Interim report
January – September 2017

Growth and earnings impacted by a major customer's destocking

Highlights and significant events in the third quarter

- Continued destocking by major customer, impacting net sales and earnings during the second half of 2017 and first quarter of 2018
- New FerroSorb® and Digestis® FastMelt product launches in Asia and Europe
- Extension of Ipsen distribution partnership to Italy
- First results of multi-trial programme to develop a new probiotic platform for children show positive and significant results in supporting the immune system and in delaying the onset of gluten intolerance

Financial overview

MSEK	**9M 2017**	9M 2016	Full-year 2016
Net sales	492.9	249.5	443.5
Net sales growth, local currency, %	95.3%	38.8%	103.2%
Gross margin, %	46.4%	68.9%	60.0%
EBITDA	136.5	91.8	152.6
EBITDA margin, %	27.7%	36.8%	34.4%
Operating profit (EBIT)	96.4	86.7	120.0
Net income	68.1	71.7	101.8
Earnings per share before and after dilution, SEK	5.98	7.87	10.73
Share price on closing day, SEK	350.00	330.22	475.50
Market cap on closing day	3,987.9	3,010.1	5,417.9

See note 5 for definitions of ratios not defined according to IFRS and note 4 for adjustments made to full-year 2016

Invitation to Teleconference

Date: 25 October 2017

Time: 10:00 a.m.

Phone: +46 8 50 33 65 62

Participants from Probi:

Peter Nählstedt, CEO and
Dr Jörn Andreas, CFO

Contacts

Peter Nählstedt, CEO:

Phone: +46 46 286 89 23
E-mail: peter.nahlstedt@probi.com

Dr Jörn Andreas, CFO:

Phone: +46 46 286 89 41
E-mail: jorn.andreas@probi.com

The presentation is available at www.probi.se and 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 centres of excellence, active in more than 40 markets around the world and holding over 400 patents worldwide. In 2016, Probi had net sales of MSEK 444. The Probi share is listed on Nasdaq Stockholm, Mid Cap. Probi has about 5,000 shareholders.

probi.com

Probi´s offer to 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

Destocking effects overshadow good growth momentum with other customers

As expected, our revenues and earnings were heavily impacted by the destocking of one of our largest customers that could not be offset by continued growth with other customers. This resulted in a decline in organic revenue and profitability during the third quarter of 2017. The destocking will have a significantly stronger negative effect on both revenues and earnings in the fourth quarter of 2017 and then continue into the first quarter of 2018. Reported and local currency revenues increased significantly compared with the same period last year due to the base effects of the Nutraceutix acquisition.

Progress on strategic objectives

We strengthened our commercial footprint in Europe where we extended our agreement with Ipsen to cover Italy. In the US, we drew record attendance at the Supply Side West trade show and our team is now converting opportunities into orders.

Our investments in product development are paying off as we sold our new FerroSorb® platform to our first Asian customer in South Korea. We shipped our brand new Probi Digestis® FastMelt formulation for launching in Sweden, where consumers will now have an opportunity to take their daily probiotic in a new tasty and convenient format.

In a unique probiotic study, we showed that our probiotics can delay the onset of gluten intolerance in children by strengthening the immune system. This important discovery is a cornerstone in our ambition to extend our products into children’s health.

Probi has short-term challenges due to one specific customer destocking. We will continue to develop sales, invest in marketing, R&D and manufacturing as we execute the growth strategy of Probi. With our expanding commercial footprint, new products and strong scientific foundation in one of the most interesting health markets in the world, I remain very optimistic about our future.

Peter Nählstedt, CEO

Key Developments in the Group

During the third quarter of 2017, Probi was informed that one of its largest customers in the North American market is continuing its previously introduced destocking programme due to over-purchasing and safety stock reduction. According to information from the customer, it is expected that the destocking will continue until the first quarter of 2018. In the third quarter, net sales were impacted by less than MSEK 50 compared with the prior-year period. The impact on net sales and earnings will be significantly greater in Q4 2017 due to the large campaign volumes delivered to the customer in the prior-year quarter and a seasonally weaker fourth quarter. The destocking effect was partly offset by organic growth, i.e. excluding the acquired business, with other customers of 37% during the first nine months of 2017.

Probi has continued to invest in broadening its offering and adapting the organisation to enable an even stronger focus on customers and market activities in each region. North America, Probi's largest market, is expected to grow at a rate of 5-6% this year while growth is higher in channels such as multi-level marketing (MLM) and e-commerce. Probi has closed deals with customers in the growing MLM segment during the year and is benefitting from its turnkey manufacturing capability, which is highly attractive for innovative brands marketing probiotics over the internet. Earlier this year, the Probi Select™ product range was launched in North America and was very well received by our customers. Probi Select™ comprises three of Probi's existing patent-protected and clinically documented probiotic platforms supporting immune and digestive health.

Market growth in Europe is still moderate, but Probi has now extended the Ipsen distribution partnership to Italy, one of the most important and largest markets showing the highest consumption per capita in the region. Probi® FastMelt, a stick pack for convenient consumption of probiotics, was introduced to the market to meet the demand for new and innovative application formats. The first consumer product with the new formulation will be launched in Sweden by as early as October this year under the ProbiMage® brand, the leading probiotic supplement brand in Sweden.

Probi's most recent premium product, FerroSorb® for improved iron absorption, will be launched in South Korea by the end of the fourth quarter of 2017. Women's health is important in the field of probiotics and Probi's iron uptake concept is a unique value proposition. Also, Probi's patent on iron absorption, supporting the probiotic FerroSorb® concept, has now been granted in the US. During the fourth quarter, Probi will resubmit a new health claim application in the EU on its iron absorption concept based on a recently completed and highly supportive supplementary study.

Probi's ambitious and innovative R&D programme, including clinical trials within both new and existing indication areas, is making major progress. Two projects in totally new areas – acute stress and the effect of probiotic strains on physical performance – have entered clinical phase. During the third quarter, Probi presented study results showing that probiotics from Probi support the immune system and may delay the onset of gluten intolerance in children. These results, together with two other studies close to completion focusing on children, will enable Probi to establish a product platform for children.

Sales Development

Current Quarter

Probi's net sales for the third quarter amounted to MSEK 133.5 (89.2), representing a total increase of MSEK 44.3 or 50% compared with the third quarter of 2016. Based on exchange rates from the preceding year, net sales for the third quarter were MSEK 3.9 higher, corresponding to net sales growth of 54% year-on-year. Sales from the acquired operations contributed MSEK 66.4 to the Group in the third quarter of 2017.

Year-to-Date

During the first nine months of the year, Probi's net sales amounted to MSEK 492.9 (249.5). The overall increase was MSEK 243.4 or 98% compared with the first nine months of 2016. Based on constant exchange rates, net sales for the first nine months were MSEK 5.6 lower, corresponding to net sales growth of 95% year-on-year. Sales from the acquired operations amounted to MSEK 223.9 and organic growth to MSEK 19.5, representing an 8% increase over the first nine months of the preceding year.

Net Sales by Segment

Probi's business operations are organised in two business segments, each with its 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 specialised in probiotics and self-care products. Revenue is derived from the sale of goods in bulk and consumer packaging. The acquired operations are included in their entirety in CHC. 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	9M 2017			9M 2016		
	CHC	FF	**Total**	CHC	FF	**Total**
Net sales	466,660	26,228	**492,888**	223,108	26,388	**249,496**
Operating expenses	-378,467	-17,977	**-396,444**	-136,074	-26,680	**-162,754**
Operating profit (EBIT)	**88,193**	**8,251**	**96,444**	**87,034**	**-292**	**86,742**
Financial net	–	–	**-10,496**	–	–	8,629
Earnings before income taxes	–	–	**85,948**	–	–	**95,371**

Net sales in Consumer Healthcare during the first nine months of 2017 rose MSEK 243.6 to MSEK 466.7 (223.1). The acquired operations accounted for MSEK 223.9 of this increase. Sales growth in Consumer Healthcare during the year continued to be driven by the North American and European markets, by both new and existing customers.

Net sales in Functional Food totalled MSEK 26.2 (26.4). During the first nine months of 2017, a lower royalty rate in an agreement offset the favourable underlying volume development across all regions, particularly in Sweden, where volume growth of ProViva increased during the third quarter of 2017.

Net Sales by Region

KSEK	9M 2017	9M 2016	Full-year 2016
Sweden	40,390	38,744	54,905
Rest of Europe	30,536	15,656	22,505
North America	382,620	171,196	337,059
Rest of World	39,342	23,900	29,006
Total	**492,888**	**249,496**	**443,475**

The favourable sales growth trend in Rest of Europe, continues and amounted to an increase of 95% compared with the year-earlier period. This was primarily driven by a new agreement signed in the preceding year and favourable underlying volume growth with existing customers. Sales in North America included a contribution of MSEK 223.9 from acquired operations. Excluding the acquisition, sales in North America decreased by 7% or MSEK -11.2 compared with the year-earlier period due to destocking by one of Probi's largest customers. Sweden increased 4% compared with the first nine months of the preceding year, mainly due to sales growth in the Costumer Healthcare segment following the Digestis® FastMelt product launch. The increase was 65% in Rest of World driven by sales campaigns in the Asian market.

Earnings

Operating Profit

During the first nine months of 2017, operating expenses amounted to MSEK 396.4 (162.8), up 144%, due to consolidation of the acquired operations in the US and additional amortisation charges related to the purchase price allocation (PPA) amounting to MSEK 26.4 year-to-date. Cost of goods sold amounted to MSEK 264.0 (77.6), driven by higher overall sales of Probi Group and an unfavourable product mix towards turnkey consumer packed solutions in the US operations during the third quarter of 2017. Sales and marketing expenses amounted to MSEK 60.5 (27.2), up 122%, mainly due to additional costs for the US sales organisation. Also, part of the incremental PPA-related amortisation is charged to sales and marketing. Administrative expenses amounted to MSEK 45.5 (34.4). Research and development expenditure amounted to MSEK 27.7 (23.6), reflecting the continued execution of our ambitious clinical trial programme.

Operating profit (EBIT) for the first nine months for the Consumer Healthcare business area totalled MSEK 88.2 (87.0), up 1%, representing an operating profit (EBIT) margin of 19% (39). The decrease in operating profit margin compared with the preceding year is driven by the acquisition of Nutraceutix, where gross margins are structurally lower than under Probi's previous business model, and higher overhead allocation reflecting the consolidation of the acquired operations.

Operating profit (EBIT) for the Functional Food business area totalled MSEK 8.3 (-0.3), representing an operating profit (EBIT) margin of 31% (-1). The increase in operating profit compared with the preceding year is mainly due to lower overhead allocation and reduced marketing investment.

Consolidated operating profit (EBIT) for the first nine months totalled MSEK 96.4 (86.7). Adjusted for currency effects, operating profit (EBIT) totalled MSEK 96.3.

Financial results

The interest result for the first nine months of 2017 was MSEK -4.6 (-) due to increased interest expenses relating to borrowings in connection with the acquisition of Nutraceutix in 2016.

Exchange gains and losses incurred in connection with the revaluation of the loan, cash holdings in foreign currency or market valuation and realisation of forward contracts, are recognised in the exchange result from financing activities. A loss of MSEK -5.9 (8.7) arose during the first nine months of 2017, mainly due to depreciation of the US dollar against the Swedish kronor. The positive exchange result from financing activities in the preceding year included a MSEK 7.3 gain resulting from the market valuation of a currency forward contract.

Profit after tax

Profit after tax for the first nine months amounted to MSEK 68.1 (71.7). Tax expense was MSEK 17.8 (23.6).

Earnings per share

Earnings per share for the first nine months amounted to SEK 5.98 (7.87).

Cash Flow and Financial Position

Capital Expenditure

During the nine months of 2017, investments in intangible assets amounted to MSEK 14.1 (13.2), of which MSEK 2.4 (3.4) pertained to patents and MSEK 11.7 (9.8) to capitalised development expenditure. Capitalised development expenditure during the third quarter was related to clinical trials in immune function, digestive health and nutrient absorption. Investments in tangible assets amounted to MSEK 6.4 (0.5).

Change in cash and cash equivalents

Cash and cash equivalents increased MSEK 39.8 (824.6) during the first nine months of 2017, amounting to MSEK 142.9 (967.6) at the end of the reporting period. The main reason for the higher cash holdings in the preceding year was the borrowing of funds of MSEK 801.5 for the acquisition of Nutraceutix made on 3 October 2016.

Cash flow from operating activities during the first nine months of 2017 was MSEK 75.8 higher year-on-year, mainly due to the large increase in sales and improved working capital, but was adversely impacted by an increase of MSEK 9.7 in income taxes paid.

Research and Development

Probi continues to make progress with its pipeline and is on track executing the clinical programme aimed at expanding the product portfolio in both existing and new indication areas. Most studies are now in the clinical phase and the teams are focused on clinical operational excellence, regulatory engagement and data evaluation.

At the International Celiac Disease Symposium in New Delhi, India, the company presented the first results of its multi-trial programme to develop a new probiotic platform for children. The randomised, double-blind and placebo-controlled intervention study evaluated the effect of probiotics from Probi in children genetically predisposed for gluten intolerance (Celiac Disease). The study showed consistent and statistically significant results that probiotics from Probi support the immune system and may delay the onset of gluten intolerance in children. The results have been well received and sparked significant interest among researchers dealing with autoimmune metabolic disorders, as well as the paediatric medical community. In parallel, two additional clinical trials focusing on children in existing indication areas are now in the final phase and close to completion.

Two projects in new indication areas have transitioned into the clinical phase. In one of the projects, which is conducted in collaboration with a major customer, the effects of probiotic strains on physical performance is being evaluated, expanding Probi's area of expertise into sports nutrition. The other project is a study of the link between gut and brain, based on promising results in an earlier pilot study. The focus is to demonstrate the effects of Probi's probiotics on acute stress and is run in collaboration with researchers at Lund University in Sweden. Both studies are randomised, placebo-controlled and double-blind.

Probi has performed an additional study in response to the negative opinion on Probi's application for a health claim in the EU on increased iron absorption. The study results demonstrate that no systematic bias can be expected from the design used and will now be used in a new health claim application on iron absorption.

Probi's patent on iron absorption, supporting the probiotic FerroSorb® concept, was granted in the US during the summer. The patent relates to methods of treating anaemia and increasing the absorption of non-heme iron by administration of *Lactobacillus plantarum* 299v (DSM 9843). To compensate for the long processing time, Probi was given an extra 1,450 days of patent term, which means the patent will be valid until 2030.

Probi's probiotic strains for use in the treatment or prevention of osteoporosis have now been granted patent protection in Russia. This is the fourth grant/allowance in this product family of applications, following the grants in New Zealand, Japan and Australia.

Employees

At the end of the period, Probi had 196 (38) employees, of whom 91 (25) were women and 105 (13) men. The average number of employees during the first nine months of 2017 was 196 (37).

Significant Risks and Uncertainties

The risks and uncertainties to which Probi's operations are exposed are described on pages 47-48 of the printed 2016 Annual Report. At 30 September 2017, no significant changes were considered to have occurred in these risks or uncertainties.

Parent Company

Parent Company operating revenue increased to MSEK 271.0 (249.6). Income for the year was MSEK 73.1 (83.4). The Parent Company's investment in tangible and intangible assets during the first nine months amounted to MSEK 16.1 (13.6). In other aspects, please refer to information for the Group.

Financial Calendar

Year-end report, 2017	25 January 2018
Interim report Q1, 2018	2 May 2018
Annual General Meeting for 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

Annual General Meeting

The Annual General Meeting for 2017 will be held in Lund on Wednesday 2 May 2018 at 3:00 p.m. The venue is to be announced. Shareholders who wish to have matters considered at the AGM are requested to notify the Chairman of the Board by Friday, 3 March 2018. Such proposals should be e-mailed to sofie.forsman@probi.com or posted to: Annual General Meeting, Probi AB, Att: Sofie Forsman, Ideon Gamma 1, SE-223 70 Lund, Sweden.

Assurance by the Board of Directors

The Board of Directors and the CEO provide their assurance that this interim report gives a true and fair view of the Parent Company's and the Group's operations, financial position and revenue, and describes the risks and uncertainties facing the Parent Company and the Group.

Lund, 25 October 2017

Jean-Yves Parisot
Chairman of the Board

Anna Malm Bernsten
Board member

Scott Bush
Board member

Charlotte Hansson
Board member

Jan Nilsson
Board Member

Jonny Olsson
Board Member

Peter Nählstedt
CEO

The interim report has not been the subject of audit review procedures by an auditor.

Consolidated Statement of Comprehensive Income

KSEK	Notes	Q3 2017	Q3 2016	9M 2017	9M 2016
Net sales		**133,501**	**89,208**	**492,888**	**249,496**
Cost of goods sold	2	-77,083	-27,523	-263,958	-77,607
Gross profit		**56,418**	**61,685**	**228,930**	**171,889**
Sales and marketing expenses		-19,467	-11,818	-60,523	-27,225
Research and development expenses		-6,797	-6,411	-27,674	-23,645
Administration expenses		-14,640	-12,751	-45,491	-34,425
Other operating income		1,118	33	1,202	148
Other operating expenses		–	–	–	–
Operating Profit/EBIT		**16,632**	**30,738**	**96,444**	**86,742**
Financial income		112	–	212	5
Financial expenses		-1,650	-39	-4,846	-44
Exchange result financing activities	3	-4,396	8,165	-5,862	8,668
Financial result		**-5,934**	**8,126**	**-10,496**	**8,629**
Earnings before income taxes		**10,698**	**38,864**	**85,948**	**95,371**
Income taxes		-1,888	-11,152	-17,817	-23,645
Net income		**8,810**	**27,712**	**68,131**	**71,726**
Other comprehensive income					
Components to be reclassified to net income					
Exchange rate differences resulting from the translation of foreign operations		-29,429	409	-74,985	432
Cash flow hedge (currency hedges)		-1,056	–	349	–
Income taxes payable on these components		232	–	-143	–
Sum of other comprehensive income		**-30,253**	**409**	**-74,779**	**432**
Total comprehensive income		**-21,443**	**28,121**	**-6,648**	**72,158**
Number of outstanding shares at end of the reporting period		11,394,125	9,115,300	11,394,125	9,115,300
Average number of shares		11,394,125	9,115,300	11,394,125	9,115,300
Earnings per share before and after dilution		0.77	3.04	5.98	7.87

Net income and total comprehensive income are attributable in their entirety to the Parent Company's shareholders. Since the company has no outstanding convertible loans 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.

probi
first in probiotics

Consolidated Statement of Financial Position

KSEK	30 September 2017	31 December 2016
Capitalised Development Cost	38,428	29,692
Customer base	308,839	365,048
Technology and other intangible assets	140,129	164,618
Goodwill	275,549	308,802
Property, plant and equipment	35,171	41,490
Deferred tax assets	10,161	8,478
Non-current assets	**808,277**	**918,128**
Inventories	72,866	72,752
Trade receivables	65,664	78,903
Other assets and receivables	22,098	37,036
Cash and cash equivalents	142,894	103,136
Current assets	**303,522**	**291,827**
Total assets	**1,111,799**	**1,209,955**
Total equity	**874,026**	**892,067**
Other non-current liabilities	5,480	5,796
Non-current liabilities	**5,480**	**5,796**
Borrowings	173,077	225,762
Trade payables	34,494	45,570
Other current liabilities	24,722	40,760
Current liabilities	**232,293**	**312,092**
Total liabilities	**237,773**	**317,888**
Liabilities and equity	**1,111,799**	**1,209,955**

See Note 4 for adjustments made to full-year 2016.

probi
first in probiotics

Consolidated Changes in Equity

KSEK	Share capital	Other contributions received	Cumulative translation differences	Other reserves	Accumulated profit	**Total equity**
Opening balance, 1 January 2016	46,827	21,140	-4	–	119,276	**187,239**
Net income	–	–	–	–	71,726	71,726
Other comprehensive income	–	–	432	–	–	432
Total Comprehensive Income	–	–	**432**	–	**71,726**	**72,158**
Dividends	–	–	–	–	-9,116	-9,116
Total transactions with shareholders	–	–	–	–	**-9,116**	**-9,116**
Closing balance, 30 September 2016	**46,827**	**21,140**	**428**	**0**	**181,886**	**250,281**

KSEK	Share capital	Other contributions received	Cumulative translation differences	Other reserves	Accumulated profit	**Total equity**
Opening balance, published 31 December 2016	58,221	600,205	21,430	299	218,675	**898,829**
Change	–	–	-42	–	-6,719	-6,761
Opening balance, adjusted 1 January 2017	**58,221**	**600,205**	**21,387**	**299**	**211,955**	**892,067**
Net income	–	–	–	–	68,131	68,131
Other comprehensive income	–	–	-74,985	207	–	-74,778
Total Comprehensive Income	–	–	**-74,985**	**207**	**68,131**	**-6,647**
Dividends	–	–	–	–	-11,394	-11,394
Total transactions with shareholders	–	–	–	–	**-11,394**	**-11,394**
Closing balance, 30 September 2017	**58,221**	**600,205**	**-53,598**	**506**	**268,692**	**874,026**

See Note 4 for adjustments made to full-year 2016.

probi
first in probiotics

Consolidated Statement of Cash Flows

KSEK	9M 2017	9M 2016
Net income	**68,131**	**71,726**
Adjustments to reconcile net income to cash provided from operating activities		
Income taxes	17,817	26,645
Interest result	4,152	-39
Amortisation, depreciation and impairment of non-current assets	40,071	5,064
Other non-cash expenses and income	26,241	60
Cash flow before working capital changes	**156,412**	**100,456**
Change in trade receivables and other current assets	23,047	-4,229
Change in inventories	-7,710	-44,168
Change in trade payables and other current liabilities	-21,968	12,231
Income taxes paid	-26,062	-16,396
Cash flow from operating activities	**123,719**	**47,894**
Payments for investing in intangible assets	-14,135	-13,159
Payments for investing in property, plant and equipment	-6,381	-487
Divestments of tangible assets	—	134
Cash flow from investing activities	**-20,516**	**-13,512**
Interest paid	-3,957	—
Interest received	212	—
Proceeds from bank borrowings	—	798,895
Redemption of bank borrowings	-32,063	—
Dividends paid	-11,394	-9,116
Cash flow from financing activities	**-47,202**	**789,779**
Net change in cash and cash equivalents	56,001	824,161
Effects of changes in exchange rates	-16,243	427
Total changes	**39,758**	**824,588**
Cash and cash equivalents as of 1 January	**103,136**	**143,024**
Cash and cash equivalents as of 30 September	**142,894**	**967,612**

probi
first in probiotics

Summary Parent Company Financial Statements

KSEK	Q3 2017	Q3 2016	9M 2017	9M 2016
Operating revenue	**66,334**	**89,219**	**270,980**	**249,643**
Cost of goods sold	-23,150	-27,371	-90,380	-77,606
Gross profit	43,184	61,848	180,600	172,036
Operating profit/EBIT	**18,397**	**34,985**	**96,696**	**98,366**
Result from financial income and expenses	-4,415	8,126	-2,832	8,629
Income before tax	13,981	43,112	93,863	106,995
Income for the year	**10,888**	**33,607**	**73,124**	**83,350**
Other comprehensive income	-824	–	206	–
Total comprehensive income for the year	**10,064**	**33,607**	**73,330**	**83,350**

KSEK	30 September 2017	30 September 2016	31 December 2016
Fixed assets	1,007,39	982,616	1,000,693
Current assets	158,043	143,477	182,171
Total assets	**1,165,433**	**1,126,093**	**1,182,864**
Equity	943,707	258,205	881,770
Untaxed reserves	470	555	470
Total long-term liabilities	4,036	4,036	4,036
Current liabilities	217,220	863,297	296,588
Total equity and liabilities	**1,165,433**	**1,126,093**	**1,182,864**

Notes

1. Accounting and Measurement Policies

The Group

The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act, "RFR 1 Supplementary Accounting Regulations for Groups – January 2017", the International Financial Reporting Standards (IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union. This interim report has been prepared in accordance with IAS 34 – Interim Financial Reporting and the Swedish Annual Accounts Act. The condensed financial statements in the interim report encompass pages 8-15. Disclosures according to IAS 34 – Interim Financial Reporting are provided both here and elsewhere in the interim report. ESMA Guidelines on Alternative Performance Measures are applied.

The accounting policies applied when these consolidated financial statements were prepared were consistent for all presented periods, unless otherwise stated. The complete accounting policies can be found on pages 58-61 of the printed 2016 Annual Report.

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 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 supplements stipulated in RFR 2 Accounting for legal entities – January 2017. This interim report complies with the Swedish Annual Accounts Act.

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 are recorded in the financial result.

Financial Instruments – Hedge Accounting

All derivatives relate to currency hedging contracts for currency exposure as a result of customer payments in US dollars 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 well as 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 recognised in the hedging reserve is reversed to profit or loss in the same period that the hedged cash flow affects profit or loss. Any ineffective portion of the change in value is recognised immediately in 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.

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.

2. Currency translation from operating activities

The following table shows the exchange result from operating activities that has been recognised as cost of goods sold:

KSEK	**Q3 2017**	Q3 2016	**9M 2017**	9M 2016
Exchange gains operating activities	5,303	871	11,883	3,455
Exchange losses operating activities	-6,091	-265	-14,130	-1,934
Exchange result operating activities	**-788**	**606**	**-2,247**	**1,521**

3. Currency translation from financing activities

The following table shows the exchange result from financing activities that has been recognised as exchange result from financing activities:

KSEK	**Q3 2017**	Q3 2016	**9M 2017**	9M 2016
Exchange gains financing activities	13,884	8,175	75,174	9,954
Exchange losses financing activities	-18,280	-10	-81,036	-1,286
Exchange result financing activities	**-4,396**	**8,165**	**-5,862**	**8,668**

4. Purchase Price Allocation Nutraceutix

On 3 October 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 will 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:

KUSD	Recognised amounts of identifiable assets acquired and liabilities assumed
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).

The 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 recognized in the current and previous full-year's reporting period that relate to the business combination that occurred on 3 October 2016.

The tables on page 17 provide information about the effects on the items in the statement of comprehensive income and the statement of financial position from the previous full-year 2016 to evaluate the adjustments resulting from the business combination.

Since the business combination occurred on 3 October 2016, no adjustments were made to the previous interim reporting period of the first nine months of 2016.

Statement of Comprehensive Income as of 31 December 2016

KSEK	Published	Change	**Adjusted**
Cost of goods sold	-172,873	-4,538	-177,411
Sales and marketing 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

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**

5. Definition of ratios not defined according to IFRS

The company presents certain financial ratios in the interim 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 financial ratios in the same way, these ratios are not always comparable with those used by other companies. Accordingly, these financial ratios are not to be considered to replace key ratios as defined according to IFRS.

The following ratios 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	**Q3 2017**	Q3 2016	**9M 2017**	9M 2016
Net income	8,810	27,712	68,131	71,726
Income taxes	1,888	11,152	17,817	23,645
Financial result	5,934	-8,126	10,496	-8,629
Operating Profit / EBIT	**16,632**	**30,738**	**96,444**	**86,742**

EBITDA

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

KSEK	**Q3 2017**	Q3 2016	**9M 2017**	9M 2016
Operating Profit / EBIT	16,632	30,738	96,444	86,742
Depreciation and amortisation	12,808	1,779	40,071	5,064
Impairment	–	–	–	–
EBITDA	**29,440**	**32,517**	**136,515**	**91,806**

EBIT margin

EBIT margin is defined as Operating Profit/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 capitalisation at closing day

Market capitalisation at closing day is defined as share price at the end of the period multiplied by 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 costs of goods sold, sales and marketing expenses, research and development expenses, administration expenses, other operating income and other operating expenses.