

Interim report

January-September 2018



Probi delivers strong operating performance and appoints new CEO

Highlights and significant events in the third quarter

- Q3 net sales increase to MSEK 169, up 26% or MSEK 35 quarter-on-quarter, driven by improved commercial execution and recovery from a customer destocking program
- Probi appoints Tom Rönnlund as new CEO, starting end of 2018, and implements a new, customer-centric organizational structure
- Partial early redemption of bank borrowings for a total amount of MSEK 57, reflecting the strength of Probi's balance sheet, improved margins and cash flows

Financial overview

MSEK	9M 2018	9M 2017	Full-year 2017
Net sales	441.3	492.9	612.2
Net sales growth, constant currency, %	-10.3%	95.3%	38.2%
Gross margin, %	45.8%	46.4%	45.4%
EBITDA	110.8	136.5	157.3
EBITDA margin, %	25.1%	27.7%	25.7%
Operating profit (EBIT)	70.5	96.4	104.1
Net income	52.4	68.1	69.1
Earnings per share before and after dilution, SEK	4.60	5.98	6.06
Share price on closing day, SEK	413.60	350.00	340.00
Market cap on closing day	4,712.6	3,987.9	3,874.0

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

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

Invitation to Teleconference

Date: November 1, 2018

Time: 10:00 a.m.

Phone: +46 8 56 64 26 64

Participants from Probi:

Jörn Andreas, CFO

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The presentation is available at www.probi.com and www.financialhearings.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 November 1, 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

Delivered our target of organic net sales growth and margin improvement

Probi had a favorable third quarter with double-digit growth in several key metrics, including net sales, EBITDA and operating cash flow. We are pleased that, in line with our expectations from the beginning of the year, we returned to quarter-on-quarter organic growth in the second half of the year, with a healthy margin improvement. Probi generated third-quarter net sales of MSEK 169, up 26% on a currency-neutral basis, and a profit margin (EBITDA) of 30%.

Building the foundation for the next level of innovation and growth

While we continued to focus on operational execution, we also achieved important milestones that were set to transition Probi into the next phase of company growth. We were delighted to announce the appointment of Tom Rönnlund as Probi's new CEO. He will assume his position by the end of 2018 and continue to drive the above market growth and strategies to build share in key global markets. In parallel, we announced a new organizational structure that is a natural evolution of our global business and geared even more strongly towards our customers. During the quarter, Probi took additional important steps in preparing for future growth. We made a partial early repayment of our bank borrowings and initiated a process to update our medium-term R&D strategy and clinical trial program.

The third-quarter results reflect our ability to drive growth and build market share. I am convinced that we will reach the next stage of long-term growth by continuing to focus on optimized execution, and on investments in science to strengthen our position as an innovative leader in our industry.

Ole Sogaard Andersen, CEO

Key Developments in the Group

Probi operates in a fast-paced global market with constantly changing consumer demands, requiring innovation, customer intimacy and agility. With the aim of creating conditions for improved commercial execution and reduced time-to-market for new product developments, Probi implemented a new global organization during the quarter. This new structure will transition the company to a customer-centric organization.

After the end of the quarter, Probi also announced the appointment of Tom Rönnlund as new CEO. Tom currently serves as CEO of the Norwegian listed company Navamedic ASA, and will assume his position as CEO of Probi by the end of 2018. Rönnlund has more than 20 years of experience in sales, marketing, and general management positions in the healthcare industry, and in driving profitable growth through geographical expansion and new partnerships models.

Amplifying Probi's growth potential in the fast-growing Asian market has been a strategic focus for Probi during 2018. To build market share and presence in this region, Probi has expanded its sales organization with additional resources in Singapore and China, and introduced new product formats to meet specific local consumer preferences. In September, Probi participated in the Vitafoods Asia event for the first time, and met a large number of potential customers with a strong interest in Probi's offering.

During the first nine months, sales in the APAC region rose 30% year-on-year. This was mainly due to a major player in the Australian market launching Probi's gastro and immune concept both in Australia and through cross-border e-commerce into China. Probi now has several customers and leads engaged in this fast-growing cross-border e-commerce, including one company that has launched two Probi products under a new Scandinavian brand in China.

North America has been Probi's largest market in recent years, and business development to diversify both customer and product portfolios is continually ongoing. The third quarter saw a large number of new customers, but also existing customers, launch new Probi products. The Multi-Level Marketing segment is developing well as new distributors are engaged and existing distributors expand their geographical reach. In line with the strong market trend towards better documented probiotic products, the Select™ strains introduced by Probi last year are increasingly gaining customer attention. The number of products launched with Select™ strains, both as bulk and consumer packaging, is now increasing. Probi Select™ comprises three of Probi's existing immune and digestive health probiotic platforms supported by clinical documentation.

Business development in the EMEA region during the third quarter included preparations for launches of Probi's products in two major European markets as part of activities to diversify the customer portfolio. Probi has also seen a growing interest from customers in several markets to introduce new probiotic beverages in product categories beyond fruit drinks, and test launches are now being planned.

At the end of the third quarter, Probi proceeded with the partial early redemption of its borrowings in an amount of MSEK 57, demonstrating the company's strong balance sheet and free cash flow generation. Since the beginning of the year, Probi has reduced its net debt by MSEK 72, while simultaneously supporting strategic initiatives and retaining the capacity to invest in the future.

Research and Development

The ongoing multi-trial clinical study program progresses according to plan and more results supporting existing and new product launches are expected as studies will be completed in the coming years. Additionally, Probi is investing in its portfolio of discovery initiatives aimed at frontline research to identify new and interesting development opportunities and to secure the company's future competitiveness through collaboration with internationally renowned academic research teams.

In the third quarter, the Probi discovery research collaboration with Dr. Karen Scott of the Rowett Institute, University of Aberdeen, achieved its second milestone by identifying a shortlist of promising strains for further development. The aim of the collaboration is to isolate and characterize 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.

Under its discovery platform, Probi also explores new health areas and expands its clinical program through investigator-initiated studies, such as in collaboration with the Industrial Research Center for Personalized Medicine in Diabetes at Lund University. Two studies with Probi's strains were initiated during the third quarter. The first study, *PreCiSe* (Prevention of Celiac disease in Skåne), is the follow-up study to *CiPP* (Celiac disease Prevention with Probiotics), which has previously been reported by Probi. *PreCiSe* aims to investigate the impact of being on a gluten-free diet for the first three years of life, compared with a daily intake of a probiotic supplementation or placebo on the risk of developing celiac disease in genetically susceptible children. Approximately 600 children will be recruited for the study. The probiotic product to be evaluated in the study contains two Probi strains, one *Lactobacillus plantarum* and one *Lactobacillus paracasei*, which is the same combination of strains applied in *CiPP*.

The second study is a multicenter clinical study to evaluate the efficacy of a combination of two *Lactobacillus plantarum* strains in preventing acute graft versus host disease in children and adolescents undergoing donor stem cell transplant. The safety of the two *Lactobacillus plantarum* strains in this specific pediatric population has already been confirmed (Ladas 2015). The recruitment of study participants was successfully initiated during the third quarter of 2018, and the aim is to recruit approximately 500 children. Both trials have long timelines and the results are expected by 2023 at the earliest.

In the third quarter, Probi attended an important scientific conference to present and exchange on its industry-leading research results. The clinical study on the efficacy of Probi® Osteo to reduce bone loss at the lumbar spine in a population of post-menopausal women was presented at the Annual Meeting of the American Society for Bone and Mineral Research at Montreal, Canada. In addition, the mechanism studies performed on LP299V® and increased iron absorption (FerroSorb®) were presented at the Bioavailability 2018 conference – Understanding the bioavailability of micronutrients and bioactive compounds for improved public health – held in Norwich, UK, in September. The data and models used triggered a significant interest among academic and clinical leaders in the field.

Sales Development

Current Quarter

In the third quarter of 2018, Probi's net sales amounted to MSEK 168.8 (133.5), representing a year-on-year increase of MSEK 35.3, or 26%. Based on constant exchange rates from the preceding year, net sales for the third quarter were MSEK 35.2 higher, corresponding to a year-on-year increase of 26%.

Year-to-Date

During the first nine months of the year, Probi's net sales amounted to MSEK 441.3 (492.9). The overall decrease was MSEK 51.6, or 10% year-on-year. Based on exchange rates from the preceding year, net sales for the first nine months were MSEK 50.6 lower, corresponding to a net sales decline of 10% year-on-year. In the first nine months of 2018, net sales were negatively impacted by MSEK 48.9 due to destocking by one of Probi's largest customers in North America.

Net Sales by Segment

Probi's operating activities are structured 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	9M 2018			9M 2017		
	CHC	FF	Total	CHC	FF	Total
Net sales	412,866	28,401	441,267	466,660	26,228	492,888
Operating expenses	-352,446	-18,279	-370,725	-378,467	-17,977	-396,444
Operating profit (EBIT)	60,420	10,122	70,542	88,193	8,251	96,444
Financial net	—	—	-2,867	—	—	-10,496
Earnings before income taxes	—	—	67,675	—	—	85,948

Net sales in Consumer Healthcare fell MSEK 53.8 to MSEK 412.9 (466.7). The sales decline in Consumer Healthcare during the nine months 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 28.4 (26.2). Sales in the business segment benefitted from favorable underlying volume growth and constant royalty levels in Sweden, as well as continued progress by the Functional Food business segment in North America and APAC.

Net Sales by Region

KSEK	M9 2018	M9 2017	Full-year 2017
Sweden	41,991	40,390	53,818
EMEA, excluding Sweden	27,275	32,582	37,961
Americas	324,711	383,467	478,979
APAC	47,290	36,449	41,486
Total	441,267	492,888	612,244

During the first nine months of 2018, the Americas accounted for 74% of Probi's net sales. Sales in the region declined MSEK 58.8, or 15%, 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 30%, or MSEK 10.8. This trend was mainly attributable to strong growth by new and existing customers in China, Australia and India. Sales in EMEA (excl. Sweden) declined 16% year-on-year to MSEK 27.3. In Europe, sales decreased primarily due to launch delays and start-up difficulties from a major customer agreement signed in 2016. The 4% 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 nine months of 2018, operating expenses totaled MSEK 370.7 (396.4). Cost of goods sold amounted to MSEK 239.0 (264.0), down 9%, due to lower sales activity and corresponding lower capacity utilization in production. Compared with the first nine months of 2017, the gross margin remained nearly constant at 46% (46) of net sales. Sales and marketing expenses of MSEK 63.5 (60.5) increased in line with expanded commercial activities in both the Americas and Asia-Pacific. Administrative as well as research and development expenses remained largely unchanged compared with the first nine months of 2017, and amounted to MSEK 43.4 (45.5), and MSEK 26.1 (27.7), respectively.

In the Consumer Healthcare business segment, operating profit for the first nine months totaled MSEK 60.4 (88.2), down 32%, corresponding to an operating profit/EBIT margin of 15%. Operating profit for the Functional Food business segment totaled MSEK 10.1 (8.3), corresponding to an operating profit/EBIT margin of 36%. 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 nine months of 2018 totaled MSEK 70.5 (96.4). Adjusted for currency effects, operating profit (EBIT) totaled MSEK 70.6. Operating profit was charged with an amount of MSEK 2.3 (-) for personnel-related provisions.

Financial Results

The financial results for the first nine months of 2018 totaled MSEK -2.9 (-10.5). Interest result of MSEK -4.5 (-4.2) 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 1.7 (loss: 5.9) arose during the reporting period.

Profit after Tax

Profit after tax for the first nine months of 2018 totaled MSEK 52.4 (68.1). Tax expense was MSEK 15.3 (17.8).

Earnings per Share

Earnings per share for the first nine months of 2018 were SEK 4.60 (5.98).

Cash Flow and Financial Position

Capital Expenditure

During the first nine months of 2018, investments in intangible assets amounted to MSEK 8.2 (14.1), of which MSEK 2.2 (2.4) pertained to patents and MSEK 6.0 (11.7) to capitalized development expenditure. Capitalized development expenditure for the first nine months was mainly related to clinical trials in immune function and nutrient absorption. Investments in tangible assets amounted to MSEK 2.8 (6.4).

Change in Cash and Cash Equivalents

Year-to-date, cash and cash equivalents rose MSEK 27.4 (39.8) to MSEK 182.9 (142.9). This includes a partial early redemption of bank borrowings of MSEK 57.2 (32.1), which was recognized in cash flow from financing activities. Cash flow from operating activities declined MSEK 25.5 year-on-year, mainly due to the sales decline, while the third quarter showed an increase of MSEK 22.6.

Employees

At the end of the period, Probi had 160 (196) employees, of whom 79 (91) were women and 81 (105) men. The average number of employees during the first nine months of 2018 was 162 (196).

Related-party Transactions

During the period, Probi's largest owner, Symrise AG, was invoiced KSEK 45.4 (-) and Probi received invoices of KSEK 246.8 (15.4) from Symrise AG. Board member Scott Bush invoiced fees of KSEK 134.2 (139.3) 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 September 30, 2018, no significant changes were considered to have occurred in these risks or uncertainties.

Parent Company

Parent Company operating revenue decreased to MSEK 212.0 (271.0). Net income in the first nine months was MSEK 43.8 (73.1). Year-to-date, Parent Company investments in tangible and intangible assets amounted to MSEK 8.3 (16.1). For all other aspects, please refer to information for the Group.

Financial Calendar

Year-end report 2018	13 February 2019
Interim Report Q1 2019	29 April 2019
Annual General Meeting 2018	7 May 2019
Interim Report Q2 2019	25 July 2019
Interim Report Q3 2019	28 October 2019
Year-end report 2019	11 February 2020

Annual General Meeting

The 2018 Annual General Meeting will be held in Lund on Tuesday, May 7, 2019 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, March 1, 2019. Such proposals should be e-mailed to bolagsstamma@probi.com or posted to: Annual General Meeting, Probi AB, c/o Bolagsstamma, Ideon Gamma 1, SE-223 70 Lund, Sweden.

Shareholders who would like to contact the Nomination Committee may do so by e-mailing bolagsstamma@probi.com or by letter addressed to Probi AB, c/o Nomination Committee, Ideon Gamma 1, SE-223 70 Lund, Sweden.

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, November 1, 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

The interim report has not been audited.

Consolidated Statement of Comprehensive Income

KSEK	Notes	Q3 2018	Q3 2017	9M 2018	9M 2017
Net sales	2	168,822	133,501	441,267	492,888
Cost of goods sold	3	-88,697	-77,083	-238,981	-263,958
Gross profit		80,125	56,418	202,286	228,930
Sales and marketing expenses		-21,780	-19,467	-63,547	-60,523
Research and development expenses		-8,181	-6,797	-26,085	-27,674
Administration expenses		-12,540	-14,640	-43,417	-45,491
Other operating income		304	1,118	1,305	1,202
Operating Profit/EBIT		37,928	16,632	70,542	96,444
Financial income		422	112	962	212
Financial expenses		-1,950	-1,650	-5,563	-4,846
Exchange result financing activities	4	-210	-4,396	1,734	-5,862
Financial result		-1,738	-5,934	-2,867	-10,496
Earnings before income taxes		36,190	10,698	67,675	85,948
Income taxes		-8,087	-1,888	-15,310	-17,817
Net income		28,103	8,810	52,365	68,131
Other comprehensive income					
Components to be reclassified to net income					
Exchange rate differences resulting from the translation of foreign operations		-7,846	-29,429	55,359	-74,985
Cash flow hedge (currency hedges)		645	-1,056	-225	349
Income taxes payable on these components		-142	232	49	-143
Sum of other comprehensive income		-7,343	-30,253	55,183	-74,779
Total comprehensive income		20,760	-21,443	107,548	-6,648
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		2.47	0.77	4.60	5.98

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	30 September 2018	31 December 2017
Capitalised Development Cost	43,981	41,045
Customer base	313,257	307,946
Technology and other intangible assets	139,871	138,993
Goodwill	300,735	279,706
Property, plant and equipment	30,372	34,389
Deferred tax assets	2,333	4,620
Non-current assets	830,549	806,699
Inventories	75,295	69,140
Trade receivables	84,932	59,344
Other assets and receivables	18,636	20,003
Cash and cash equivalents	182,924	155,547
Current assets	361,787	304,034
Total assets	1,192,336	1,110,733
Total equity	992,284	884,735
Other non-current liabilities	6,541	5,781
Non-current liabilities	6,541	5,781
Borrowings	131,326	175,913
Trade payables	30,870	27,042
Other current liabilities	31,315	17,262
Current liabilities	193,511	220,217
Total liabilities	200,052	225,998
Liabilities and equity	1,192,336	1,110,733

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	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
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	884,735
Net income	–	–	–	–	52,365	52,365
Other comprehensive income	–	–	55,360	-176	–	55,184
Total Comprehensive Income	–	–	55,360	-176	52,365	107,549
Closing balance, 30 September 2018	58,221	600,205	12,287	-447	322,018	992,284

Consolidated Statement of Cash Flows

KSEK	9M 2018	9M 2017
Net income	52,365	68,131
Adjustments to reconcile net income to cash provided from operating activities		
Income taxes	15,310	17,817
Interest result	4,452	4,152
Amortisation, depreciation and impairment of non-current assets	40,212	40,071
Other non-cash expenses and income	5,507	26,241
Cash flow before working capital changes	117,846	156,412
Change in trade receivables and other current assets	-15,153	23,047
Change in inventories	-1,365	-7,710
Change in trade payables and other current liabilities	16,903	-21,968
Income taxes paid	-20,005	-26,062
Cash flow from operating activities	98,226	123,719
Payments for investing in intangible assets	-8,159	-14,135
Payments for investing in property, plant and equipment	-2,803	-6,381
Cash flow from investing activities	-10,962	-20,516
Interest paid	-5,009	-3,957
Interest received	962	212
Redemption of bank borrowings	-57,200	-32,063
Dividends paid	—	-11,394
Cash flow from financing activities	-61,247	-47,202
Net change in cash and cash equivalents	26,017	56,001
Effects of changes in exchange rates	1,360	-16,243
Total changes	27,377	39,758
Cash and cash equivalents as of 1 January	155,547	103,136
Cash and cash equivalents as of 30 September	182,924	142,894

Condensed Parent Company Financial Statements

KSEK	Q3 2018	Q3 2017	9M 2018	9M 2017
Operating revenue	90,477	66,334	212,014	270,980
Operating costs	-30,904	-23,150	-69,384	-90,380
Gross profit	59,573	43,184	142,630	180,600
Operating profit/EBIT	30,715	18,397	54,342	96,696
Result from financial income and expenses	-191	-4,415	2,085	-2,832
Income before tax	30,524	13,981	56,427	93,863
Net income	23,764	10,888	43,769	73,124
Other comprehensive income				
Other comprehensive income	502	-824	-176	206
Sum of other comprehensive income	502	-824	-176	206
Total comprehensive income	24,266	10,064	43,593	73,330
KSEK	30 September 2018	31 December 2017		
Fixed assets	968,668	1,011,899		
Current assets	187,836	140,015		
Total assets	1,156,504	1,151,914		
Equity	984,548	940,955		
Untaxed reserves	—	—		
Total long-term liabilities	4,036	4,036		
Current liabilities	167,920	206,923		
Total equity and liabilities	1,156,504	1,151,914		

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 on or after January 1, 2018, did not have any material impact on the reporting of consolidated income or financial instruments, respectively. For further information, see the 2017 Annual Report, page 61.

IFRS 16 Leases will replace IAS 17 as of January 1, 2019. Operating leases will be recognized in the same way that finance leases are recognized today. Probi has started to prepare for implementation of the new standard and is currently finalizing data gathering and systems readiness for reporting under IFRS 16. Probi has decided to transition to IFRS 16 using the cumulative catch-up approach and will be presenting the impact of the new standard on the presentation of its financial position and operating results in its 2018 Annual Report.

The Parent Company's functional currency is the Swedish krona (SEK), 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

The disaggregation of the Group's net sales from contracts with customers is set out below:

KSEK	9M 2018			9M 2017		
	CHC	FF	Total	CHC	FF	Total
Type of goods or service						
Goods	409,192	2,790	411,982	456,851	1,886	458,737
Royalty, licences, etc.	3,674	25,611	29,285	9,809	24,342	34,151
Total net sales from contracts with customers	412,866	28,401	441,267	466,660	26,228	492,888
Geographical markets						
Sweden	20,583	21,408	41,991	19,948	20,442	40,390
EMEA, excluding Sweden	27,257	18	27,275	32,582	–	32,582
Americas	319,391	5,320	324,711	378,402	5,065	383,467
APAC	45,635	1,655	47,290	35,728	721	36,449
Total net sales from contracts with customers	412,866	28,401	441,267	466,660	26,228	492,888

3. Currency translation from operating activities

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

KSEK	Q3 2018	Q3 2017	9M 2018	9M 2017
Exchange gains operating activities	1,707	5,303	6,377	11,883
Exchange losses operating activities	-1,965	-6,091	-3,968	-14,130
Exchange result operating activities	-258	-788	2,409	-2,247

4. Currency translation from financing activities

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

KSEK	Q3 2018	Q3 2017	9M 2018	9M 2017
Exchange gains financing activities	-18,612	13,884	16,360	75,174
Exchange losses financing activities	18,402	-18,280	-14,626	-81,036
Exchange result financing activities	-210	-4,396	1,734	-5,862

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	Q3 2018	Q3 2017	9M 2018	9M 2017
Net income	28,104	8,810	52,365	68,131
Income taxes	8,087	1,888	15,310	17,817
Financial result	1,738	5,934	2,868	10,496
Operating Profit / EBIT	37,929	16,632	70,543	96,444

EBITDA

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

KSEK	Q3 2018	Q3 2017	9M 2018	9M 2017
Operating Profit / EBIT	37,928	16,632	70,542	96,444
Depreciation and amortisation	12,940	12,808	40,212	40,071
EBITDA	50,868	29,440	110,754	136,515

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 the 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 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.