 50 compared with the year-on-year period. The impact in the fourth quarter was considerably greater due to the large campaign volumes delivered to the customer in the corresponding quarter of 2016.
- A major agreement was signed with a global FMCG company (Fast-Moving Consumer Goods) regarding a launch in North America and potentially additional markets for a functional food product containing Probi's bacterial cultures for gut health. The launch in the North American market is scheduled for the second half of 2019 under a leading brand in this product category. The agreement is expected to have a significant impact on future sales and revenue in Probi's Functional Food business area. In 2017, Probi reported net sales of MSEK 34.2 for the Functional Food business area, corresponding to 6% of total net sales.
- The US company Nutraceutix, acquired in 2016, was successfully integrated and the

Purchase Price Allocation (PPA) was completed. The US organisation was strengthened by the recruitment of new sales and marketing managers with extensive experience from the probiotics industry.

- Probi® Fast Melt, a stick pack that makes it easier to consume probiotics, was introduced to meet the demand for new and innovative product formats. The first consumer product with the new formulation was launched in Sweden in October 2017 under the Probi Mage® brand, the leading probiotic supplement brand in Sweden.
- A probiotic yoghurt containing Probi's LP299V® was launched in South Korea by the Asian food and beverage company Lotte.
- In Australia, a sparkling probiotic drink with Probi® Plantarum 6595 to improve digestive health and gut flora was launched under the Kréol brand.
- The first launch of Probi FerroSorb® in the North American market was initiated by a new customer with a strong brand in dietary supplements. Probi's patent application for iron absorption, which supports the Probi FerroSorb® probiotic concept, was granted in the US during the year.
- Probi's new Probi Select™ range was launched in North America. Probi Select™ targets customers in the mid-range segment and comprises three of Probi's patented and clinically documented probiotic strains supporting gastrointestinal and immune health.
- The 18-market distribution agreement signed with French company Ipsen in 2016 was extended to Italy, the largest probiotic supplement market in Europe.
- A new long-term research collaboration was commenced with Dr Karen Scott from the Rowett Institute at the University of Aberdeen. The aim of the research collaboration is to isolate and characterise completely new bacterial strains, meaning microorganisms not previously used in consumer products, but that may prove useful for next-generation probiotic products.

- The initial results from Probi's programme to develop a probiotic platform for children were positive. A trial concluded during the year demonstrated that Probi's probiotics can delay the onset of gluten intolerance in children by boosting the immune system.
- At the end of the year, Probi submitted a new health claim application for its Probi FerroSorb® iron absorption product to the European Food Safety Authority (EFSA). To address the EFSA's rejection of Probi's previous application related to increased iron absorption, an additional trial was conducted and the positive results have been included in the application.
- In October, the US Food and Drug Administration (FDA) issued a GRAS (Generally Recognized As Safe) No Objection Letter for Probi's LP299V® bacterial culture, which is the highest regulatory level of food safety approval for probiotics in the US. The GRAS notice means that the bacterial strain is now approved for use in a variety of product categories, including fruit and plant-based products, as well as milk drinks and dry foods such as cereals and bars.

Sales and results

In 2017, net sales amounted to MSEK 612.2 (443.5). The overall increase was MSEK 168.7, or 38%, compared with the full-year 2016. Based on 2016 exchange rates, net sales for the full-year were MSEK 0.8 higher. Sales from the acquired operations amounted to MSEK 309.2 for the full-year 2017. Organic growth for the Group, which is the increase in net sales excluding currency effects and base effects from acquired operations, was a negative MSEK 48.7, down 11%. This is mainly because one of Probi's largest customers in the North American market implemented a destocking programme, which had a major impact on Probi's sales and results.

Net sales in Probi's largest market, North America, amounted to MSEK 477.1 (337.1), up 42%. The operations acquired in 2016 accounted for MSEK 306.5 of net sales in North America. Excluding the acquisition, sales in North America declined MSEK 90.9,

or 35%, compared with the year-earlier period due to destocking by one of Probi's largest customers. In Rest of Europe, net sales rose 58% to MSEK 35.6 (22.5) compared with the year-earlier period. This was mainly attributable to a new agreement signed in 2016 and favourable underlying volume growth with existing customers. Net sales in Rest of World rose 58% to MSEK 45.8 (29.0), driven by sales campaigns in the Asian market and new business. In Sweden, net sales declined 2% to MSEK 53.8 (54.9), mainly due to the lower royalty rate in an agreement with a Functional Food customer.

During the year, operating expenses amounted to MSEK 508.2 (323.5), up 57%, due to consolidation of the acquired operations in the US, and additional amortisation of MSEK 34.9 for the full-year 2017 on intangible assets identified in the Purchase Price Allocation (PPA). Cost of goods sold amounted to MSEK 334.3 (173.0), driven by higher total sales for the Group and a higher share of sales from turnkey consumer packaged goods in the US operations, where gross margins are structurally lower than in Probi's former business model. Sales and marketing costs amounted to MSEK 79.9 (54.8), up 46%, mainly attributable to additional costs for the US sales organisation. In addition, some of the additional amortisation attributable to the PPA was charged to sales and marketing. Administrative expenses amounted to MSEK 58.6 (48.0). Research and development costs amounted to MSEK 36.6 (47.9), where the figure for the preceding year includes an impairment loss of MSEK 11.1 related to a capitalised development project.

Consolidated operating profit for the full-year totalled MSEK 104.1 (120.0). The operations acquired in the preceding year were successfully integrated in 2017 and integration costs of MSEK 1.4 (5.0) were recognised in operating expenses, divided between the various functions.

Interest result for the full-year 2017 was a loss of MSEK 5.2 (loss: 2.3) due to the increase in interest expense attributable to loans raised in connection with the acquisition of Nutraceutix in 2016.

Exchange gains and losses arising from the revaluation of loans, cash and cash equivalents held in a foreign currency, or market valuation and realisation of forward contracts, are recognised in the exchange rate gains/losses from financing activities. A loss of MSEK 6.0 (gain: 10.4) arose in 2017, mainly due to the decline of the USD against the SEK. The exchange rate gain from financing activities in 2016 comprised MSEK 7.4 from the market valuation of a currency forward contract concluded

when financing the acquisition of Nutraceutix.

Profit after tax for the year totalled MSEK 69.1 (101.8). Tax expense was MSEK 23.2 (24.8). Due to the US Tax Cuts and Jobs Act (TCJA) coming into effect, Probi recognised a non-cash tax expense of MSEK 2.5 in income tax for the fourth quarter of 2017 following the revaluation of Probi's deferred tax assets.

Earnings per share for the full-year were SEK 6.06 (10.73) before and after full dilution.

Cash flow and financial position

At year-end, cash and cash equivalents amounted to MSEK 155.5 (103.1), up MSEK 52.4 (down: 39.9). During the year, cash flow from operating activities was MSEK 55.9 higher year-on-year, mainly attributable to the substantial sales growth and improved working capital. However, cash flow was adversely impacted by an increase of MSEK 8.6 in tax paid.

Cash flow from investing activities was a negative MSEK 26.3 (neg: 930.1). The year-on-year figure includes an amount of MSEK 912.1 related to the acquisition of Nutraceutix. In 2017, investments in intangible assets amounted to MSEK 18.1 (16.3), of which MSEK 2.7 (3.7) pertained to patents and MSEK 15.4 (12.6) to capitalised development costs. Capitalised development costs mainly comprised clinical trials in gastro-intestinal and immune health, and nutrient absorption. Investments in tangible assets amounted to MSEK 8.2 (2.1).

Cash flow from financing activities was a negative MSEK 48.0 (pos: 800.2). The year-on-year figure includes a rights issue that generated proceeds of MSEK 587.3 for Probi, after deductions for issue expenses and bank loans of MSEK 225.7 raised for financing the US acquisition. In 2017, Probi repaid MSEK 32.1 on bank loans and paid shareholder dividends of MSEK 11.4 (9.1).

Segment information

Probi's business operations are organised in two business segments, each with its own operational manager: Consumer Healthcare and Functional Food. The Consumer Healthcare segment develops, manufactures and markets Probi's probiotics. Customers are pharmaceutical companies and other companies specialised in probiotics and self-care products. The regulatory status of the products is either food or consumer healthcare products, depending on the market. Revenue is derived from sales of goods in bulk or consumer packaging. The Functional Food segment develops food that contains Probi's probiotics. This development takes place in partnership with food companies, in

order to commercialise and market products with high volume potential. Revenue mainly comprises royalties from partner-generated sales. No business transactions are conducted between the two segments.

Consumer Healthcare

In 2017, net sales in Consumer Healthcare rose MSEK 169.5 to MSEK 578.0 (408.5). The acquired operations accounted for MSEK 233.6 of this increase. Excluding the acquisition, the business area's net sales declined MSEK 64.1, mainly due to the destocking carried out by one of Probi's largest customers in North America during the year. Full-year operating profit for the Consumer Healthcare business area totalled MSEK 93.2 (125.0), down 25%, representing a profit margin of 16% (31%). The lower year-on-year operating margin was attributable to the acquisition of Nutraceutix, which was consolidated for the full-year for the first time in 2017, and a higher allocation of joint costs reflecting the consolidation of the acquired operations.

The US company Nutraceutix, which was acquired in 2016, was integrated during the year. Probi has thus established a stronger presence in the North American market, with its own manufacturing, a broader customer base and a wider product range. Towards the end of the year, new product launches were secured in the North American market. A new customer with a strong brand in dietary supplements started to launch Probi FerroSorb® for increased iron absorption. This is the first launch of Probi FerroSorb® in the North American market, and the first deliveries were made in December. Probiotic products for women is a high growth category and Probi received its first order for a new product targeting women prior to a launch under a major brand. The products in both of these launches are manufactured by the acquired operations in the US. Probi also received its first orders for the Probi Select™ product range in the US. These products are aimed at customers in the mid-range segment and comprise three of Probi's patented and clinically documented probiotic strains that support gastro-intestinal and immune health.

A new product format, Probi® Fast Melt, was launched during the year to meet the demand for new and innovative product formats. Probi® Fast Melt is a stick pack that makes it easier to consume probiotics in the form of a highly soluble and tasty powder for on-the-go consumption. The first consumer product with the new formulation was launched in Sweden in October 2017 under the Probi Mage® brand, the leading probiotic supplement brand in Sweden.

Efforts to expand and strengthen the customer base also continued. Agreements with several key existing customers, mainly in Europe and Asia, were extended and expanded, and Probi's base of prospective new customers grew. The 18-market distribution agreement signed with French company Ipsen in 2016 was extended to Italy, the largest probiotic supplement market in Europe.

Functional Food

In 2017, net sales in Functional Food amounted to MSEK 34.2 (35.0). A lower royalty rate in one agreement offset the positive volume growth in all regions, especially in Sweden, where Proviva once again showed sustained volume growth in 2017. A probiotic yoghurt containing Probi's LP299V® was launched in South Korea by the Asian food and beverage company Lotte, and a sparkling probiotic drink with Probi® Plantarum 6595 for improved digestive health and gut flora was launched in Australia under the Kréol brand. Operating profit for the full-year for the Functional Food business area totalled MSEK 10.9 (loss: 5.0), representing a profit margin of 32% (neg: 14%). The year-on-year increase in operating profit was mainly attributable to a lower allocation of joint costs and decreased investment in co-marketing.

During the year, a major agreement was signed with a global FMCG company (Fast-Moving Consumer Goods) regarding a launch in North America and possibly additional markets for a functional food product containing Probi's bacterial cultures for gut health. The launch in the North American market is scheduled for the second half of 2019 under a leading brand in this product category. The agreement is expected to have a significant impact on future sales and earnings in Probi's Functional Food business area.

Research and Development

In 2017, Probi conducted the most comprehensive clinical programme in the company's history. Total research and development expenses amounted to MSEK 52.0 (60.5), of which MSEK 15.4 (12.6) was capitalised. The figure for the preceding year includes an impairment loss of MSEK 11.1 related to a capitalised development project.

Five clinical trials were completed during the year, one in a totally new indication, and all produced satisfactory results. In another four trials, the clinical phase was completed in 2017, and assessment of the results began. Three clinical trials in new indications and one major research collaboration also commenced during the year. In addition, a trial of increased iron absorption in pregnant women, a study

comprising a previously undisclosed medical indication, the research collaboration with Michiel Kleerebezem and the two collaborative projects with Symrise in oral health and skin-care continued as planned.

The following trials were completed during the year:

- In a trial of 200 people with irritable bowel syndrome (IBS), Probi Digestis® was shown to significantly reduce symptoms compared with a placebo, and new data from microbiome analyses in the trial led to a new patent application.
- A new method of measuring the efficacy of Probi Digestis® (LP299V®) in gut health produced positive results in a pilot trial, which led to a full-scale trial using this method during the year.
- In a trial of nearly 900 people, Probi Defendum® was shown to prevent recurring colds and decrease the number of colds by 30% compared with a placebo.
- A trial of children genetically predisposed to onset gluten intolerance demonstrated that Probi's probiotics support the immune system of these children and can delay the onset of gluten intolerance.
- To address the EFSA's rejection of Probi's application for a health claim in the EU related to increased iron absorption, a new trial was conducted. The claim was rejected on the grounds that the design of some trials could result in systematic errors. The new trial data showed that any systematic errors in Probi's favour resulting from the trial design used were unlikely to occur. Probi has therefore submitted a new application to the EFSA and the positive findings have been included in the application.

Trials for which the clinical phase was completed and the assessment of results began in 2017 comprise two trials in children, one focused on boosting the immune system and the other on gut health, and one trial to study whether a probiotic combination can protect against osteoporosis in menopausal women.

The research collaboration with Dr Karen Scott from the Rowett Institute at the University of Aberdeen, which began in 2017, entered an active phase. The focus of the collaboration is to isolate and identify novel bacterial strains for the development of next-generation probiotics. This is a part of Probi's Discovery platform, which aims to identify and conduct long-term research programmes in collaboration with leading researchers at academic institutions.

The research collaboration with Professor Michiel Kleerebezem from the Host-Microbe Interactomics Group at Wageningen University in the Netherlands proceeded as planned. The focus of this collaboration is to produce scientific evidence for future product platforms. During the year, the collaboration advanced to the second phase of the four-year research programme and now also includes Professor Henk Schols, an expert in analytical chemistry and probiotics.

Employees

At year-end, Probi had 168 (200) employees, of whom 77 (87) were women and 91 (113) men. The average number of employees during the year was 182 (74).

Events after the balance-sheet date

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

Risks and uncertainties

Probi pursues continuous efforts to identify and evaluate the various types of risks to which its operations are exposed. Probi thus has a clear picture of what these risks are and how they can be managed to minimise the negative effects on the company's business and development.

Changes in consumer trends

An over-riding social trend among consumers in many geographic markets is that interest in health, health products and a healthy lifestyle is continuing to increase. The prevailing health trend has favorably influenced customer demand for, among other products, probiotics. If the prevailing health trend diminishes or changes and leads to a change in consumption patterns and changes in consumer trends, this would result in demand for Probi's products slowing or declining, 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, which market Probi's products and technology or plan to do so. If one or more of these partnerships were terminated 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. The implementation of acquisitions could also give rise to a number of risks, such as if the due diligence studies carried out ahead of an acquisition not being sufficient or being subject to shortcomings. Such flaws could, for example, result in expected acquisition synergism 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 competition from ingredients companies and suppliers of probiotic products. 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, nutritional and health claims have been regulated by an EU directive (1924/2006) that applies in all EU countries, which entails considerable restrictions on possibilities to communicate the health-related benefits of products to consumers. A sharpening of regulatory processes is also under way in other geographic markets. In the US, for example, discussions are centering on the requirements, in terms of number and quality, that should be placed on scientific studies so that such studies can provide evidence of a health claim for products containing probiotics.

Since Probi's continued expansion presumes product launches in a greater number of geographic markets, a sharpening 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 is largely dependent on continued successful research and the ability to protect future revenue streams through sales of products 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 may limit the potential or prevent Probi and its licencees from freely utilising a certain product or production method in certain territories.

Operations subject to permit obligations

After the acquisition of Nutraceutix, 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. Accordingly, Probi is dependent on a limited number of suppliers 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 research and development encompasses both proprietary efforts and partnerships with external Swedish and international researchers and organisations. However, there is no guarantee that these efforts or partnerships will lead to new and launchable products, or that Probi will receive exclusive rights to the results.

Key individuals and employees

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

Financial risks

The Probi Group is exposed to a number of financial risks that largely arise in connection with the purchase and sales of products in foreign currency and through the financing in USD of the operation acquired in 2016. Exchange and interest rates impact the Group's earnings and cash flow. The Group 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 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. Probi's strategy is based on complementary business models for the two business areas Consumer Healthcare and Functional Food. The company's long-term objective is to continue creating profitable growth by expanding and advancing its sales in the global market for products in both business areas. The global market for probiotics is anticipated to continue to show growth in the years ahead. Probi is also positioned well in the important and major North American market. In view of this, Probi's assessment is that the prospects for continued growth are favourable, and that both earnings and cash flow from operating activities will be positive during the financial year ahead.

Environment and quality

Probi's fermentation and production facilities in Redmond, Washington, and Lafayette, Colorado, are GMP certified and hold all licences required under US environmental law. Probi's operations in Lund are not subject to permit obligations under the Swedish Environmental Code. Since 1998, Probi's laboratory activities in Lund have been accredited according to ISO 17025 requirements for testing laboratories – General requirements for the competence of testing and calibration laboratories. SWEDAC is the regulatory authority for the accreditation.

Probi's operations in Lund are covered by an environmental management system that was certified according to ISO 14001:2004 in 2012, with the SP Technical Research Institute of Sweden as external certification body. Due to changes in the ISO 14001 requirements

and the scope of Probi's activities after the acquisition of Nutraceutix, the Group decided not to extend the official ISO 14001 certification. Sustainable development remains an integral part of Probi's business model and the Group has maintained its strict environmental policy.

Probi's international operations entail business travel by air. In 2017, Probi's carbon offsets corresponded to 397 tonnes of carbon equivalents (438) in the Nakau Rainforest Conservation Programme in Fiji, in partnership with ZeroMission in accordance with the Plan Vivo standard. The carbon offsetting relates to carbon emissions arising from the business-related air travel of Parent Company employees.

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 2017, Probi had 5,120 (4,729) 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 51.4% and 11.7% of the votes, respectively. At the end of 2017, Probi's share capital amounted to SEK 58,220,625 (58,220,625), distributed between 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 and are not entitled 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	187,107,968
Share premium reserve	579,064,772
Profit for the year	70,578,617
Total	836,751,357

Based on an assessment of Probi's operations and strategic investment decisions in 2017, the Board of Directors and Chief Executive Officer propose that the 2018 AGM resolve that no dividend be paid for the 2017 financial year and that retained profit of SEK 836,751,357 be carried forward.

CORPORATE GOVERNANCE REPORT

Probi AB (publ) is a Swedish limited liability company, 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, reference is made to www.bolagsstyrningskollegiet.se.

This Corporate Governance Report pertains to the 2017 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 Annual General Meeting (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 (AGM) was held in Lund on 4 May 2017. 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 2018 AGM to

- make decisions on one or more occasions regarding a new share issue of up to a total of 1,164,412 shares. This authorisation includes the right to resolve on deviation from the shareholders' preferential right, and that payment shall be made in cash, by set-off or in kind. At deviation from the shareholders' preferential right, the issue price shall be determined in accordance with market practise. At the date of the resolution by the AGM, full utilisation of the authorisation would have entailed 9% dilution of share capital and voting rights. The Board did not exercise this authorisation during 2017.
- make decisions regarding acquisition of own shares. This authorisation includes acquisitions on Nasdaq Stockholm of own shares in an amount that at no time exceeds 10% of all outstanding shares. According to the authorisation, any acquisition will take place at a price within the registered price interval on Nasdaq Stockholm at the time of acquisition, meaning the spread between the highest and lowest selling price. Payment of the shares shall be made in cash. The Board did not exercise this authorisation in 2017.
- make decisions regarding the transfer of treasury shares. This authorisation includes a transfer of not more than the number of outstanding shares held by the company at the time of transfer. Any transfer may only take place at a price within the registered price span on Nasdaq Stockholm on each occasion, meaning the spread between the highest and lowest selling price. The Board of Directors was further entitled to resolve, with or without preferential right for the company's shareholder, on the transfer of the company's own shares in other manners than as set forth above. The transfer may in such case be made for payment in cash, payment in kind or through the offsetting of debt. The Board did not exercise this authorisation during 2017.

Remuneration of senior executives

The 2017 AGM resolved on the following guidelines for remuneration of senior executives. Probi is to offer market-aligned total remuneration that enables the recruitment and retention of senior executives. Remuneration to executive management shall comprise a fixed salary, variable cash salary, the possibility to participate in long-term share or share-price related incentive plans, pension and other remuneration. Combined, these comprise components of the employee's total remuneration. The fixed salary is to take into account the employee's areas of responsibility and experience. The variable cash salary portion shall be based on the individual's fulfilment of quantitative and qualitative goals and shall amount to a maximum of 60% of the fixed salary for the CEO and a maximum of 50% of the fixed salary for other senior executives. Other remuneration and benefits are to be in line with market terms and contribute to facilitating the senior executive's ability to complete his/her work tasks. Executive management's employment agreements include notification stipulations. In case of termination by the employee, the notice period normally amounts to three to six months. In case of termination by the company, compensation during notice period and under severance agreements shall not exceed an amount corresponding to fixed salary for 24 months. The above guidelines do not comprise such share related incentive programs that may be adopted by the general meeting. The Remuneration Committee is entitled to deviate from the aforementioned guidelines if the Board finds specific reasons to motivate this in isolated cases. Ahead of the 2018 AGM, the Board proposes that the Meeting resolve on guidelines with similar wording and the change that in case of termination by the company, compensation during notice period and under severance agreements shall not exceed an amount corresponding to fixed salary for 12 months.

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

On 4 May 2017, the AGM 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 at 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 4 May 2017 resolved to elect a Board consisting of six members with no deputies as follows: (Figures in parentheses pertain to attendance at Board meetings in 2017).

Jean-Yves Parisot, Chairman (re-elected) (21 of 22)
 Jan Nilsson (re-elected) (22 of 22)
 Jonny Olsson (re-elected) (20 of 22)
 Anna Malm Bernsten (newly elected 4 May 2017) (19 of 22)
 Charlotte Hansson (newly elected 4 May 2017) (18 of 22)
 Scott Bush (newly elected 4 May) (19 of 22)

All Board Members are independent in relation to the company and senior executives.

Five board members are independent in relation to major shareholders. A presentation of the Board Members is available on the company's www.probi.com website and in the printed version of the 2017 Annual Report on pages 78-79.

The AGM resolves on principles and monetary limits for Board fees. For 2017, the Board's fees were fixed at KSEK 1,400, of which KSEK 400 was paid to the Chairman of the Board and KSEK 200 to each of the other Board members.

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

For information regarding Board fees, see Notes 11 and 31.

CEO

A presentation of the CEO is available on the company's www.probi.com website and in the printed version of the 2017 Annual Report on page 80.

Auditors

The 2017 AGM elected the registered accounting firm Deloitte AB with Authorised Public Accountant Maria Ekelund as auditor-in-charge for the period up to the 2018 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. This work procedure 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 includes 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 2017 focused primarily on strategic and structural issues involving Probi's long-term development and growth. In addition, the Board held 17 telephone meetings in 2017. Among other matters, these meetings addressed issues connected to strategic investment decisions, negotiations of commercial agreements and adoption of quarterly reports and year-end reports.

Audit Committee

Due to the size of the company and the composition of the Board, the Board has decided that the Audit Committee should comprise the Board in its entirety. The Board maintains continuous contact with the auditors, who personally report their findings and observations at least twice annually. The auditors also provide information on the priority areas that future audits will examine, while the Board informs the auditors about issues or areas that the Board wishes to specifically highlight. Audit committee issues have been treated at four Board meetings in 2017. All members attended these meetings.

Remuneration Committee

Due to the size of the company and the composition of the Board, the Board has decided that the Remuneration Committee should comprise the Board in its entirety. The Remuneration Committee is tasked with determining the salary and remuneration of the CEO, as well as bonus systems for the company. Salaries and remuneration of other senior executives are decided by the CEO in consultation with the Chairman of the Board. Policies for remuneration and other terms and conditions of employment for the CEO and senior executives are resolved by the AGM. Remuneration committee issues have been treated at two Board meetings in 2017. All members attended both meetings.

For information regarding salaries and remuneration of the CEO and other senior executives, see Note 11.

The Board's internal control report

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

Authorisation and responsibility is documented and recognised in internal guidelines and instructions. These encompass the division

of responsibilities between the Board and the CEO, and accounting, reporting and attestation instructions for the mother company and subsidiaries. The purpose of the instructions in these documents is 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 preparing 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 sheets, income statements and financing analyses
- 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. In this work, it is essential to ensure that actions are taken concerning potential shortcomings that are detected and implementing the adopted quality improvements. In addition, continuous contact is maintained with the company's auditors. Considering the size and risk exposure of the company, it has not been deemed reasonable 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.

FINANCIAL STATEMENTS

Consolidated statement of comprehensive income

Currency: SEK 000s	Note	2017	2016
Net sales	7,8	612,244	443,475
Cost of goods sold	9, 11, 15, 29	-334,321	-172,990
Gross profit		277,923	270,485
Sales and marketing expenses	9, 11, 15	-79,899	-54,773
Research and development expenses	9, 11, 12, 15	-36,606	-47,930
Administration expenses	9, 10, 11, 15	-58,554	-48,036
Other operating income		1,223	219
Operating profit	7	104,087	119,965
Financial income		612	49
Financial expenses		-6,341	-2,382
Exchange result financing activities		-6,033	9,051
Financial result	13	-11,762	6,718
Earnings before income taxes		92,325	126,683
Income taxes	14	-23,233	-24,836
Net income		69,092	101,847
Other comprehensive income			
Components to be reclassified to net income			
Exchange rate difference resulting from the translation of foreign operations		-64,460	21,342
Cash flow hedge (currency hedges)		-646	245
Income taxes payable on those components		76	54
Sum of other comprehensive income		-65,030	21,641
Total comprehensive income		4,062	123,488
Number of outstanding shares at the end of the reporting period		11,394,125	11,394,125
Average number of shares		11,394,125	9,495,104
Earnings per share before and after dilution SEK		6.06	10.73

Net income for the year and total comprehensive income are attributable in their entirety to the Parent Company's shareholders. The company currently has no outstanding convertible loans or outstanding warrants, so no dilution effect can be recognised.

Probi bought back own shares in 2011 and owned a total of 250,000 treasury shares at the end of 2017.

Consolidated statement of financial position

Assets			
Currency: SEK 000S	Note	2017	2016
Non-current assets			
Capitalised development cost	16	41,045	29,692
Customer base	17	307,946	365,048
Technology and other intangible assets	18	138,993	164,618
Goodwill	19	279,706	308,802
Property, plant and equipment	20, 21	34,389	41,490
Deferred tax assets	14	4,621	8,478
Total non-currents assets		806,700	918,128
Current assets			
Inventories	23	69,140	72,752
Trade receivables	24	59,344	78,903
Other assets and receivables		12,837	10,814
Prepaid expenses and accrued income	25	7,166	26,222
Cash and cash equivalents	3	155,547	103,136
Total current assets		304,034	291,827
Total assets		1 110,734	1 209,955

Shareholders' equity and liabilities			
Currency: SEK 000S	Note	2017	2016
Equity			
Share capital		58,221	58,221
Other contributions received		600,205	600,205
Cumulative translation differences and Other reserves		-43,344	21,686
Accumulated profit		269,654	211,955
Total equity		884,736	892,067
Non-Current liabilities			
Other non-current liabilities	14	5,781	5,796
Total non-current liabilities		5,781	5,796
Current liabilities			
Borrowings	27	175,868	225,762
Trade payables		27,042	45,570
Other current liabilities		5,762	11,941
Accrued expenses and deferred income	28	11,545	28,819
Total current liabilities		220,217	312,092
Total equity and liabilities		1,110,734	1,209,955

Consolidated statement of cash flows

Currency: SEK 000S

	Note	2017	2016
Net income		69,093	101,847
Adjustments to reconcile net income to cash provided from operating activities			
Income taxes		23,232	24,836
Interest result		5,175	3,750
Amortisation, depreciation and impairment of non-current assets		53,231	32,629
Other non-cash expenses and income		30,901	-28,267
Cash flow before working capital changes		181,632	134,795
Change in trade receivables and other current assets		27,373	-37,856
Change in inventories		-2,730	-11,695
Change in trade payables and other current liabilities		-31,655	24,866
Income taxes paid		-28,932	-20,325
Cash flow from operating activities		145,688	89,785
Investing activities			
Payments for investing in intangible assets	16, 17, 18, 19	-18,135	-16,257
Payments for investing in property, plant and equipment	20, 21	-8,171	-2,070
Acquisition	5	-	-912,067
Divestment of tangible assets		43	342
Cash flow from investing activities		-26,263	-930,052
Financing activities			
Interest paid		-5,200	-3,727
Interest received		612	45
Proceeds from bank borrowings	27	-	227,428
Fees for raising loans	27	-	-1,759
Redemption of bank borrowings	27	-32,063	-
New issue		-	601,610
Costs for issue of new shares		-	-14,296
Dividends paid		-11,394	-9,116
Cash flow from financing activities		-48,045	800,185
Net change in cash and cash equivalent		71,380	-40,082
Effects of changes in exchange rates		-18,969	194
Total changes		52,411	-39,888
Cash and cash equivalents as of 1 January		103,136	143,024
Cash and cash equivalents as of 31 December		155,547	103,136

Other non-cash expenses and income includes fair value changes of financial derivatives and other unrealized foreign exchanges differences.

Consolidated statement of changes in shareholders' equity

Currency: SEK 000S

	Share capital	Other contributions received	Cumulative translation differences	Other reserves	Accumulated profit	Total equity
Opening balance 1 January 2016	46,827	21,140	46	-	119,223	187,236
Net income	-	-	-	-	108,567	108,567
Other comprehensive income	-	-	21,384	299	-	21,683
Total comprehensive income	-	-	21,384	299	108,567	130,250
Share issue	11,394	579,065	-	-	-	590,459
Dividends	-	-	-	-	-9,116	-9,116
Total transactions with shareholders	11,394	579,065	-	-	-9,116	581,343
Closing balance published 31 December 2016	58,221	600,205	21,430	299	218,674	898,829
Change (Note 5)	-	-	-43	-	-6,719	-6,762
Closing balance, adjusted 31 December 2016	58,221	600,205	21,387	299	211,955	892,067
Opening balance, adjusted 1 January 2017	58,221	600,205	21,387	299	211,955	892,067
Net income	-	-	-	-	69,093	69,093
Other comprehensive income	-	-	-64,460	-570	-	-65,030
Total comprehensive income	-	-	-64,460	-570	69,093	4,063
Dividends	-	-	-	-	-11,394	-11,394
Total transactions with shareholders	-	-	-	-	-11,394	-11,394
Closing balance, 31 December 2017	58,221	600,205	-43,073	-271	269,654	884,736

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

Income statement parent company

Currency: SEK 000S

	Note	2017	2016
Income statement			
Net sales	8	299,605	367,857
Other revenue	8	5,636	2,433
Total operating revenue	7	305,241	370,290
Cost of goods sold	9, 11, 15, 29	-102,613	-112,886
Gross profit		202,628	257,404
Sales and marketing expenses	9, 11, 15	-33,317	-43,567
Research and development expenses	9, 11, 12, 15	-36,606	-47,930
Administration expenses	9, 10, 11, 15	-39,055	-27,909
Operating profit	7	93,650	137,998
Interest income		9,731	4,503
Interest expenses		-5,200	-2,417
Financial income		83,647	55,598
Financial expenses		-90,856	-46,574
Financial result	13	-2,678	11,110
Difference between book depreciation and depreciation according to plan		470	85
Earnings before income taxes		91,442	149,193
Income taxes	14	-20,294	-33,035
Net income		71,148	116,158
Other comprehensive income			
Hedging instruments		-569	299
Total comprehensive income		70,579	116,457

Parent Company's balance sheet

Assets			
Currency: SEK 000S	Note	2017	2016
Fixed assets			
Capitalised development cost	16	41,045	29,692
Technology and other intangible assets	18	11,259	10,990
Property, plant and equipment	20, 21	4,082	3,747
Shares in Group companies	22	777,320	383,147
Long-term receivable from Group companies		176,992	573,117
Deferred tax		76	-
Total fixed assets		1,010,774	1,000,693
Current assets			
Inventories	23	4,609	8,564
Trade receivables	24	27,198	52,117
Short-term receivable Group companies		-	22,421
Other current receivables		12,837	3,197
Derivatives		-	5,740
Prepaid expenses and accrued income	25	4,699	24,078
Cash and cash equivalents	3	90,667	64,846
Total current assets		140,010	180,963
Total assets		1,150,784	1,181,656
Shareholders' equity and liabilities			
Currency: SEK 000S	Note	2017	2016
Restricted equity			
Share capital (no of shares: 11 644 125)		58,221	58,221
Statutory reserve		21,140	21,140
Reserve for capitalised development expenses		24,843	9,444
Total restricted equity		104,204	88,805
Non-restricted equity			
Accumulated profit		187,107	97,443
Share premium reserve		579,065	579,065
Income for the year		70,579	116,457
Total non-restricted equity		836,751	792,965
Total equity		940,955	881,770
Long-term liabilities			
Liabilities to Group companies		4,035	4,035
Total long-term liabilities	26	4,035	4,035
Untaxed reserves			
Accumulated accelerated depreciation/amortisation		-	470
Total untaxed reserves		-	470
Current liabilities			
Bank loan	27	175,868	225,717
Accounts payable - trade		18,494	37,374
Short-term payable Group companies		393	-
Tax liabilities		940	9,564
Other current liabilities		4,178	2,207
Accrued expenses and deferred income	28	5,921	20,519
Total current liabilities		205,794	295,381
Total equity and liabilities		1,150,784	1,181,656

Parent Company's statement of cash flows

Currency: SEK 000S

	Note	2017	2016
Net income		71,148	116,158
Adjustments to reconcile net income to cash provided from operating activities			
Income taxes		20,294	33,035
Interest result		-3,944	-704
Amortisation, depreciation and impairment of non-current assets		8,212	17,900
Other non-cash expenses and income		-10,890	-27,118
Cash flow before working capital changes		84,820	139,271
Change in trade receivables and other current assets		57,982	-75,130
Change in inventories		3,955	-4,096
Change in trade payables and other current liabilities		-32,922	19,534
Income taxes paid		-28,918	-20,325
Cash flow from operating activities		84,917	59,254
Investing activities			
Payments for investing in intangible assets	16, 18	-18,135	-16,257
Payments for investing in property, plant and equipment	20, 21	-2,034	-962
Divestment of tangible assets		-	339
Shares in subsidiaries		-	-378,818
Loan to subsidiaries		-	-542,978
Cash flow from investing activities		-20 169	-938,676
Financing activities			
Interest paid		-5,200	-2,340
Interest received		9,730	23
Proceeds from bank borrowings	27	-	227,428
Fees for raising loans	27	-	-1,759
Redemption of bank borrowings	27	-32,063	-
New issue		-	601,610
Costs for issue of new shares		-	-14,296
Dividends paid		-11,394	-9,116
Cash flow from financing activities		-38,927	801,550
Net change in cash and cash equivalent		25,821	-77,872
Effects of changes in exchange rates		-	-
Total changes		25,821	-77,872
Cash and cash equivalents as of 1 January		64,846	142,718
Cash and cash equivalents as of 31 December		90,667	64,846

Other non-cash expenses and income includes fair value changes of financial derivatives and other unrealized foreign exchanges differences.

Parent company's statement of changes in shareholders' equity

Currency: SEK 000S

	Share capital	Statutory reserve	Reserve for capitalised development expenses	Non-restricted equity	Total equity
Opening balance, 1 January 2016	46,827	21,140	-	116,003	183,970
Net Income	-	-	-	116,158	116,158
Other comprehensive income	-	-	-	299	299
Reserve for capitalised development expenses	-	-	9,444	-9,444	-
Total comprehensive income	-	-	9,444	107,013	116,457
Dividends	-	-	-	-9,116	-9,116
Share issue	11,394	-	-	579,065	590,459
Total transactions with shareholders	11,394	-	-	569,949	581,343
Closing balance, 31 December 2016	58,221	21,140	9,444	792,965	881,770
Opening balance, 1 January 2017	58,221	21,140	9,444	792,965	881,770
Net Income	-	-	-	71,148	71,148
Other comprehensive income	-	-	-	-569	-569
Reserve for capitalised development expenses	-	-	15,399	-15,399	-
Total comprehensive income	-	-	15,399	55,180	70,579
Dividends	-	-	-	-11,394	-11,394
Total transactions with shareholders	-	-	-	-11,394	-11,394
Closing balance, 31 December 2017	58,221	21,140	24,843	836,751¹	940,955

There are 11,644,125 shares with a quotient value of SEK 5, of which Probi AB holds 250,000 shares, corresponding to 2.1%.

¹ Whereof -270 (299) relates to fair valuation 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. The fields of research are digestive health, immune response and nutrient absorption. 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 USA Inc., Probi Asia-Pacific Pte. Ltd., 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 residence in Holzminden, Germany. Consolidated financial statements of Symrise AG are available at www.symrise.com. Probi's shares are listed on the Nasdaq Stockholm, Mid Cap.

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" as well as the International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union.

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

A number of new or revised standards have come into force and applied for the 2017 financial year. However, none of these have or will have any material impact on the Group's financial statements.

The amendments to IAS 7 Statement of Cash Flows are part of the Disclosure Initiative. The amendments entail additional disclosure requirements to be able to understand changes in liabilities whose cash flow is recognised in financing activities. The additional disclosure is presented in Note 27.

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

The new or amended standards and new interpretations that have been issued but that did not come into effect until 1 January 2018 or thereafter have not yet been applied by the Group in the preparation of its financial statements.

IFRS 9, applicable for the financial year that begins on 1 January 2018. IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard is divided into three parts: (1) Classification and measurement, (2) Impairment and (3) Hedge accounting. IFRS 9 contains three measurement categories for financial assets: fair value via profit or loss, fair value via other comprehensive income and amortised cost. The measurement category to which a financial asset belongs is determined partly by the company's purpose for holding the asset ("business model") and partly by the nature of the financial asset's contractual cash flows. The new standard also contains new rules for impairment testing of financial assets, which means that the previous incurred loss method is being replaced by a new expected loss method. This means that the financial statements must reflect expected credit losses and changes in these expectations. The impairment rules in IFRS 9 also apply to more types of assets than the corresponding rules in IAS 39. The new hedge accounting rules are intended to ensure that the company's risk management is reflected in the financial statements. The new standard entails expanded opportunities to hedge risk components of non-financial items and that more types of instruments may be part of a hedge relationship. Furthermore, there is no longer any quantitative requirement of 80-125% retrospective effectiveness. Probi has reviewed IFRS 9 and no material differences were identified in comparison with the reporting for 2017.

IFRS 15, applicable for the financial year that begins on 1 January 2018. As preparation for the implementation of IFRS 15, all relevant customer agreements were examined and modified, if necessary, to adjust the revenue recognition to the new standard. The new standard will not materially affect Probi's financial position, operating profit or earnings per share.

IFRS 16 Leasing will replace IAS 17 beginning on 1 January 2019. Operational leasing contracts will be recognised in the same way as financial leasing contracts are recognised today. This means that leasing costs that are currently recognised as operational costs will be divided into an interest increment and an amortisation increment in the profit or loss statement. The leasing object is entered in the balance sheet as a fixed asset and a corresponding financial liability. Probi is currently evaluating the impact the new standard will have on the presentation of its financial position and results of operations.

Executive management's assessment is that other new or amended standards and new interpretations that have not come into effect are not expected to have any material impact on the consolidated financial statements on initial application.

2.1 Basis of preparation of the consolidated financial statements

The Parent Company's functional currency is the Swedish Krona, which is also the reporting currency for both the Parent Company and

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

The most important accounting policies applied during the preparation of these consolidated financial statements are stipulated below. These policies have been applied consistently for all years presented, unless otherwise indicated. The Parent Company applies the same accounting policies as the Group, with the exceptions and supplements stipulated in RFR 2 Accounting for legal entities. 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.

2.3 Segment reporting

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

2.4 Revenue

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

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

- **Royalty revenue:** Royalty revenue is recognised as revenue on a percentage basis, based on the licensee's reporting of the sales value of consumer products containing Probi's products and ingredients. If the percentage is connected to various levels of the sales value, and thus changes when these are achieved, an estimated average percentage for the year is used each quarter, if this complies with the economic intent of the agreement. Such a check will be undertaken at the end of the year to ensure that royalty revenue matches royalty received from customers.
- **Income from goods sold:** Income from goods sold is recognised upon delivery of the goods in accordance with the sales and delivery conditions in each individual case.
- **Nonrecurring revenue:** Probi may receive a lump sum down payment in conjunction with the signing or completion of a contract (exit fees). Certain contracts contain clauses in respect of minimum royalties that can give rise to nonrecurring amounts. These transactions are recognised in their entirety as revenue in conjunction

with the actual event under the prerequisite that the actual agreement is not, in any way, connected with any remaining consideration, which carries costs for Probi, or contains revenue elements that must be amortised.

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

2.5 Income tax

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

Deferred tax is calculated using the balance-sheet method on all temporary differences arising between the recognised and fiscal values of assets and liabilities. Deferred tax assets referring to loss carry-forwards 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 undertaken in accordance with the tax regulations and tax rates determined or announced, 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 to identify any impairment requirements and is recognised at cost less accumulated impairments. Goodwill impairments are not reversed. Profit or losses on the sale of a unit include the residual carrying amount of the goodwill referring to the divested unit. Goodwill is allocated among the smallest cash-generating units in connection with impairment testing.
- **Research and development expenditure:** Research expenses are expensed on an ongoing basis. Development expenses are recognised as assets from the date on which it is deemed that the project or activity to which they relate will lead to a technically and commercially viable product or lead in some other way to future economic value for the company. When Probi deems that the criteria with regard to identifiability, control, future economic benefit and the ability to reliably measure the cost have been met, it capitalises these development expenses. Capitalised development expenses consist of direct costs for materials, services and personnel costs, with a supplementary charge for a reasonable share of indirect costs. Development expenses recognised as an asset are amortised over the expected useful life. Amortisation is initiated when the asset is ready for use. The value of capitalised assets not yet ready for use is impairment tested annually. Such testing could lead to the value of the asset being impaired, in which case the asset's carrying amount will be reduced and the reduction recognised in operating profit as an impairment loss. Capitalised assets can also be discarded, 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 being discarded.
- **Patents:** Patent expenses are recognised at cost and are amortised on a straight-line basis over their useful life. The amortisation period for patents is 10 years. Annual fees and other additional fees are expensed on an ongoing basis.

2.7 Tangible fixed assets

Tangible fixed assets are recognised at cost less depreciation.

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

- Equipment, tools, fixtures and fittings 3–10 years.
- Improvements to leased buildings is depreciated during the remaining term of the lease under the current lease

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

2.8 Impairment of non-financial assets

Assets with an indeterminate useful life are not impaired; instead, they are impairment tested annually. Depreciated assets are evaluated with regard to a reduction in value, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment is effected in the amount by which the asset's carrying amount exceeds its recoverable amount. When assessing the impairment requirement, assets are grouped at the lowest level at which separate identifiable cash flows (cash-generating units) exist.

2.9 Leasing

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

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

2.10 Financial instruments

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

- Cash and cash equivalents: Cash and cash equivalents include cash and bank balances. Cash and cash equivalents do not include any current investments.
- Accounts receivable: Accounts receivable are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. These items are distinguished by the fact that they arise when the Group supplies goods or services directly to a customer without intending to trade in the receivable. Accounts receivable are recognised at nominal value less any

decline in value. A provision for the depreciation of accounts receivable is made when there is objective proof that the Group will be unable to obtain the full amount due in accordance with the original terms of the receivable. In such cases, the provision is recognised in profit or loss.

- Accounts payable: Accounts payable are commitments to pay for goods or services acquired in operating activities from suppliers. Accounts payable are classified as current liabilities if they fall due within one year; otherwise they are recognised as long-term liabilities.
- Receivables and liabilities in foreign currencies: Receivables and liabilities in foreign currency are recognised at the exchange prevailing on the balance sheet date and the change in value is recognised in operating profit. Exchange-rate changes regarding receivables and liabilities relating to operations are recognised in operating profit, while exchange-rate changes pertaining to financial receivables and liabilities are recognised in net financial items.
- Financial derivatives: All derivatives pertain to currency forward contracts hedging the currency exposure resulting from customer disbursements 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, as is an assessment of hedge effectiveness, at both the inception of the transaction 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 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 (trade payables or receivables in foreign currency). After reclassification, hedging gains and losses will be balanced out with 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 financial activities. 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.

At the end of the period 2017, Probi applies hedge accounting for derivatives in order to hedge operating flows in USD and does not apply hedge accounting 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 the cost and the net sales value on the balance-sheet date. The cost of the finished goods comprises the cost of raw materials, direct salaries, other direct costs and attributable to indirect manufacturing costs (based on normal manufacturing capacity).

The net sales value is the estimated sales price in operating activities, less any applicable variable sales overheads.

2.12 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 via continuous payments to Collectum. In accordance with IFRS, this should be classified as a defined-benefit multi-employer plan. 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 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 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 own shares, the funds, including fees, are recognised in accordance with IAS 32 paragraph 33 as a decrease or increase in shareholders' equity. Repurchased shares are not recognised as an asset in the balance sheet and any gain or loss is not recognised in profit or loss.

2.15 Statement of cash flows

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

2.16 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 implies that the Parent Company's financial statements apply the IFRSs and IFRICs that have been adopted

by the EU when this is possible within the framework of the Swedish Annual Accounts Act and with regards to the relationship between reporting and taxation.

Amended accounting policies

Of the amendments in RFR 2 "Reporting for legal entities" that have become effective and apply for the 2017 financial year, the Parent Company's financial statements are affected by amendments in IAS 1 Presentation of Financial Statements (Disclosure Initiative) and IAS 38 Intangible Assets. The amendments that recognition according to the Swedish Annual Accounts Act (ÅRL) is no longer permitted to be done as "memorandum item" in conjunction with the balance sheet and such items should be presented instead in a note to the financial statements. Beginning on January 1, 2016, an amount corresponding to capitalisation of development expenses is to be transferred to a restricted reserve for development expenses in accordance with IAS 38. This will reduce the Parent Company's non-restricted equity, which could impact the capacity to pay a dividend. The assessment of executive management, based the historical relationship between capitalised development expenses and the Parent Company's non-restricted equity, is that this change will not have a material impact on the capacity to pay a dividend assuming that other conditions in accordance with the company's dividend policy are in place.

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

For information about IFRS 9 and IFRS 15, please refer to information for the Group.

Management's assessment is that other amendments of RFR 2, which have not come into effect, are not expected to have any material impact on the Parent Company's financial statements when they are applied for the first time.

2.17 Presentation of foreign currency translation

The company has decided to change the presentation of currency effects from transactions that are designated in foreign currencies. Any currency translations resulting from operating activities are recognised as cost of goods sold. In previous reports, currency translation gains from operating activities were recognised as other revenue and currency translation losses from operating activities as other operating expenses. The change in presentation does not affect operating profit. Historic comparative figures have been adjusted accordingly. The impact arising from currency translation from financing activities remain unchanged and is recorded in the financial result.

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 risks

Currency risks

The Probi Group is exposed to several financial risks that primarily arise from the purchase and sale of products in foreign currency, as well as the financing of the acquired business in the US. Exchange rates affect the Group's earnings and cash flow. Most of Probi's revenue, or 88%, was invoiced in USD (77%) or EUR (11%) in 2017. Due to the financing of the acquisition, the Parent Company has issued a loan

to the US subsidiary in USD, and has taken out a loan from the bank in USD. 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 not exceed 75 %. A smaller (higher) hedge quota may be assigned to the more distant (closer) planning. The Board approved to hedge through the use of forward contracts with maturities of up to 12 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 detailed information, refer to Note 29.

A sensitivity analysis shows that the effect on operating profit in 2017 of a 5% change in the USD/SEK exchange rate would have been MSEK \pm 0.7.

Interest-rate risk

The Probi Group is exposed to interest-rate risk through its net debt. The Group's interest-bearing liabilities carry variable interest with a maximum fixed-rate period of three months, according to financing agreements with the Group's lenders. A 1-percentage-point change in the interest rate would have affected net interest income/expense by MSEK 2.0 at the closing date rate of utilisation of the revolving credit facility. In the company's assessment, reasonable changes in interest rates would not affect the Group's earnings so materially that there would be a need to hedge interest rates through financial instruments. This assessment will be continually updated.

3.2 Credit risks

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

3.3 Liquidity risks

Cash-flow forecasts are established regularly to ensure that the Group has sufficient cash funds to satisfy requirements in operating activities. For cash and cash equivalents that are not required for operating activities, the surplus liquidity, a reduction of drawn credit facilities can be considered. In addition, alternative investments can be considered if these can be expected to lead to a better return on invested funds.

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 listed below.

Impairment testing of capitalised development expenses

Probi carried out impairment tests in 2017 to determine the value of the projects that had been capitalised at December 31, 2017. 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.

Impairment testing of goodwill

Goodwill is impairment tested at least annually and is recognised at cost less accumulated impairments. Goodwill impairments are not reversed. Profit or losses on the sale of a unit include the residual carrying amount of the goodwill referring to the divested unit. Goodwill is allocated among the smallest cash-generating units in connection with 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. Further information about the key assumptions can be found in Note 19.

Note 5 Acquisitions

On October 3, 2016, Probi acquired the Nutraceutix operations and relevant assets in the form of an asset acquisition. As a result of the acquisition, Probi is expected to become a globally leading probiotics group and significantly strengthen its position in the North American market. The transaction was described in the previous annual consolidated financial statements in the notes under note 5 (Acquisitions).

The following table reproduces the final results of the purchase price allocation as previously presented in the Q2 2017 interim report with regards to the consideration paid for Nutraceutix and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date:

RECOGNISED AMOUNTS OF IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED	
KUSD	
Trade receivables	5,079
Inventories	6,605
Intangible assets	58,362
Property, plant and equipment	4,306
Other assets	228
Other liabilities	1,748
Total identifiable net assets	72,831
Total consideration transferred	106,473
Goodwill	33,642

The fair value of the acquired identifiable intangible assets is KUSD 58,362 and consists of the customer base (KUSD 40,808), technologies (KUSD 10,558) and other intangible assets (KUSD 6,996).

Goodwill of KUSD 33,642 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of Probi and Nutraceutix. The goodwill recognised is expected to be deductible for local income tax purposes but will be neutral on the Group's net income.

With the completion of the purchase price allocation in accordance with IFRS 3, adjustments were recognised in the preceding full-year 2016 reporting period that relate to the business combination that occurred on October 3, 2016.

The following tables provide information about the effects on the items in the statement of comprehensive income, the statement of financial position and the statement of cash flows from the preceding full-year 2016 to evaluate the adjustments resulting from the business combination.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
AS OF 31 DECEMBER 2016

KSEK	Published	Change	Adjusted
Cost of goods sold	-172,873	-4,538	-177,411
Sales expenses	-47,131	-7,642	-54,773
Administration expenses	-52,924	1,796	-51,128
Operating Profit/EBIT	130,349	-10,383	119,966
Income taxes	-28,461	3,625	-24,836
Net income	108,567	-6,720	101,847

Other comprehensive income

Components to be reclassified to net income

Exchange rate differences resulting from the translation of foreign operations	21,384	-42	21,342
Total comprehensive income	130,250	-6,761	123,488

Earnings per share before and after dilution	11.43	-0.71	10.73
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2016

KSEK	Published	Change	Adjusted
Customer base	-	365,048	365,048
Technology and other intangible assets	46,312	118,306	164,618
Goodwill	799,740	-490,938	308,802
Deferred tax assets	4,554	3,924	8,478
Trade receivables	78,039	864	78,903
Other assets and receivables	35,470	1,566	37,036
Total assets	1,211,210	-1,255	1,209,955
Total equity	898,832	-6,765	892,067
Other non-current liabilities	-	5,796	5,796
Other current liabilities	40,527	233	40,760
Liabilities and equity	1,211,210	-1,255	1,209,955

CONSOLIDATED STATEMENT OF CASH FLOWS
AS OF 31 DECEMBER 2016

KSEK	Published	Change	Adjusted
Net income	108,567	-6,720	101,847

Adjustments to reconcile net income to cash provided from operating activities

Income taxes	28,461	-3,625	24,836
Amortisation, depreciation and impairment of non-current assets	22,246	10,383	32,629
Other non-cash expenses and income	-30,139	1,872	-28,267

Cash flow before working capital changes

	132,885	1,910	134,795
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Change in trade receivables and other current assets	-35,426	-2,430	-37,856
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Change in trade payables and other current liabilities	24,633	233	24,866
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Cash flow from operating activities	90,072	-287	89,785
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Net change in cash and cash equivalents	-39,795	-287	-40,082
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Effects of changes in exchange rates	-93	287	194
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Total changes	-39,888	-	-39,888
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Cash and cash equivalents as of 1 January

	143,024	-	143,024
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Cash and cash equivalents as of 31 December

	103,136	-	103,136
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Note 6 Management of capital

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

Financial objectives:

Growth

To generate growth that outperforms the market. During 2017, Probi achieved growth of 38% (106), including acquired operations. Organic growth in existing operations was -11% (60). Organic growth was -11% (67), adjusted for currency effects.

Margin

Growth is to be combined with a profit margin (EBITDA) exceeding 20%. Probi's EBITDA margin for 2017 was 26% (34). Adjusted for currency effects, the EBITDA margin for 2017 was 26% (34).

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	187,107,968
Share premium reserve	579,064,772
Profit for the year	70,578,617
Total	836,751,357

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

that the following amount be carried forward	836,751,357
Total	836,751,357

The earnings brought forward by the Group totalled TSEK 269,654 according to the consolidated statement of financial position and other contributions received amount to TSEK 600,205.

Note 7 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. Its customers are pharmaceutical companies and other companies specialised in probiotics and self-care products. The regulatory status of the products is either food or consumer healthcare products, depending on the market. Revenue is derived from sales of goods in bulk or consumer packaging. The acquired operations are included in their entirety in CHC.

Functional Food

Functional Food develops food that contains Probi's probiotics. This development takes place in partnership with food companies, in order to commercialise and market products with high volume potential. Revenue is mainly derived from royalties from partner-generated sales. There are no sales or other transactions between the two segments.

OPERATING INCOME PER OPERATING SEGMENT				
Group 2017	CHC	FF	Corporate	Total
Net sales	578,011	34,233	-	612,244
Cost of goods sold	-332,076	-2,245	-	-334,321
Sales and marketing expenses	-71,494	-8,405	-	-79,899
R&D expenses	-26,518	-10,088	-	-36,606
Administration expenses	-55,846	-2,708	-	-58,554
Other operating income	1,223	-	-	1,223
Operating profit	93,300	10,787	-	104,087

Financial net	-	-	-11,762	-11,762
Earnings before income taxes	93,300	10,787	-11,762	92,325

Group 2016	CHC	FF	Corporate	Total
Net sales	408,470	35,005	-	443,475
Cost of goods sold	-171,115	-1,875	-	-172,990
Sales and marketing expenses	-38,063	-16,710	-	-54,773
R&D expenses	-32,196	-13,938	-	-46,134
Administration expenses	-42,352	-7,480	-	-49,832
Other operating income	219	-	-	219
Operating profit	124,963	-4,998	-	119,965

Financial net	-	-	6,718	6,718
Earnings before income taxes	124,963	-4,998	6,718	126,683

Probi has one customer that accounts for more than 10% of consolidated sales. The customer, with sales of MSEK 121.8 (210.5) is recognised in the Consumer Healthcare segment.

OPERATING REVENUE DISTRIBUTED BY GEOGRAPHIC AREAS		
Operating revenue	2017	2016
Sweden	53,818	54,905
Rest of Europe	35,598	22,505
North America	477,057	337,059
Rest of the world	45,771	29,006
Net sales	612,244	443,475

Note 8 Revenue distribution

THE GROUP		
	2017	2016
Goods	567,934	400,924
Royalties, licenses, etc.	44,310	42,551
Net sales	612,244	443,475

PARENT COMPANY		
	2017	2016
Goods	258,891	324,791
Royalties, licenses, etc.	40,714	43,066
Net sales	299,605	367,857

Other revenue	5,636	2,433
Total revenue	305,241	370,290

Note 9 Cost distribution

	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Product costs	-212,157	-137,155	-93,916	-106,603
Exchange result from operating activities	-1,734	4,440	2,541	4,440
Employee benefit expenses	-134,822	-71,008	-46,372	-48,186
Other external costs	-107,435	-87,377	-65,632	-64,043
Depreciation and discarding of fixed assets	-53,230	-32,629	-8,212	-17,900
Total	-509,378	-323,729	-211,591	-232,292

Note 10 Auditors' fees

Deloitte	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Audit assignment	747	610	375	300
Audit-related services	230	865	230	865
Tax consultancy	63	117	63	21
Other services	87	1,782	87	-
Total	1,127	3,374	755	1,186

"Audit assignment" refers to the statutory auditing and fee for audit consultancy. "Audit-related services" refers to the review of management and financial information resulting from the legislation, Articles of Association, statutes and agreement which culminate in a report or any other document that is intended to be used as analytical material for parties other than the consultant. Everything else is classified as "Other services". For 2016, the item Other services includes MSEK 1.7 attributable to the acquisition.

Note 11 Average number of employees, salaries, other remuneration and social security contributions

	AVERAGE NUMBER OF EMPLOYEES							
	THE GROUP		PARENT COMPANY SWEDEN		SUBSIDIARIES SINGAPORE		USA	
	2017	2016	2017	2016	2017	2016	2017	2016
Women	84	39	28	25	-	-	56	14
Men	98	35	10	11	1	1	87	23
Total	182	74	38	36	1	1	143	37

	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Board of Directors				
Jörn Andreas	29	175	29	175
Anna Malm Bernsten	150	-	150	-
Scott Bush	150	-	150	-
Benedicte Fossum	44	175	44	175
Charlotte Hansson	150	-	150	-
Jan Nilsson	194	175	194	175
Jonny Olsson	194	175	194	175
Jean-Yves Parisot	375	300	375	300
Eva Redhe	44	175	44	175
Chief Executive Officer				
Peter Nählstedt	3,666	2,638	3,666	2,638
Other members of management (6 (4))	12,472	6,779	8,420	6,779
Other employees	78,286	37,682	20,321	18,075
Total	95,753	48,274	33,737	28,667

	2017	2016	2017	2016
Social Security contributions, total:	26,246	17,561	19,013	15,589
Of which pension costs:	8,927	5,719	7,230	5,511
Board Members	-	-	-	-
Chief Executive Officer				
Peter Nählstedt	1,021	688	1,021	688
Other members of management (6 (4))	2,864	1,620	2,422	1,620
Other employees	5,042	3,411	3,787	3,203

In 2017, the CEO and an additional six senior executives were entitled to bonuses that may amount to a maximum of 60% or 50% respectively of the fixed 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.

At December 31, 2017, TSEK 3,063 (11,465) including social security contributions, was reserved for bonuses to personnel. The amount will be paid in 2018 and distributed as follows: The CEO, TSEK 729 (2,258); senior executives (6 (4)) TSEK 821 (3,196), and other employees, TSEK 1,513 (6,011).

The notice period for the CEO is six months if given by the CEO. If notice is given by the company, the notice period is 12 months.

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

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

Note 12 Discarding and impairment of non-current assets

	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Discarding	-	-	-	-
Impairment	-	-11,051	-	-11,051
Total	-	-11,051	-	-11,051

No tangible or intangible non-current assets were discarded or impaired in 2017.

Impairment in 2016 is related to a trial on Probi Defendum (Probi Frisk®). The aim of the trial was to demonstrate the efficacy of Probi Defendum on the occurrence and severity of common cold symptoms. The trial showed that those given Probi Defendum suffered significantly fewer colds than those who were given a placebo. The results showed no significant reduction in the severity of cold symptoms, according to a predefined analysis method. Since this was the primary objective, the trial results are not likely to be used as documentation for a health claim application in Europe.

Note 13 Financial income and expenses

	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Interest income	612	49	9,731	4,503
Exchange-rate gains	83,682	55,637	83,647	55,598
Exchange-rate losses	-89,716	-45,227	-89,715	-45,215
Interest expenses	-5,786	-2,382	-5,200	-2,417
Other financial expenses	-554	-1,359	-1,141	-1,359
Total	-11,762	6,718	-2,678	11,110

For the financial year 2017 the interest result was a loss of MSEK -5.2 (-2.3) due to increased interest expenses relating to borrowings in connection with the acquisition of Nutraceutix in the second half of 2016.

Exchange gains and losses incurred relating to the revaluation of the loan, cash holding in foreign currency or market valuation and realisation of forward contracts, are recognised in the exchange result from financing activities. A loss of MSEK 6.0 (gain 10.4) arose during 2017, due to depreciation of the USD against the SEK. The exchange gain from financing activities in the preceding year included MSEK 7.4 from the market valuation of a currency forward contract which was entered to finance the acquisition of Nutraceutix.

For 2017 the item "Other financial expenses" includes MSEK 0.6 (1.4) expensed to the financial institution providing external borrowings.

Note 14 Income tax

	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Current tax for the year	-19,995	-33,026	-20,294	-33,035
Deferred tax	-648	8,190	-	-
Tax effect from change in tax rate	-2,590	-	-	-
Deferred tax expenses/income	-3,238	8,190	-	-
Total income taxes	-23,233	-24,836	-20,294	-33,035

Derivation of the effective tax rate

Income before tax	92,324	137,028	91,442	149,192
Expected tax expense at local tax rates	-20,565	-30,146	-20,117	-32,822
Tax effect from previous years	316	-	-	-
Tax effect from non deductible expenses	-239	-213	-177	-213
Tax effect from change in tax rate	-2,590	-	-	-
Tax effect from value adjustments to deferred tax assets	-	5,523	-	-
Other tax effects	-155	-	-	-
Total effective tax	-23,233	-24,836	-20,294	-33,035

	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Change in deferred tax assets				
Deferred tax from temporary differences	-6,604	8,589	76	-
Tax effect from change in tax rate	-2,590	-	-	-
Deferred tax in capitalised tax loss carry-forward	5,225	-	-	-
Total change in deferred tax asset	-3,969	8,589	76	-

Change in deferred tax liabilities

Deferred tax from temporary differences	111	11	103	-
Total change in deferred tax liabilities	111	11	103	-
Total change deferred tax	-3,858	8,600	179	-

DEFERRED TAX ASSETS AND LIABILITIES, 2017	THE GROUP			PARENT COMPANY		
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	NET DEFERRED TAX	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	NET DEFERRED TAX
Intangible assets	4,455	-5,341	-885	-	-	-
Property, plant and equipment	-	-1,245	-1,245	-	-	-
Financial assets	76	-	76	76	-	76
Inventories	807	-	807	-	-	-
Trade receivables, prepayments and other assets	34	-	34	-	-	-
Other provisions and liabilities	800	-191	609	-	-	-
Losses carried forward	5,225	-	5,225	-	-	-
Sub-total	11,398	-6,777	4,621	76	-	76
Offsetting	-6,777	6,777	-	-	-	-
Total	4,621	0	4,621	76	-	76

DEFERRED TAX ASSETS AND LIABILITIES, 2016	THE GROUP			PARENT COMPANY		
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	NET DEFERRED TAX	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	NET DEFERRED TAX
Intangible assets	7,309	-1,822	5,487	-	-	-
Property, plant and equipment	58	-469	-411	-	-	-
Inventories	1,165	-	1,165	-	-	-
Trade receivables, prepayments and other assets	2,343	-	2,343	-	-	-
Other provisions and liabilities	6	-111	-105	-103	-	-103
Sub-total	10,880	-2,403	8,478	-103	-	-103
Offsetting	-2,292	2,292	-	-	-	-
Total	8,589	-111	8,478	-103	-	-103

US federal gross tax losses carried forward in the Group amounted to MSEK 22.2 (-) as of the end of the reporting period. Including additional tax losses carried forward on the US state level, total tax losses carried forward in the Group correspond to deferred tax assets of MSEK 5.2 (-). All loss carry forwards were capitalized at the end of 2017. Management believes that, given the Group's current and future structure, the opportunities to utilise the losses

carried forward are well founded.

Due to the recent enactment of the US Tax Cuts and Jobs Act (TCJA), the effective tax rate of Probi USA, Inc. fell from 36.1% to 23.5%. Probi recognised a non-cash tax charge in the tax result for the fourth quarter of 2017 to account for the valuation adjustment to its deferred tax assets.

Note 15 Operational leasing agreements

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

	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Leasing costs for the year	15,679	5,626	4,402	3,608
Falls due for payment within one year	17,126	10,889	4,740	2,784
Falls due for payment after one but within five years	61,313	36,627	17,092	5,155
Falls due for payment after more than five years	25,002	17,407	-	-

Note 16 Capitalised costs for development activities

	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Opening cost	51,883	39,287	51,883	39,287
New acquisitions	15,399	12,596	15,399	12,596
Closing accumulated cost	67,282	51,883	67,282	51,883
Opening depreciation	-11,140	-8,037	-11,140	-8,037
Depreciation/amortisation for the year	-4,046	-3,103	-4,046	-3,103
Closing accumulated depreciation/amortisation and discarding	-15,186	-11,140	-15,186	-11,140
Opening impairment	-11,051	-	-11,051	-
Impairment for the year	-	-11,051	-	-11,051
Closing accumulated impairment	-11,051	-11,051	-11,051	-11,051
Closing residual value	41,045	29,692	41,045	29,692

For more information about impairment, refer to Note 12.

Note 17 Customer base

	THE GROUP	
	2017	2016
Opening cost	371,235	-
Asset purchase	-	371,235
New acquisitions	-	-
Translation differences	-35,295	-
Closing accumulated cost	335,940	371,235
Opening depreciation	-6,187	-
Asset purchase	-	-
Depreciation/amortisation for the year	-23,227	-6,187
Translation differences	1,420	-
Closing accumulated depreciation	-27,994	-6,187
Closing residual value	307,946	365,048

With the completion of the purchase price allocation in accordance with IFRS 3, adjustments were recognized in the current year

reporting period and the previous full-year reporting period. The customer base is a part of the recognized intangible assets resulting from the business combination on October 3, 2016.

For more information about customer base, refer to Note 5.

Note 18 Technology and other intangible assets

	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Opening cost	226,658	66,250	69,912	66,250
Asset purchase	-	156,745	-	-
New acquisitions	2,736	3,662	2,736	3,662
Translation differences	-14,902	-	-	-
Closing accumulated cost	214,491	226,657	72,648	69,912
Opening depreciation	-62,040	-56,680	-58,922	-56,680
Asset purchase	-	-	-	-
Depreciation/amortisation for the year	-14,174	-5,359	-2,467	-2,242
Translation differences	716	-	-	-
Closing accumulated depreciation	-75,498	-62,039	-61,389	-58,922
Closing residual value	138,993	164,618	11,259	10,990

With the completion of the purchase price allocation in accordance with IFRS 3, adjustments were recognized in the current year reporting period and the previous full-year reporting period. The technology and other intangible assets is a part of the recognized intangible assets resulting from the business combination on October 3, 2016. This category also includes capitalised patents and licenses of MSEK 11.3 (11.0).

For more information about the purchase price allocation refer to Note 5.

Note 19 Goodwill

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 recognized, then tests are carried out more frequently.

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 and is not larger than an operating segment as defined by IFRS 8. Probi's lowest cash-generating units at which goodwill is monitored are the operating segments Consumer Healthcare (CHC) and Functional Food (FF).

For the financial year 2017, total goodwill of the Group amounted to MSEK 279.7 (308.8) of which MSEK 2.8 (2.8) is allocated to the segment Functional Food and 276.9 (306.0) to the segment Consumer Healthcare, respectively. Goodwill of the segment Consumer Healthcare fell as a result of foreign currency translation.

As described in Note 5, the Purchase Price Allocation was finalized during the second quarter of 2017. All preliminary unallocated goodwill related to the business combination was designated to the segment CHC. Probi carries out its annual impairment test for goodwill of the cash-generating unit CHC on September 30. For the sake of simplicity

and in view of materiality, no impairment test for the cash-generating unit Functional Food was performed.

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 derived from the Probi Group's budget and mid-term 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. In 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 the fiscal years 2018 to 2021. A growth rate of 2.0 % was assumed for the measurement of perpetual annuity. The cash flows determined in this manner were discounted with a weighted average capital cost (WACC) factor after tax of 6.54 % for CHC. Cost of equity 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 in determining cost of equity and borrowing costs. There were no indications of impairment for the fiscal year.

Management believe that no reasonably possible change in any of the above key assumptions would cause the CHC's recoverable amount to fall below the carrying value.

Note 20 Investments related to premises

	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Expenditure on leased property				
Opening cost	9,446	3,588	3,588	3,588
Asset purchase	-	4,474	-	-
New acquisitions	3,526	1,108	-	-
Disposals	-43	-	-	-
Translation differences	-481	276	-	-
Closing accumulated cost	12,448	9,446	3,588	3,588
Opening depreciation	-4,641	-1,889	-2,342	-1,889
Asset purchase	-	-1,992	-	-
Depreciation/amortisation for the year	-1,449	-637	-453	-453
Translation differences	53	-123	-	-
Closing accumulated depreciation	-6,037	-4,641	-2,795	-2,342
Closing residual value	6,411	4,805	793	1,246

The expenses 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 Redmond (WA) and Lafayette (CO), USA.

Note 21 Equipment and tools

	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Opening cost	77,076	10,017	10,571	10,017
Asset purchase	-	62,637	-	-
New acquisitions	4,644	962	2,034	962
Disposals	-	-291	-	-291
Discarding	-	-117	-50	-117
Translation differences	-3,567	3,868	-	-
Closing accumulated cost	78,153	77,076	12,555	10,571
Opening depreciation	-40,391	-7,135	-8,070	-7,135
Asset purchase	-	-28,223	-	-
Depreciation/amortisation for the year	-10,334	-3,407	-1,246	-1,052
Amortisation on disposed equipment	-	117	50	117
Translation differences	549	-1,743	-	-
Closing accumulated amortisation	-50,176	-40,391	-9,266	-8,070
Closing residual value	27,977	36,685	3,289	2,501

The asset purchase in 2016 pertains primarily to production equipment in Redmond (WA) and Lafayette (CO), USA.

Note 22 Shares in Group companies

	2017	2016
Carrying amount	777,320	383,147

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	702
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 Inc, USA					
81-2766100, Delaware	100%	100%	100	772,991	713,605

Note 23 Inventories

	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Raw materials and consumables	31,889	31,348	-	-
Semi finished goods	26,932	21,150	-	-
Finished goods	10,319	20,254	4,609	8,564
Total	69,140	72,752	4,609	8,564

For inventory valuation principles, refer to Note 2.11.

Note 24 Accounts receivable

Carrying amount corresponds to the fair value of accounts receivable. Allowance for trade receivables were 0.3 MSEK on December 31, 2017.

	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Maturity structure of accounts receivable				
Not fallen due	44,620	72,164	20,649	50,210
Fallen due 0-15 days	10,105	5,479	3,078	1,907
Fallen due 16-30 days	265	109	-	-
Fallen due 31-60 days	727	895	33	-
Fallen due 61-90 days	3,627	11	3,438	-
Fallen due 91-180 days	-	111	-	-
Fallen due 181-360 days	-	116	-	-
Fallen due >360 days	-	18	-	-
Total	59,344	78,903	27,198	52,117

Note 27 Financial liabilities

	CURRENCY	NOMINAL AMOUNT	NOMINAL	UTILISED	UNUTILISED	INTEREST	MATURITY
		ORIGINAL CURRENCY	AMOUNT	AMOUNT	AMOUNT	RATE TERMS	
Bank loans (revolving lines of credit)	USD	28,250	232,560	176,992	55,567	Libor + 1,4%	2020-07-27
Accrued interest	SEK			45			
Capitalised arrangement expenses	SEK			-1,124			
Recognised amount				175,913			
Overdraft facility	SEK	30,000	30,000	-	30,000	Libor + 1,1%	2020-07-27
Total			262,560	175,913	85,567		

	2016	Cash flows	NON-CASH CHANGES		2017
			Foreign exchange movement	Amortization	
Short-term borrowings	227,473	-32,063	-18,373	-	177,037
Capitalized arrangement expenses	-1,710	-	-	586	-1,124
Total liabilities from financing activities	225,763	-32,063	-18,373	586	175,913

Probi AB has a financing agreement with Handelsbanken that was signed on 27 July 2016 and runs until 27 July 2020, with the possibility to extend it for 1 year. The agreement includes a revolving credit facility in an original amount of MUSD 35 and an overdraft facility of MSEK 30. The scope of the revolving loan has been reduced by MUSD 1.3 per quarter and at year-end it was MUSD 28.0 or MSEK 232.6. MUSD 21.5 of the facility, or MSEK 177.0, was utilised at December 31, 2017.

Note 25 Prepaid expenses and accrued income

	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Prepaid rent	2,006	1,736	1,072	843
Accrued sales revenue	1,923	19,522	1,923	19,522
Insurance premiums	816	2,433	542	1,655
Returns and refunds compensation	-	1,429	-	1,429
Prepaid R&D expenses	515	-	515	-
Other items	1,906	1,102	647	629
Total	7,166	26,222	4,699	24,078

Note 26 Other long-term liabilities

	PARENT COMPANY	
	2017	2016
Liabilities to Group Companies, > five years	4,035	4,035
Total	4,035	4,035

The overdraft facility had not been utilised at year-end. 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 net debts/EBITDA and interest coverage ratio must not deviate from agreed levels.

Note 28 Accrued expenses and deferred income

	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Accrued holiday pay				
including social security contributions	5,330	3,714	2,275	2,122
Social security contributions	676	658	676	658
Accrued administration and selling expenses	1,524	4,441	843	2,439
Returns and refunds compensation	-	4,330	-	4,330
Accrued variable remuneration to employees	3,063	11,465	2,044	9,351
Unpaid portion of purchase consideration for acquisitions	-	2,108	-	-
Other items	953	2,103	83	1,619
Total	11,545	28,819	5,921	20,519

Unpaid portion of purchase consideration for acquisitions in 2016 pertains to adjustments for working capital in connection with takeover and other contractual adjustments.

Note 29 Financial instruments

Anticipated operating cash flows – hedge accounting

	DUE DATE	IN ORIGINAL CURRENCY	AMOUNT TO RECEIVE (+) OR TO PAY (-) TSEK	VALUE CHANGE 31 DEC 2017 TSEK	VALUATION 31 DEC 2017 TSEK	
Amount to be sold	2018-01-26	TUSD	190	1,532	-24	1,508
Amount to be sold	2018-02-23	TUSD	275	2,213	-34	2,179
Amount to be sold	2018-03-26	TUSD	65	522	-8	514
Amount to be sold	2018-04-25	TUSD	75	601	-9	592
Amount to be sold	2018-05-25	TUSD	180	1,440	-23	1,417
Amount to be sold	2018-06-25	TUSD	300	2,396	-38	2,358
			1,085	8,704	-136	8,568

Note 30 Pledged assets and contingent liabilities

	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Chattel mortgages	800	800	800	800
Bank guarantee, Swedish Customs	165	165	165	165
Total pledged assets	965	965	965	965

The company has no contingent liabilities.

Note 31 Related-party transactions

Transactions with related parties recognised in statement of comprehensive income:

	THE GROUP		PARENT COMPANY	
	2017	2016	2017	2016
Symrise AG (largest shareholder)	32	283	32	283
Symrise AG (largest shareholder)	-15	-16	-15	-16
Atherioco AB, related party:				
Jan Nilsson (Board member and Chairman of Probi Scientific Advisory Board)	-30	-60	-30	-60
Probiotic Consulting LLC, related party:				
Scott Bush (Board member)	-165	-	-109	-

During 2017, Probi's largest owner, Symrise AG, was invoiced KSEK 32.0 (283.0) and Probi received invoices of KSEK 15.4 (16.0) from Symrise AG related to laboratory material. Board member Jan Nilsson invoiced fees of KSEK 30.0 (60.0) pertaining to Probi's Scientific Advisory Board via Atherioco AB. Board member Scott Bush invoiced fees of KSEK 165.1 (—) pertaining to project-related consulting services via Probiotic Consulting LLC. The purchase and sale of goods and services to and from related parties is conducted on market-based terms. No other related-party transactions occurred during the reporting period.

In addition to these transactions, the following Board fees were invoiced from own companies: Anna Malm Bernsten (board member) via Bernsten Konsult AB, Scott Bush (board member) via Probiotic Consulting LLC, Charlotte Hansson (board member) via Scandinavian Insight Consulting AB, Jonny Olsson (Board member) via Jonny Olsson Consulting and Eva Redhe (Board member) via Redhe Financial Communications AB. The amounts are recognised in Note 11 "Average number of employees, salaries, other remuneration and social security contributions."

Note 32 Events after the balance-sheet date

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

SIGNATURES FOR THE ANNUAL REPORT

The Annual Report and consolidated financial statements were approved for issuance by the Board on 14 March 2018. The consolidated statement of comprehensive income and the statement of financial position, as well as the Parent Company's income statement and balance sheet will be presented to the Annual General Meeting on 2 May 2018 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, 14 March 2018

Jean-Yves Parisot
Chairman of the Board

Jonny Olsson
Board member

Scott Bush
Board member

Anna Malm Bernsten
Board member

Jan Nilsson
Board member

Charlotte Hansson
Board member

Peter Nählstedt
CEO

Our auditor's report was submitted on 14 March 2018
Deloitte AB

Maria Ekelund
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 financial year 2017-01-01 – 2017-12-31 except for the corporate governance statement on pages 50-52. The annual accounts and consolidated accounts of the company are included on pages 44-74 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 parent company as of 31 December 2017 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 2017 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.

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 with the exception of a service provided to Probi's parent company which has been reported to the Audit committee. The service has not had material effect on the audited entity.

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 judgement, 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.

Valuation of capitalised development expenditure

Description of the risk

- Probi AB (publ) reported in the balance sheet of 31 December 2017 capitalised development expenditure of 41 MSEK (30).
- The value of the assets is contingent on future returns on products related to development expenditure. The company makes impairment testing per product group.
- Incorrect assessments and assumptions can produce an effect on the Group's results and financial position.

For further information please refer to the Group's accounting principles in note 2 on page 61, note 4 of important accounting

estimates on page 65 and note 16 on tangible assets on page 70 of the report.

Our audit procedure

- We have audited the company's design and implementation of internal control to detect indications of impairment and that the impairment is made in the correct period.
- We have audited the company's assumptions and methods in the impairment test to ensure that assumptions are reasonable and that the procedures are applied with consistency and integrity.
- We have examined the design and implementation of the company's internal controls in order to identify the company's breakdown of the research- and development phase.

Valuation of other intangible assets

Description of the risk

- Probi AB (publ) reported in the balance sheet of 31 December 2017 other intangible assets, such as customer relationships, technologies and goodwill, of 726 MSEK (838).
- The value of recorded intangibles are tested at least annually and depends on future performance and profitability of the respective cash-generating unit. Impairment testing is based on a number of assumptions such as the estimated future cash flows, gross margins, discount rate, investment and growth.
- Incorrect assessments and assumptions can produce a significant impact on the Group's results and financial position.

For further information please refer to the Group's accounting principles in note 2 on page 61, note 4 of important accounting estimates on page 65 and note 17-19 of intangible assets on page 70 of the report.

Our audit procedure

- We have reviewed and assessed Probi AB (publ)'s routines for the impairment testing to ensure that assumptions are reasonable, that the procedures are applied consistently and with integrity in the estimates. We have also tested the arithmetical accuracy of the model.
- We have reviewed the accuracy and completeness of relevant notes to the financial statements.
- Our valuation experts have participated in the implementation of the auditing measures.

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 2-43 and 78-83. 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.

A further description of our responsibility for the audit of annual and consolidated accounts is available on the Auditor's inspection board's website: www.revisorsinspektionen.se/revisorsansvar. This description is part of the audit report.

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 financial year 2017-01-01 – 2017-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated 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 situation 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.

A further description of our responsibility for the audit of annual and consolidated accounts is available on the Auditor's inspection board's website: www.revisorsinspektionen.se/revisorsansvar. This description is part of the audit report.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 50-52 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.

Deloitte AB, was appointed auditor of Probi AB (publ) by the general meeting of the shareholders on the 28 April 2010 and has been the company's auditor since then. On the annual board meeting in 2017 Maria Ekelund was elected principal auditor.

Malmö, 14 March 2018
Deloitte AB

Signature on Swedish original

Maria Ekelund
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 Diana, a division of the Symrise Group. Formerly leading roles with Air Liquide, Danisco, Rhodia, Rhône-Poulenc, Merial and Pfizer.

Other Board assignments: President of the Board of VetAgroSup

Shares in the company: –

Independent in relation to the company: Yes

Independent in relation to major shareholders: No



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 leading roles with Tetra Pak, Oriflame and Ericsson.

Other Board assignments: The Incredible Journey AB, NGI Denmark, Liquid Consulting Inc & AB.

Shares in the company: 1,284

Independent in relation to the company: Yes

Independent in relation to major shareholders: Yes



Jan Nilsson

Board member, born 1953.

Education: Medical programme and Doctor of Medicine, Karolinska Institute, Sweden.

History: Board member since 2010. Professor of Experimental Cardiovascular Research at Lund University. Formerly held such positions as Dean of the Faculty of Medicine at Lund University, 2000–2005, and Deputy Secretary General for the Medical Research Council, 1995-1999.

Other Board assignments: Atherioco AB, MedScienta AB, PetaJoule AB, Cardiovox and the Swedish Research Council.

Shares in the company: –

Independent in relation to the company: Yes

Independent in relation to major shareholders: Yes



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. CEO of MorgonTidig Distribution KB. Formerly leading roles with Jetpak Group AB, Danzas ASG Eurocargo AB, and Carl Zeiss AB.

Other board assignments: BE Group AB, Orio AB, DistIT AB and Momentum Group AB.

Shares in the company: –

Independent in relation to the company: Yes

Independent in relation to major shareholders: Yes



Anna Malm Bernsten

Board member, born 1961.

Education: M.Sc., KTH

History: Board member since 2017. Owner and CEO of Bernsten Konsult AB. Formerly leading roles with Oatly, GE Healthcare Life Sciences, ASSA ABLOY, and Pharmacia & Upjohn.

Other board assignments: Medivir, Björn Axén, Cellavision and Pågen

Shares in the company: –

Independent in relation to the company: Yes

Independent in relation to major shareholders: Yes



Scott Bush

Board member, born 1956.

Education: MBA and B.Sc.

History: Board member since 2017. Owner and President of Probiotic Consulting LLC. Formerly leading roles with DuPont, Danisco, and Rhodia.

Other board assignments: International Probiotics Association

Shares in the company: –

Independent in relation to the company: Yes

Independent in relation to major shareholders: Yes

MANAGEMENT



Ole Søgaard Andersen

CEO, born 1952.

Education: Master of Science in Economics, University of Aarhus, Denmark.

History: Ole Søgaard Andersen was appointed interim CEO of Probi from March 14, 2018. Ole is an international business leader with over 30 years' experience in ingredients companies. He formerly held positions as President, Systems Division and Global Vice President Sales, Marketing & Application for Nutrition and Health, at DuPont. He also served on Danisco's Board of Executives.

Shares in the company: –



Jörn Andreas

CFO, born 1980.

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

History: Jörn Andreas was employed as CFO in 2017. Before joining Probi Jörn held the positions as Chief Integration Officer and Vice President Finance, Symrise Aroma Molecules Division, Jacksonville, USA. Previously Jörn has worked at The Boston Consulting Group, Hamburg, Germany and Bayer AG, Leverkusen, Germany. Board member of Probi 2014-2016.

Shares in the company: –



Niklas Brandt

CIO and IR, born 1959.

Education: Business Administration degree from Lund University.

History: Niklas Brandt was employed as CFO in 2008. 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 shares.



Niklas Bjärum

Vice President America and President Probi USA Inc., born 1963.

Education: Degree in International Business Administration from Lund University.

History: Niklas Bjärum was employed in 2001 as Vice President Marketing and Sales. Niklas has held a number of positions in marketing, sales and business development of both an operational and strategic nature at international food companies, such as Nestlé and Masterfoods (Mars Inc.). In 1998, he changed industries and worked at Ericsson Mobile Communications for three years, where he was responsible for business development for the European market.

Shares in the company: 5,187 shares.



Linda Neckmar

Vice President EMEA and APAC, born 1973.

Education: Master of Science in Chemical Engineering from Lund University.

History: Linda Neckmar has extensive experience from the biotechnology industry, in pharmaceutical development and international business development, marketing and sales. Linda was employed at Probi in 2011 with responsibility for Marketing and Sales Consumer Healthcare. Prior to this, she worked at BioInvent International AB and OxiGene Inc.

Shares in the company: 1,500 shares.

DEFINITIONS OF KEY RATIOS

Definition of Alternative Performance Measures

The company presents certain performance measures in the annual report that are not defined according to IFRS. The company believes that these ratios provide valuable supplementary information to investors and company management. Since companies do not all calculate performance measures in the same way, these ratios are not always comparable with those used by other companies. Accordingly, these performance measures are not to be considered to replace key ratios as defined according to IFRS.

The following performance measures are presented in the annual report:

Operating Profit/EBIT

Operating Profit/EBIT is defined as net income before financial income and expenses and tax for the period.

EBITDA

EBITDA is defined as Operating Profit/EBIT before depreciation, amortisation and impairment.

EBIT margin

The EBIT margin is defined as Operating Profit/EBIT divided by net sales.

EBITDA margin

The EBITDA margin is defined as EBITDA divided by net sales.

Gross margin

The gross margin is defined as gross profit divided by net sales.

Market capitalisation at closing day

Market capitalisation at closing day is defined as the share price at the end of the period multiplied by the number of shares outstanding.

Net sales growth, local currency

Net sales growth, local currency, is defined as net sales for the year translated at the preceding year's exchange rates divided by the preceding year's net sales.

Operating expenses

Operating expenses are defined as the sum of cost of goods sold, sales and marketing expenses, research and development expenses, administration expenses, other operating income and other operating expenses.

DEFINITIONS OF KEY RATIOS

Operating profit/EBIT	2017	2016	2015	2014	2013
Net income	69,092	101,847	49,039	21,765	15,045
Income taxes	23,233	24,836	14,051	6,325	4,446
Financial result	11,762	-6,718	-22	-1,041	-1,348
Operating profit/EBIT	104,087	119,965	63,068	27,049	18,143
EBITDA					
Operating profit/EBIT	104,087	119,965	63,068	27,049	18,143
Depreciation and amortisation	53,231	21,552	6,070	5,419	4,934
Discarding and Impairment	-	11,051	106	3,740	-
EBITDA	157,318	152,568	69,244	36,208	23,077

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Wednesday 2 May 2018 at 3:00 p.m. at Elite Hotel, Ideon Gateway, Scheelevägen 27, Lund.

Right to participate

To be entitled to participate in the Annual General Meeting, shareholders must be registered in the shareholders' register maintained by Euroclear Sweden AB as of Wednesday April 25, 2018 and shall have notified the company of their intention to participate not later than Wednesday April 25, 2018.

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

Such registration must be completed not later than Wednesday April 25, 2018. This means that shareholders must notify the trustee of their intention to temporarily re-register these shares in ample time before this date.

Notification of participation

Notification of participation in the Meeting can be made:

- in writing under address Annual General Meeting, Probi AB, Ideon Gamma 1, SE-223 70 Lund
- by e-mail to: bolagsstamma@probi.com
- by calling +46 (0)46 286 89 20

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 2018

Interim report Q1, 2018

2 May 2018

Annual General Meeting 2017

2 May 2018

Interim report Q2, 2018

13 August 2018

Interim report Q3, 2018

6 November 2018

Year-end report 2018

13 February 2019

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