

# Interim report

## January-June 2018



## Regained business momentum and strong margin improvement

### Highlights and significant events in the second quarter

- Net sales increase from MSEK 119 to MSEK 153 compared to the previous quarter and improvement of EBITDA margin quarter-over-quarter from 14% to 28%
- Market introduction of Probi® Osteo, the new premium concept in bone health and osteoporosis, at Probi's 6<sup>th</sup> Annual Partner Conference
- Probi receives a 2018 *NutraIngredients* Award for its promising research results on the prevention of gluten intolerance in children

### Financial overview

MSEK	H1 2018	H1 2017	Full-year 2017
Net sales	272.4	359.4	612.2
Net sales growth, constant currency, %	-23.9%	118.3%	38.2%
Gross margin, %	44.8%	48.0%	45.4%
EBITDA	59.9	107.1	157.3
EBITDA margin, %	22.0%	29.8%	25.7%
Operating profit (EBIT)	32.6	79.8	104.1
Net income	24.3	59.3	69.1
Earnings per share before and after dilution, SEK	2.13	5.21	6.06
Share price on closing day, SEK	362.80	580.00	340.00
Market cap on closing day	4,133.8	6,608.6	3,874.0

See note 5 for definitions of ratios not defined according to IFRS

### Invitation to Teleconference

Date: 13 August 2018

Time: 10:00 a.m.

Phone: +46 8 56 64 26 64

Participants from Probi:

Jörn Andreas, CFO

### Contacts

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The presentation is available at [www.probi.com](http://www.probi.com) and [www.financialhearings.com](http://www.financialhearings.com)

### About Probi

*Probi AB is a Swedish publicly traded bioengineering company. The vision of Probi is to help people live healthier lives by delivering effective and well-documented probiotics, with proven health benefits based on scientific research.*

*Founded by scientists in Sweden in 1991, Probi is a multinational company with four sites, active in more than 40 markets around the world and holding over 400 patents worldwide. In 2017, Probi had net sales of MSEK 612. The Probi share is listed on Nasdaq Stockholm, Mid Cap. Probi has about 5,000 shareholders.*

*[probi.com](http://probi.com)*

*This information is information that Probi AB is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person set out above, at 8:00 a.m. CET on 13 August 2018. This is a translation of the Swedish version of the interim report. When in doubt, the Swedish wording prevails.*



#### Probi's customers

*Probi offers probiotic expertise and partnership all the way from R&D to finished products for companies within the consumer healthcare and food industry. Probi manufacturing is GMP-certified and produces proven and effective probiotics in custom made formats with value-adding delivery technologies.*

## CEO Comments

### Improved net sales performance and profit margin compared to first quarter

In line with expectations, Probi picked up business momentum during the second quarter and delivered a significantly improved profit margin, consistent with our long-range target. Second-quarter net sales amounted to MSEK 153, up MSEK 34 or 29% quarter-over-quarter, and the EBITDA margin was 28%. Compared with net sales of MSEK 172 in the second quarter of the preceding year, sales were negatively impacted by MSEK 16 due to destocking by Probi's major customer in North America, and a soft quarter in Europe. We have now received additional orders for the coming quarter from the customer who introduced the destocking program, and returned to a regular order pattern.

### Accelerated execution of commercial initiatives starts to deliver

Although we are in the early days of capitalizing on our initiatives to accelerate commercial activities, it is highly encouraging to see the growing momentum reflected in our quarterly results. Our recent market introduction of Probi® Osteo, and new agreements both in China and with e-commerce customers, are directly linked to our commercial initiatives. Better translation of R&D success into commercial success, and systematically expanding our business activities in the APAC region, will remain key to the expansion of our organic sales pipeline.

### Expectations for 2018

Looking ahead, we intend to continue building on our regained business momentum. We can confirm our expectations for 2018 to generate profitable quarter-on-quarter organic growth in the second half of the year. I am convinced that Probi is well-positioned to take advantage of the opportunities in a growing market to deliver both customer and shareholder value.

*Ole Sogaard Andersen, CEO*

## Key Developments in the Group

The North American market resumed solid growth in the second quarter of 2018. Probiotics remain a highly dynamic category with significantly higher growth than the total North American dietary supplement market. There is a strong and sustained consumer trend toward innovative and better-documented solutions that gain market shares from the previous focus on high strain number and high bacteria-count products. This conversion is expected to be favorable for Probi over time with its comprehensive clinical documentation, innovation pipeline and ready-to-use products. In the second quarter in particular, order intake grew successively driven by recent innovations, e-commerce and improved pipeline conversion. Probi's major customer in North America, which introduced a destocking program in 2017, has now placed additional orders for the coming quarter reflecting our expectations that recovery from the destocking program is now complete.

Probi has accelerated its business development activities in the APAC region, which is expected to show significant growth in the coming years. This is a strategic focus for 2018 and led to strong sales growth of 71% throughout the region during the first two quarters compared to previous year. In addition to growth with existing customers, Probi also closed new deals in cross-border e-commerce in China and benefitted from the launch of its gut health product ProbiMage® in Taiwan during the second quarter. Probi also signed a license and distribution agreement with a Chinese company that sells baby and children's products in China and South-East Asia. This collaboration is part of Probi's initiative to establish a footprint in China, one of the world's largest probiotics markets. Probi is currently increasing its presence in Asia by recruiting additional sales resources and by taking steps to open a sales office in China.

Activities initiated to improve performance and diversify the customer portfolio in the EMEA region have started to pay off. Several new agreements were negotiated in the second quarter, including key and major markets such as Italy, Germany and Poland. Probi also entered into a partnership with a UK-based e-commerce brand that will launch two probiotic supplements from Probi including patented BIO-tract® technology in the second half of 2018.

In the fourth quarter of 2017, Probi announced that a major agreement had been signed with a global FMCG (fast-moving consumer goods) company for the launch of a functional food product in North America containing Probi's bacteria for gut health. Preparations for the launch, which is scheduled for the second-half of 2019, reached major milestones in the second quarter and have now proceeded to small-scale production planning. The launch is expected to have a significant impact on future sales and earnings in Probi's Functional Food business area, which generated net sales of MSEK 34.2 in 2017.

Probi's 6<sup>th</sup> Annual Partner Conference "From Clinical Study to Commercialization" was successfully hosted at the end of the second quarter. This year's conference also set a new attendance record with customers from all regions, including some of the top influencers and opinion leaders in the industry. The number of participants from key Asian markets was significantly higher this year, reflecting Probi's intensified sales activities in the region. At the conference, keynote speakers presented the latest findings in market trends, consumer behavior and probiotic research, and inspiring insights from various markets were shared with participating customers.

At the Partner Conference venue, Probi officially presented Probi® Osteo, its new premium probiotic concept for the prevention of bone loss and osteoporosis. Targeting women and mobility as a top health

concern among consumers, Probi® Osteo addresses a significant consumer need and a growing market opportunity. The new product contains a unique and patented combination of three strains and is one of the first probiotic products in this segment. It builds on state-of-the-art clinical documentation providing evidence that age-dependent bone loss can be significantly reduced with probiotic supplementation.

After the end of the quarter, Probi announced that Jörn Andreas will leave his position as CFO tentatively as per 31 December 2018, or such earlier or later date when a new CFO can take office. The request to leave is made for personal reasons and the Board has initiated a process to recruit a new CFO.

## Research and Development

The innovation program, including clinical trials in both existing and new indications, has delivered exciting results, and additional clinical studies on Probi's probiotic strains are now being completed. The academic research collaborations, aimed at leading the identification of next-generation probiotics, the two collaboration projects with Symrise in oral health and skin care, and the new project together with Johnson & Johnson are progressing well.

Details for the preventive bone loss product, based on the successful outcome of a clinical study in post-menopausal women, have been developed. As previously communicated, the study provided evidence that age-dependent bone loss can be significantly reduced with probiotic supplementation. The product tested in the study contains a unique combination of three strains and was administered once daily for one year.

In the third quarter of 2017, Probi presented study results showing that probiotics from Probi support the immune system and may delay the onset of gluten intolerance in children genetically predisposed to developing gluten intolerance. The study and its promising results were presented at the VitaFoods Europe Conference in May, where the project won a 2018 *NutraIngredients* Award in the Nutrition Research Project category. The concept is attracting significant attention among researchers dealing with autoimmune metabolic disorders, as well as the pediatric medical community. Development of the new product concept is ongoing and a follow-up study to evaluate whether a gluten-free diet or intake of probiotics early in life can prevent celiac disease will now be conducted in newborns at higher risk of developing the disease.

In the second quarter, Probi received additional questions from the European Food Safety Authority (EFSA) in relation to the health claim application on iron uptake. Probi has withdrawn the application from further assessment but intends to re-submit the dossier after addressing the EFSA's queries.

In the field of gut microbiota, Probi joined forces with Diana, a division of the Symrise Group, to launch a research program with Université Laval (INAF - Quebec) and the Natural Sciences and Engineering Research Council of Canada (NSERC). The five-year program aims to develop synergistic combinations of prebiotic polyphenols and probiotic bacteria with the purpose of modulating the gut microbiota and positively impacting the intestinal epithelium.

## Sales Development

### Current Quarter

In the second quarter of 2018, Probi's net sales amounted to MSEK 153.2 (172.0), representing a year-on-year decline of MSEK 18.7, or -11%. Based on constant exchange rates from the preceding year, net sales

for the second quarter were MSEK 3.9 lower, corresponding to a year-on-year decline of 13%. Overstocking by Probi's major customer in North America had a positive impact of MSEK 16 on second-quarter net sales in 2017.

### Year-to-Date

During the first six months of the year, Probi's net sales amounted to MSEK 272.4 (359.4). The overall decrease was MSEK 86.9 or 24% year-on-year. Based on exchange rates from the preceding year, net sales for the first six months were MSEK 1.2 higher, corresponding to a net sales decline of 24% year-on-year. In the first half of 2018, net sales were negatively impacted by approximately MSEK 78 due to destocking by one of Probi's largest customers in North America.

### Net Sales by Segment

Probi's business operations are organized in two business segments, each with their own operational management: Consumer Healthcare (CHC) and Functional Food (FF). The Consumer Healthcare segment develops, manufactures and markets Probi's probiotics to pharmaceutical companies and other companies specialized in probiotics and self-care products. Revenue is derived from the sale of goods in bulk and consumer packaging. The Functional Food segment develops food containing Probi's probiotics in partnership with leading food companies. Revenue mainly comprises royalties from partner-generated sales. No business transactions are conducted between the two segments.

KSEK	H1 2018			H1 2017		
	CHC	FF	Total	CHC	FF	Total
Net sales	253,073	19,372	<b>272,445</b>	341,520	17,867	<b>359,387</b>
Operating expenses	-227,293	-12,537	<b>-239,830</b>	-266,457	-13,118	<b>-279,575</b>
<b>Operating profit (EBIT)</b>	<b>25,780</b>	<b>6,835</b>	<b>32,615</b>	<b>75,063</b>	<b>4,749</b>	<b>79,812</b>
Financial net	—	—	<b>-1,130</b>	—	—	<b>-4,562</b>
<b>Earnings before income taxes</b>	—	—	<b>31,485</b>	—	—	<b>75,250</b>

Net sales in Consumer Healthcare fell MSEK 88.4 to MSEK 253.1 (341.5). The sales decline in Consumer Healthcare during the first half of 2018 was largely attributable to the destocking effect mentioned above, as well as a slow start to the year in North America. Additionally, sales in Europe decreased year-on-year due to soft demand following positive market-launch effects in the preceding year.

Net sales in Functional Food totaled MSEK 19.4 (17.9). Sales in the business segment benefitted from favorable underlying volume growth and constant royalty levels in Sweden, as well as a satisfactory quarterly performance by the Functional Food business segment in North America and APAC.

### Net Sales by Region

KSEK	H1 2018	H1 2017	Full-year 2017
Sweden	28,306	25,010	53,818
EMEA, excluding Sweden	15,809	21,233	37,961
Americas	193,936	292,997	478,979
APAC	34,394	20,147	41,486
<b>Total</b>	<b>272,445</b>	<b>359,387</b>	<b>612,244</b>

During the first six months of 2018, Americas accounted for 71% of Probi's net sales. Sales in the region declined MSEK 99.1, or 34%, due to destocking by one of Probi's largest customers and weak demand at the beginning of the year. APAC accounted for Probi's strongest sales growth with a year-on-year increase of 71%, or MSEK 14.2. This trend was mainly attributable to strong growth by new and existing customers in China, Australia and India. Sales in EMEA (excl. Sweden) declined 26% year-on-year to MSEK 15.8. In Europe, sales decreased primarily as a result of launch delays and start-up difficulties from a major customer agreement signed in 2016. The customer and Probi are collaborating closely to improve market penetration, accelerate launch plans and compete more effectively in the market. Additionally, Probi is working actively to diversify the customer portfolio in the region. The 13% increase in Sweden was attributable to positive growth for both of our key customers in the Consumer Healthcare and Functional Food business segments.

## Earnings

### Operating Profit

During the first half of 2018, operating expenses totaled MSEK 239.8 (279.6). Cost of goods sold amounted to MSEK 150.3 (186.9), down 20%, and the gross margin fell to 45% (48) of net sales due to lower sales activity and corresponding lower capacity utilization in production. Sales and marketing expenses of MSEK 41.8 (41.1) remained largely unchanged compared with the first half of 2017. Administrative expenses amounted to MSEK 30.9 (30.9) and included personnel-related provisions of MSEK 2.9 (-). Research and development expenditure amounted to MSEK 17.9 (20.9) driven by the favorable phasing of milestone payments related to our clinical trial program.

In the Consumer Healthcare business segment, operating profit for the first six months totaled MSEK 25.8 (75.1), down 66%, corresponding to an operating profit/EBIT margin of 10%. Operating profit for the Functional Food business segment totaled MSEK 6.8 (4.7), corresponding to an operating profit/EBIT margin of 35%. The lower operating profit in Consumer Healthcare was mainly due to missing coverage for the fixed costs attributable to a sales decline from the destocking.

Consolidated operating profit (EBIT) for the first half of 2018 totaled MSEK 32.6 (79.8). Adjusted for currency effects, operating profit (EBIT) totaled MSEK 32.9. Operating profit was charged with an amount of MSEK 2.9 (-) for personnel-related provisions.

### Financial Results

The financial result for the first six months of 2018 was MSEK -1.1 (-4.6). Interest result of MSEK 3.0 (2.9) was charged to earnings, which remained largely unchanged year-on-year.

Exchange gains and losses incurred due to currency translation of the loan, or fair value changes and realization of forward contracts, are recognized in the exchange result from financing activities. Profit of MSEK 1.9 (loss: 1.5) arose during the reporting period.

### Profit after Tax

Profit after tax for the first six months of 2018 totaled MSEK 24.3 (59.3). Tax expense was MSEK 7.2 (15.9).

### Earnings per Share

Earnings per share for the first half of 2018 were SEK 2.13 (5.21).

## Cash Flow and Financial Position

### Capital Expenditure

During the first half of 2018, investments in intangible assets amounted to MSEK 5.7 (9.6), of which MSEK 1.0 (1.6) pertained to patents and MSEK 4.7 (8.0) to capitalized development expenditure. Capitalized development expenditure for the first six months was mainly related to clinical trials in immune function and nutrient absorption. Investments in tangible assets amounted to MSEK 2.4 (4.5).

### Change in Cash and Cash Equivalents

Year-to-date, cash and cash equivalents rose MSEK 39.0 (25.5) to MSEK 194.6 (128.6). Cash flow from operating activities declined MSEK 48.1 year-on-year, mainly due to the sales decline.

## Employees

At the end of the period, Probi had 160 (194) employees, of whom 75 (89) were women and 85 (106) men. The average number of employees during the first half of 2018 was 163 (197).

## Related-party Transactions

During the period, Probi's largest owner, Symrise AG, was invoiced KSEK 45.4 (-) and Probi received invoices of KSEK 143.9 (15.4) from Symrise AG. Board member Scott Bush invoiced fees of KSEK 120.2 (-) 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 normal commercial terms. No other related-party transactions occurred during the reporting period.

## Significant Risks and Uncertainties

The risks and uncertainties to which Probi's operations are exposed are described on pages 47-48 of the printed version of the 2017 Annual Report. At 30 June 2018, no significant changes were considered to have occurred in these risks or uncertainties.

## Parent Company

Parent Company operating revenue decreased to MSEK 121.5 (204.6). Net income in the first six months was MSEK 20.0 (62.2). Year-to-date, Parent Company investments in tangible and intangible assets amounted to MSEK 5.8 (10.6). For all other aspects, please refer to information for the Group.





## Financial Calendar

Interim report Q3 2018

6 November 2018

Year-end report 2018

13 February 2019

## Assurance by the Board of Directors

The Board of Directors and the CEO certify that this interim report gives a true and fair view of the Parent Company's and the Group's operations, financial position and results, and describes the risks and uncertainties faced by the Parent Company and the Group.

Lund, 13 August 2018

Jean-Yves Parisot

*Chairman of the Board*

Anna Malm Bernsten

*Board member*

Scott Bush

*Board member*

Charlotte Hansson

*Board member*

Irène Corthésy Malnoë

*Board Member*

Jan Nilsson

*Board member*

Jonny Olsson

*Board Member*

Ole Søggaard Andersen

*CEO*





## Review report

PROBI Aktiebolag corporate identity number 556417-7540

### Introduction

We have reviewed the condensed interim report for PROBI Aktiebolag as at June 30, 2018 and for the six months period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

### Scope of review

We conducted our review in accordance with the International Standard on Review Engagements, ISRE 2410 *Review of Interim Financial Statements Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act regarding the Group, and in accordance with the Swedish Annual Accounts Act regarding the Parent Company.

Malmö, 13 August 2018

Ernst & Young AB

Peter Gunnarsson  
Authorized Public Accountant

## Consolidated Statement of Comprehensive Income

KSEK	Notes	Q2 2018	Q2 2017	H1 2018	H1 2017
<b>Net sales</b>	2	<b>153,239</b>	<b>171,987</b>	<b>272,445</b>	<b>359,387</b>
Cost of goods sold	3	-81,195	-94,772	-150,284	-186,875
<b>Gross profit</b>		<b>72,044</b>	<b>77,215</b>	<b>122,161</b>	<b>172,512</b>
Sales and marketing expenses		-22,757	-21,944	-41,767	-41,056
Research and development expenses		-8,286	-9,796	-17,903	-20,877
Administration expenses		-13,775	-14,397	-30,878	-30,851
Other operating income		1,002	43	1,002	84
Other operating expenses		—	—	—	—
<b>Operating Profit/EBIT</b>		<b>28,228</b>	<b>31,121</b>	<b>32,615</b>	<b>79,812</b>
Financial income		332	74	540	100
Financial expenses		-2,009	-1,617	-3,614	-3,196
Exchange result financing activities	4	716	-5,650	1,944	-1,466
<b>Financial result</b>		<b>-961</b>	<b>-7,193</b>	<b>-1,130</b>	<b>-4,562</b>
<b>Earnings before income taxes</b>		<b>27,267</b>	<b>23,928</b>	<b>31,485</b>	<b>75,250</b>
Income taxes		-6,307	-7,751	-7,223	-15,929
<b>Net income</b>		<b>20,960</b>	<b>16,177</b>	<b>24,262</b>	<b>59,321</b>
<b>Other comprehensive income</b>					
Components to be reclassified to net income					
Exchange rate differences resulting from the translation of foreign operations		52,200	-38,878	63,205	-45,556
Cash flow hedge (currency hedges)		-1,126	3,122	-870	1,405
Income taxes payable on these components		247	-687	191	-375
<b>Sum of other comprehensive income</b>		<b>51,321</b>	<b>-36,443</b>	<b>62,526</b>	<b>-44,526</b>
<b>Total comprehensive income</b>		<b>72,281</b>	<b>-20,266</b>	<b>86,788</b>	<b>14,795</b>
Number of outstanding shares at end of the reporting period		11,394,125	11,394,125	11,394,125	11,394,125
Average number of shares		11,394,125	11,394,125	11,394,125	11,394,125
Earnings per share before and after dilution		1.84	1.42	2.13	5.21

Net income and total comprehensive income are attributable in their entirety to Parent Company shareholders. Since the company has no outstanding convertible debt or outstanding warrants, no dilution effect arose.

In 2011, Probi bought back company shares and at the end of the reporting period owned 250,000 treasury shares, corresponding to 2.1% of the total number of shares, with a quotient value of SEK 5.00 per share.

## Condensed Consolidated Statement of Financial Position

KSEK	Notes	30 June 2018	31 December 2017
Capitalised Development Cost		43,767	41,045
Customer base		322,980	307,946
Technology and other intangible assets		143,934	138,993
Goodwill		304,187	279,706
Property, plant and equipment		33,285	34,389
Deferred tax assets		3,901	4,620
<b>Non-current assets</b>		<b>852,054</b>	<b>806,699</b>
Inventories		79,205	69,140
Trade receivables		84,382	59,344
Other assets and receivables		19,888	20,003
Cash and cash equivalents		194,562	155,547
<b>Current assets</b>		<b>378,037</b>	<b>304,034</b>
<b>Total assets</b>		<b>1,230,091</b>	<b>1,110,733</b>
<b>Total equity</b>		<b>971,524</b>	<b>884,735</b>
Other non-current liabilities		6,509	5,781
<b>Non-current liabilities</b>		<b>6,509</b>	<b>5,781</b>
Borrowings		191,847	175,913
Trade payables		32,012	27,042
Other current liabilities		28,199	17,262
<b>Current liabilities</b>		<b>252,058</b>	<b>220,217</b>
<b>Total liabilities</b>		<b>258,567</b>	<b>225,998</b>
<b>Liabilities and equity</b>		<b>1,230,091</b>	<b>1,110,733</b>

## Consolidated Changes in Equity

KSEK	Share capital	Other contributions received	Cumulative translation differences	Other reserves	Accumulated profit	Total equity
Opening balance, 1 January 2017	58,221	600,205	21,387	299	211,955	<b>892,067</b>
Net income	—	—	—	—	59,321	59,321
Other comprehensive income	—	—	-45,556	1,030	—	-44,526
Total Comprehensive Income	—	—	<b>-45,556</b>	<b>1,030</b>	<b>59,321</b>	<b>14,795</b>
Dividends	—	—	—	—	-11,394	-11,394
Total transactions with shareholders	—	—	—	—	<b>-11,394</b>	<b>-11,394</b>
<b>Closing balance, 30 June 2017</b>	<b>58,221</b>	<b>600,205</b>	<b>-24,169</b>	<b>1,329</b>	<b>259,882</b>	<b>895,468</b>
KSEK	Share capital	Other contributions received	Cumulative translation differences	Other reserves	Accumulated profit	Total equity
Opening balance, 1 January 2018	58,221	600,205	-43,073	-271	269,653	<b>884,735</b>
Net income	—	—	—	—	24,262	<b>24,262</b>
Other comprehensive income	—	—	63,205	-678	—	<b>62,527</b>
Total Comprehensive Income	—	—	<b>63,205</b>	<b>-678</b>	<b>24,262</b>	<b>86,789</b>
<b>Closing balance, 30 June 2018</b>	<b>58,221</b>	<b>600,205</b>	<b>20,132</b>	<b>-949</b>	<b>293,915</b>	<b>971,524</b>

## Consolidated Statement of Cash Flows

KSEK	H1 2018	H1 2017
<b>Net income</b>	<b>24,262</b>	<b>59,321</b>
Adjustments to reconcile net income to cash provided from operating activities		
Income taxes	7,223	15,929
Interest result	2,963	2,946
Amortisation, depreciation and impairment of non-current assets	27,272	27,263
Other non-cash expenses and income	569	17,372
<b>Cash flow before working capital changes</b>	<b>62,289</b>	<b>122,831</b>
Change in trade receivables and other current assets	-13,269	9,441
Change in inventories	-4,352	-6,487
Change in trade payables and other current liabilities	14,220	-13,662
Income taxes paid	-15,369	-20,515
<b>Cash flow from operating activities</b>	<b>43,519</b>	<b>91,608</b>
Payments for investing in intangible assets	-5,675	-9,632
Payments for investing in property, plant and equipment	-2,384	-4,480
<b>Cash flow from investing activities</b>	<b>-8,059</b>	<b>-14,112</b>
Interest paid	-3,215	-2,770
Interest received	540	100
Redemption of bank borrowings	—	-32,063
Dividends paid	—	-11,394
<b>Cash flow from financing activities</b>	<b>-2,675</b>	<b>-46,127</b>
Net change in cash and cash equivalents	32,785	31,369
Effects of changes in exchange rates	6,230	-5,919
<b>Total changes</b>	<b>39,015</b>	<b>25,450</b>
<b>Cash and cash equivalents as of 1 January</b>	<b>155,547</b>	<b>103,136</b>
<b>Cash and cash equivalents as of 30 June</b>	<b>194,562</b>	<b>128,586</b>

## Condensed Parent Company Financial Statements

KSEK	Q2 2018	Q2 2017	H1 2018	H1 2017
<b>Operating revenue</b>	<b>61,827</b>	<b>86,079</b>	<b>121,537</b>	<b>204,646</b>
Operating costs	-18,050	-28,315	-38,480	-67,230
Gross profit	43,777	57,764	83,057	137,416
<b>Operating profit/EBIT</b>	<b>15,492</b>	<b>27,325</b>	<b>23,627</b>	<b>78,299</b>
Result from financial income and expenses	952	-5,365	2,276	1,583
Income before tax	16,444	21,960	25,903	79,882
<b>Net income</b>	<b>12,688</b>	<b>14,938</b>	<b>20,005</b>	<b>62,236</b>
<b>Other comprehensive income</b>				
Other comprehensive income	-878	2,435	-678	1,030
<b>Sum of other comprehensive income</b>	<b>-878</b>	<b>2,435</b>	<b>-678</b>	<b>1,030</b>
<b>Total comprehensive income</b>	<b>11,810</b>	<b>17,373</b>	<b>19,327</b>	<b>63,266</b>
KSEK	<b>30 June 2018</b>	31 December 2017		
Fixed assets	1,029,285	1,011,899		
Current assets	158,812	140,015		
<b>Total assets</b>	<b>1,188,097</b>	<b>1,151,914</b>		
Equity	960,282	940,955		
Untaxed reserves	-	-		
Total long-term liabilities	4,036	4,036		
Current liabilities	223,779	206,923		
<b>Total equity and liabilities</b>	<b>1,188,097</b>	<b>1,151,914</b>		

## Notes

### 1. Accounting and Measurement Policies

#### Group

This interim report has been prepared in accordance with IAS 34 Interim Reporting and the Swedish Annual Accounts Act. The condensed financial statements in the interim report encompass pages 10-17. Disclosures according to IAS 34 Interim Financial Reporting are provided both here and elsewhere in the interim report. The ESMA Guidelines on Alternative Performance Measures have been applied.

The accounting policies applied when these consolidated financial statements were prepared are consistent for all presented periods, unless otherwise stated. The complete accounting policies can be found on pages 61-64 of the printed version of the 2017 Annual Report.

IFRS 15 and IFRS 9, effective for fiscal years beginning 1 January 2018, did not have any material impact on reporting of consolidated income and of financial instruments, respectively. For further information, see the Annual Report 2017, page 61.

IFRS 16 Leasing will replace IAS 17 as of 1 January 2019. Operating leases will be recognized in the same way that finance leases are recognized today. Probi has started to prepare the implementation of the new standard and is currently evaluating the impact the new standard will have on the presentation of its financial position and results of operations.

The Parent Company's functional currency is the Swedish krona, which is also the reporting currency of both the Parent Company and the Group. All amounts stated have been rounded off to the nearest thousand SEK, unless otherwise stated.

Amounts and figures in parentheses pertain to comparative figures for the year-earlier period. Amounts are stated in Swedish kronor (SEK), thousands of Swedish kronor (KSEK) or millions of Swedish kronor (MSEK) according to that which is stated.

#### Parent Company

The Parent Company applies the same accounting policies as the Group, with the exceptions and additions stated in RFR 2 Accounting for legal entities – January 2018. This interim report complies with the Swedish Annual Accounts Act.

### 2. Net sales from contracts with customers

Set out below is the disaggregation of the Group's net sales from contracts with customers.



KSEK	H1 2018			H1 2017		
	CHC	FF	Total	CHC	FF	Total
<b>Type of goods or service</b>						
Goods	251,171	1,818	<b>252,989</b>	337,649	1,257	<b>338,906</b>
Royalty, licences, etc.	1,902	17,554	<b>19,456</b>	3,871	16,610	<b>20,481</b>
<b>Total net sales from contracts with customers</b>	<b>253,073</b>	<b>19,372</b>	<b>272,445</b>	<b>341,520</b>	<b>17,867</b>	<b>359,387</b>
<b>Geographical markets</b>						
Sweden	13,749	14,557	<b>28,306</b>	11,145	13,865	<b>25,010</b>
EMEA, excluding Sweden	15,809	–	<b>15,809</b>	21,233	–	<b>21,233</b>
Americas	190,303	3,633	<b>193,936</b>	289,445	3,552	<b>292,997</b>
APAC	33,212	1,182	<b>34,394</b>	19,697	450	<b>20,147</b>
<b>Total net sales from contracts with customers</b>	<b>253,073</b>	<b>19,372</b>	<b>272,445</b>	<b>341,520</b>	<b>17,867</b>	<b>359,387</b>

### 3. Currency translation from operating activities

The following table shows the exchange result from operating activities recorded within cost of goods sold:

KSEK	Q2 2018	Q2 2017	H1 2018	H1 2017
Exchange gains operating activities	2,675	2,465	4,670	6,580
Exchange losses operating activities	-648	-1,956	-2,003	-8,039
<b>Exchange result operating activities</b>	<b>2,027</b>	<b>509</b>	<b>2,667</b>	<b>-1,459</b>

### 4. Currency translation from financing activities

The following table shows the exchange result from financing activities recorded within exchange result financing activities:

KSEK	Q2 2018	Q2 2017	H1 2018	H1 2017
Exchange gains financing activities	13,927	10,776	34,972	61,289
Exchange losses financing activities	-13,211	-16,426	-33,028	-62,756
<b>Exchange result financing activities</b>	<b>716</b>	<b>-5,650</b>	<b>1,944</b>	<b>-1,467</b>

### 5. Definition of alternative performance measures not defined by IFRS

The company presents some alternative performance measures (APMs) in the interim report that are not defined by IFRS. The company believes that these measures provide valuable supplementary information to investors and company management. Since not all companies calculate alternative performance measures in the same way, these measures are not always comparable with those used by other companies. However, the measures should not be considered a substitute for the financial measures required under IFRS.

The following APMs are presented in the interim report:

#### Operating Profit/EBIT

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

KSEK	Q2 2018	Q2 2017	H1 2018	H1 2017
Net income	20,960	16,177	24,262	59,321
Income taxes	6,307	7,751	7,223	15,929
Financial result	961	7,193	1,130	4,562
<b>Operating Profit / EBIT</b>	<b>28,228</b>	<b>31,121</b>	<b>32,615</b>	<b>79,812</b>

#### EBITDA

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

KSEK	Q2 2018	Q2 2017	H1 2018	H1 2017
Operating Profit / EBIT	28,228	31,121	32,615	79,812
Depreciation and amortisation	14,495	13,600	27,272	27,263
<b>EBITDA</b>	<b>42,723</b>	<b>44,721</b>	<b>59,887</b>	<b>107,075</b>

#### EBIT margin

EBIT margin is defined as EBIT divided by net sales.

#### EBITDA margin

EBITDA margin is defined as EBITDA divided by net sales.

#### Gross margin

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

#### Market capitalization at closing day

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

#### Net sales growth, constant currency

Net sales growth, constant 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 is defined as the sum of costs of goods sold, sales and marketing expenses, research and development expenses, administration expenses, other operating income and other operating expenses.