

Interim report

January-June 2019



Favourable growth continues in Q2

Significant events in the second quarter

- Second-quarter net sales amounted to MSEK 180 (153), an increase of 18% (adjusted for currency effects 15%) compared with the second quarter of 2018
- EBITDA for the second quarter amounted to MSEK 57 (43), an increase of 32% compared with the second quarter of 2018
- A successfully completed clinical trial on 326 healthy pregnant women showed that intake of Probi FerroSorb® significantly improved iron status
- New product concept launched in the Nordic market, adapted for consumers of all ages, with the products Probi® Baby, Probi® Gravid, Probi® Family and Probi® Active 50+
- Partial early repayment of loan for a total amount of MSEK 39 due to strong cash flow

Financial overview

MSEK	Apr-Jun 2019	Apr-Jun 2018	Jan-Jun 2019	Jan-Jun 2018
Net sales	180.3	153.2	318.5	272.4
Gross margin, %	49.8%	47.0%	46.4%	44.8%
EBITDA ¹	56.5	42.7	84.7	59.9
EBITDA margin, % ¹	31.3%	27.9%	26.6%	22.0%
Operating profit (EBIT)	39.1	28.2	50.4	32.6
Net income	29.8	21.0	38.4	24.3
Earnings per share before and after dilution, SEK	2.62	1.84	3.37	2.13
Share price on closing day, SEK	322.50	362.80	322.50	362.80
Market cap on closing day	3,674.6	4,133.8	3,674.6	4,133.8

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

¹ See note 1 for ratio excluding IFRS 16 leasing impact

Invitation to teleconference

Date: 19 July 2019

Time: 10:00 a.m.

Phone: +46 (0)8 56 64 27 03

Participants from Probi:

Tom Rönnlund, CEO

Henrik Lundkvist, CFO

The presentation is available at www.probi.com and www.financialhearings.com

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About Probi

Probi AB is a Swedish publicly traded bioengineering company. Probi's vision 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, active in more than 40 markets around the world and holding over 400 patents worldwide. In 2018, Probi had net sales of MSEK 604. The Probi share is traded on Nasdaq Stockholm, Mid Cap. Probi had about 4,000 shareholders on December 31, 2018.

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, on 19 July 2019 at 8:00 a.m. CET. This is a translation of the Swedish version of the interim report. When in doubt, the Swedish wording prevails.

CEO comments

A strong first half-year

During the first half-year of 2019, Probi delivered favourable growth with net sales of MSEK 318.5, representing a year-on-year increase of 17% (adjusted for currency effects 14%), and an EBITDA margin of 27%. Our growth, which outperforms the global market rate, was driven by success for Probi's products and new customers in the EMEA region, combined with growth in the North American market based on normalisation of a major customer's order flow. The company's profitability remained favourable and in line with our long-term objective.



We are continuing to expand our commercial resources, particularly in North America and the Chinese market where we see opportunities for continued sales growth and, during the quarter, we welcomed new employees to capitalise on these opportunities. In North America, we are seeing continued growth for probiotic supplements in e-commerce channels, while growth is slowing in traditional stores. During the quarter, we introduced product concepts that are particularly well-suited to customers with online sales. These will enable us to offer attractive concepts for gut health, women's health and a strengthened immune system with short lead times for customers with campaign-driven sales.

In the Swedish market, the launch of a new product concept commenced with the introduction of Probi® Baby, Probi® Gravid, Probi® Family and Probi® Active 50+. This offering complements Probi Mage® and Probi Frisk® and represents a broad portfolio of probiotics to suit the varying needs of consumers at every stage of life. We are hoping that this launch will further strengthen our leading position in the Swedish market.

My continued contact with customers, suppliers and partners during these first six months as CEO is strengthening my conviction that Probi is well-positioned and equipped for future growth. We see a clear trend of a strong need and sustained demand for well-documented products with proven health benefits, which is fully in line with Probi's product portfolio and expertise. As a company, we hold a unique position with a strong scientific basis, a research focus and an integrated value chain for serving our customers. With commercial and geographic expansion and an ambitious agenda for business development and strategic investments, Probi has the long-term potential to continue delivering growth that outperforms the global market rate. On the basis of our new launches, the strength of our existing products and our high-performing team of employees, we have all of the tools for realising these plans and objectives.

Tom Rönnlund, CEO

Probi's customers

Probi offers probiotic expertise and partnership including research & development, manufacturing, product concepts and supply of finished products for customers within the consumer healthcare and food industry. Probi's manufacturing is GMP-certified and produces proven and effective probiotics in custom-made formats with value-adding delivery technologies.

Key developments in the Group

Market

The North American market reported sales growth during the first half-year and rose 18% year-on-year driven by the normalisation of a major customer's order flow. Probiotics continue to represent a dynamic category in this region, and to meet demand, Probi offers a wide range of products, both premium and more generic alternatives. There is a continued strong trend for innovative and more well-documented solutions that are gaining market share and gradually replacing the former focus on products with multiple bacterial strains and a high load of bacteria. This transition is expected to benefit Probi, which has extensive clinical documentation, new innovative solutions and the capacity to deliver finished products. During the quarter, several new products were launched for customers in the North American market.

Probi's recently introduced product concept for improved bone health in postmenopausal women, Probi® Osteo, received a highly positive response at the 2019 Probiota Americas + IPA World Congress in Vancouver, Canada, in June. Probi® Osteo was introduced in late 2018 and is the first commercially available concept for the prevention of bone loss and osteoporosis in postmenopausal women that meets the growing demand for women's health products in the global market. Customer launches are in progress and have been planned for all of Probi's regions (Americas, EMEA and APAC).

The EMEA region delivered a strong first half-year with 44% growth year-on-year. This is a continued result of the targeted efforts in the region with a focus on broadening the customer base. In May, Probi exhibited at the Vitafoods Europe in Geneva trade fair, which received more than 24,000 visitors. Probi® Osteo was also presented at the event to a highly appreciative and packed audience.

In the Swedish market, Probi is a leading player in probiotic supplements with a market dominance in pharmacies and the health segment, with Probi Mage® 80 capsules as the single largest product in the entire dietary supplement category¹. In the second quarter, Probi and our partner in the Nordic market launched a completely new range of products for all ages, from infants up to the aging consumer. New additions to the already dominant Probi family of products are Probi® Baby, Probi® Gravid, Probi® Family and Probi® Active 50+.

Despite strong growth in the preceding year, 2019 started weaker for the APAC region, which was also reflected in a 26% drop in net sales during the first half of 2019 compared with the year-on-year period. This was mainly due to delayed launches of planned products at customer level. In China, the authorities have tightened regulations in the probiotic market, which has led to a more cautious launch climate temporarily. In the long term, these regulations are expected to benefit Probi, which has products that are clinically documented. During the quarter, launches were carried out in such countries as Vietnam and Malaysia.

¹ Source: Nielsen MAT w16 2019

In June, Probi held its annual partner conference in Malmö, which was attended by 135 people from 28 countries and 50 companies. Among other things, the participants could hear about the latest research into Probi FerroSorb® for pregnant women and listen to presentations from customers in the US, EMEA and APAC. The event was highly appreciated by the visitors and is strengthening relationships for further business development.

Research and development

The recently completed clinical trial with Probi FerroSorb® demonstrates successful effects on improved iron status in healthy, pregnant women. Probi FerroSorb® has previously been shown to increase iron absorption in healthy women of child-bearing age. This randomised, double-blind, and placebo-controlled trial on pregnant women was conducted at antenatal clinics in southern Sweden and included 326 pregnant women. The effect on iron status was assessed, and intake of Probi FerroSorb® led to significantly improved iron status, resulting in reduced iron deficiency but also a lower incidence of anaemia during the final stages of pregnancy compared with the control group.

Iron deficiency is one of the most common nutrient deficiencies and is particularly prevalent in pregnant women. Iron deficiency can lead to anaemia, with symptoms including fatigue, weakness, paleness, palpitations and shortness of breath in pregnant women. Anaemia during pregnancy is also associated with premature birth, low birth weight and increased mortality in children. At present, traditional iron supplements are the standard treatment for iron deficiency but only a small portion of the iron is absorbed. The remaining unabsorbed iron often causes side effects such as abdominal cramps and constipation which have a negative impact on the microbiota. Since the positive safety profile of Probi FerroSorb® has once again been confirmed by the trial in pregnant women, the concept is an attractive alternative that prevents cases of iron deficiency and anaemia in this sensitive population, which has a major need for extra iron. Probi® Gravid is currently being launched on the Swedish market as a supplement based on this concept, while also being introduced to customers in other markets.

Sales development

Second quarter

In the second quarter of 2019, Probi's net sales totalled MSEK 180.3 (153.2), up MSEK 27.1 or 18% year-on-year. The increase was due to favourable growth for customers in the EMEA region and the normalisation of a major customer's order flow in the US. Adjusted for currency effects, net sales in the second quarter totalled MSEK 176.6, up 15% year-on-year.

Net sales by segment

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

KSEK	Jan-Jun 2019			Jan-Jun 2018		
	CHC	FF	Total	CHC	FF	Total
Net sales	294,872	23,592	318,464	253,073	19,372	272,445
Operating expenses	-255,346	-12,727	-268,073	-227,293	-12,537	-239,830
Operating profit (EBIT)	39,526	10,865	50,391	25,780	6,835	32,615
Financial net	–	–	-1,476	–	–	-1,130
Earnings before income taxes	–	–	48,915	–	–	31,485

During the first half-year, net sales for Consumer Healthcare rose MSEK 41.8, corresponding to 17%. The increase was largely due to the normalisation of a major customer's order flow in the US. Net sales in Functional Food rose MSEK 4.2, or 22%, mainly due to a non-recurring payment from the concluded collaboration with a global FMCG (fast-moving consumer goods) customer.

Net sales by region

KSEK	Apr-Jun 2019	Apr-Jun 2018	Jan-Jun 2019	Jan-Jun 2018
EMEA	29,802	23,453	63,562	44,115
Americas	135,789	112,953	229,585	193,936
APAC	14,705	16,833	25,317	34,394
Total	180,296	153,239	318,464	272,445

During the first half-year, the Americas region (North and South America) accounted for 72% of Probi's total net sales. Net sales in this region rose MSEK 35.6, a year-on-year increase of 18%, mainly driven by the normalisation of a major customer's order flow. In the APAC region (Asia Pacific), net sales declined MSEK 9.1, a year-on-year decrease of 26%, due to delayed launches at customer level, primarily in the Chinese market. Sales in the EMEA region (Europe, the Middle East and Africa) rose MSEK 19.4, a year-on-year increase of 44%. The increase was attributable to new customers, as well as growth for Probi's key customers in Consumer Healthcare.

Earnings

Operating profit (EBIT)

Operating expenses for the first half-year amounted to MSEK 268.1 (239.8), mainly driven by higher cost of goods sold as volumes increased, but also higher investment in commercial resources in the Americas and APAC. The gross margin improved year-on-year and amounted to 46% (45) of net sales. Sales and marketing costs totalling MSEK 58.3 (41.8) rose as a result of expanded commercial resources in the Americas and APAC regions, but also due to higher variable costs associated with the increase in net sales. Administrative expenses amounted to MSEK 24.7 (30.9). The comparative figures include personnel-cost related provisions of MSEK 4.5. Research and development costs amounted to MSEK 16.5 (17.9).

EBIT for the Consumer Healthcare segment totalled MSEK 39.5 (25.8) for the first half-year, corresponding to an operating margin of 13% (10). EBIT for the Functional Food segment was MSEK 10.9 (6.8), corresponding to an operating margin of 46% (35). The improved operating margin was due to a non-recurring payment received in connection with the concluded collaboration with a global FMCG customer.

Consolidated EBIT for the first half-year totalled MSEK 50.4 (32.6). Adjusted for currency effects, EBIT totalled MSEK 51.1.

Financial results

The Group's financial results for the first half-year amounted to MSEK -1.5 (-1.1). Interest expense of MSEK -1.4 (-3.0) was charged to earnings. Gains or losses on the translation of loans and cash accounts denominated in other currencies are recognised in exchange rate gains or losses from financing activities. A currency gain of MSEK 0.2 (1.9) arose during the first half-year.

Profit after tax

Profit after tax for the first half-year totalled MSEK 38.4 (24.3). Tax expense was MSEK 10.5 (7.2).

Earnings per share

Earnings per share for the first half-year amounted to SEK 3.37 (2.13).

Cash flow and financial position

Investments

In the first half-year, investments in intangible assets amounted to MSEK 4.7 (5.7), of which MSEK 1.5 (1.0) pertained to patents and MSEK 3.2 (4.7) to capitalised development costs. Investments in tangible assets amounted to MSEK 4.5 (2.4).

Change in cash and cash equivalents

In the first half-year, cash and cash equivalents declined MSEK 54.6 (+39.0) to MSEK 144.7 (194.6). This included a bank loan repayment of MSEK 99.0 (-), which was recognised in cash flow from financing activities. Cash flow from operating activities rose MSEK 15.2 year-on-year, the result of a positive trend for EBIT.

Employees

At the end of the period, Probi had 164 (160) employees, of whom 50% (47) were women. The average number of employees during the first half of 2019 was 165 (163).

Related-party transactions

During the first half-year, Probi's expenses from its largest owner, Symrise AG, amounted to KSEK 33.1 (143.9) and revenues amounted to KSEK 43.2 (45.4). During the first half of the year, consulting cost in addition to the Board fee of KSEK 44.9 (120.2) was paid to the board member Scott Bush. There were no other related-party transactions 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 2018 Annual Report. At 30 June 2019, there were no significant changes in these risks or uncertainties.

Parent Company

During the first half-year, the Parent Company's operating income rose to MSEK 189.9 (121.5). Profit after tax totalled MSEK 48.3 (20.0). Investments in tangible and intangible assets amounted to MSEK 4.8 (5.8). Otherwise, please refer to the information for the Group.

Financial calendar

Interim report Q3, 2019

25 October 2019

Year-end report, 2019

11 February 2020

Assurance by the Board of Directors

The Board of Directors and Chief Executive Officer assure that this interim report gives a true and fair view of the Parent Company and the Group's operations, financial position and results, and describes the significant risks and uncertainties facing the Parent Company and the Group.

Lund, 19 July 2019

Jean-Yves Parisot
Chairman of the Board

Jörn Andreas
Board member

Irène Corthésy Malnoë
Board member

Charlotte Hansson
Board member

Jonny Olsson
Board member

Tom Rönnlund
CEO



THIS IS A TRANSLATION FROM THE SWEDISH ORIGINAL

Review report

PROBI Aktiebolag corporate identity number 556414-7540

Introduction

We have reviewed the condensed interim report for PROBI Aktiebolag as at June 30, 2019 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 July 19, 2019

Ernst & Young AB

Peter Gunnarsson
Authorized Public Accountant

Consolidated statement of comprehensive income

KSEK	Notes	Apr-Jun 2019	Apr-Jun 2018	Jan-Jun 2019	Jan-Jun 2018
Net sales	2	180,296	153,239	318,464	272,445
Cost of goods sold	3	-90,509	-81,195	-170,605	-150,284
Gross profit		89,787	72,044	147,859	122,161
Sales and marketing expenses		-31,345	-22,757	-58,289	-41,767
Research and development expenses		-8,678	-8,286	-16,485	-17,903
Administration expenses		-12,503	-13,775	-24,675	-30,878
Other operating income		1,825	1,002	1,981	1,002
Operating profit (EBIT)		39,086	28,228	50,391	32,615
Financial income		320	332	670	540
Financial expenses		-1,085	-2,009	-2,312	-3,614
Exchange result financing activities	4	-338	716	166	1,944
Financial result		-1,103	-961	-1,476	-1,130
Earnings before income taxes		37,983	27,267	48,915	31,485
Income taxes		-8,147	-6,307	-10,546	-7,223
Net income		29,836	20,960	38,369	24,262
Other comprehensive income					
Components to be reclassified to net income					
Exchange rate differences resulting from the translation of foreign operations		-998	52,200	31,105	63,205
Cash flow hedge (currency hedges)		220	-1,126	-911	-870
Income taxes payable on these components		-47	247	195	191
Sum of other comprehensive income		-825	51,321	30,389	62,526
Total comprehensive income		29,011	72,281	68,758	86,788
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		2.62	1.84	3.37	2.13

Profit for the period and comprehensive income are attributable in their entirety to the Parent Company's shareholders. The company has no outstanding convertible loans or warrants, so dilution does not occur.

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

Consolidated statement of financial position

KSEK	30 June 2019	31 December 2018
Capitalised Development Cost	45,286	44,294
Customer base	308,980	311,177
Technology and other intangible assets	136,590	138,424
Goodwill	314,662	304,561
Property, plant and equipment	96,556	29,162
Deferred tax assets	4,602	1,530
Non-current assets	906,676	829,148
Inventories	69,029	68,676
Trade receivables	127,474	106,188
Other assets and receivables	6,464	6,119
Cash and cash equivalents	144,726	199,299
Current assets	347,693	380,282
Total assets	1,254,369	1,209,430
Total equity	1,098,880	1,028,398
Other non-current liabilities	57,164	6,772
Non-current liabilities	57,164	6,772
Borrowings	19,758	118,481
Trade payables	32,771	31,459
Other current liabilities	45,796	24,320
Current liabilities	98,325	174,260
Total liabilities	155,489	181,032
Liabilities and equity	1,254,369	1,209,430

Consolidated changes in equity

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	–	–	–	–	24,262	24,262
Other comprehensive income	–	–	63,205	-678	–	62,527
Total Comprehensive Income	–	–	63,205	-678	24,262	86,789
Dividends	–	–	–	–	–	–
Total transactions with shareholders	–	–	–	–	–	–
Closing balance, 30 June 2018	58,221	600,205	20,132	-949	293,915	971,524
KSEK	Share capital	Other contributions received	Cumulative translation differences	Other reserves	Accumulated profit	Total equity
Closing balance, 31 December 2018	58,221	600,205	23,930	139	345,903	1,028,398
Impact of implementing IFRS 16	–	–	–	–	1,723	1,723
Opening balance, 1 January 2019	58,221	600,205	23,930	139	347,627	1,030,122
Net income	–	–	–	–	38,369	38,369
Other comprehensive income	–	–	31,105	-716	–	30,389
Total Comprehensive Income	–	–	31,105	-716	38,369	68,758
Closing balance, 30 June 2019	58,221	600,205	55,035	-577	385,996	1,098,880

Consolidated statement of cash flows

KSEK	Apr-Jun 2019	Apr-Jun 2018	Jan-Jun 2019	Jan-Jun 2018
Net income	29,836	20,960	38,369	24,262
Adjustments to reconcile net income to cash from operating activities				
Income taxes	8,147	6,307	10,546	7,223
Interest result	616	1,625	1,400	2,963
Amortisation, depreciation and impairment of non-current assets	17,396	14,495	34,308	27,272
Other non-cash expenses and income	339	149	568	569
Cash flow before working capital changes	56,334	43,536	85,191	62,289
Change in trade receivables and other current assets	-25,386	-4,645	-21,549	-13,269
Change in inventories	455	-1,594	1,840	-4,352
Change in trade payables and other current liabilities	-3,721	5,966	1,026	14,220
Income taxes paid	-4,310	-8,591	-7,803	-15,369
Cash flow from operating activities	23,372	34,672	58,705	43,519
Payments for investing in intangible assets	-2,566	-3,481	-4,714	-5,675
Payments for investing in property, plant and equipment	-1,992	-660	-4,497	-2,384
Divestments of tangible assets	21	–	21	–
Cash flow from investing activities	-4,537	-4,141	-9,190	-8,059
Interest paid	-793	-1,825	-1,793	-3,215
Interest received	320	332	670	540
Redemption of bank borrowings	-39,000	–	-99,000	–
Repayments for lease obligations	-3,108	–	-6,109	–
Dividends paid	–	–	–	–
Cash flow from financing activities	-42,581	-1,493	-106,232	-2,675
Net change in cash and cash equivalents	-23,746	29,038	-56,717	32,785
Effects of changes in exchange rates	-329	5,193	2,144	6,230
Total changes	-24,075	34,231	-54,573	39,015
Cash and cash equivalents at opening balance	168,801	160,331	199,299	155,547
Cash and cash equivalents at closing balance	144,726	194,562	144,726	194,562

Condensed Parent Company financial statements

KSEK	Apr-Jun 2019	Apr-Jun 2018	Jan-Jun 2019	Jan-Jun 2018
Operating revenue	114,522	61,827	189,942	121,537
Operating costs	-35,456	-18,050	-59,411	-38,480
Gross profit	79,066	43,777	130,531	83,057
Operating profit (EBIT)	42,969	15,492	62,906	23,627
Result from financial income and expenses	-847	952	-995	2,276
Income before tax	42,122	16,444	61,911	25,903
Net income	33,020	12,688	48,292	20,005

KSEK	Apr-Jun 2019	Apr-Jun 2018	Jan-Jun 2019	Jan-Jun 2018
Net income	33,020	12,688	48,292	20,005
Cash flow hedge (currency hedges)	220	-1,125	-911	-869
Income taxes payable on these components	-47	247	195	191
Sum of other comprehensive income	173	-878	-716	-678
Total comprehensive income	33,193	11,810	47,576	19,327

KSEK	30 June 2019	31 December 2018
Fixed assets	968,784	968,122
Current assets	161,044	205,806
Total assets	1,129,828	1,173,928
Equity	1,054,114	1,006,539
Total long-term liabilities	4,035	4,076
Current liabilities	71,679	163,313
Total equity and liabilities	1,129,828	1,173,928

Notes

1. Accounting and measurement policies

Group

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 9-17. Disclosures according to IAS 34 Interim Financial Reporting are provided both here and elsewhere in the interim report. ESMA's guidelines apply to alternative performance measures.

The accounting policies applied in the preparation of these consolidated financial statements have been applied consistently for all presented periods, unless otherwise stated. The complete accounting policies can be found on pages 60-63 of the printed 2018 Annual Report.

IFRS 16 Leases superseded IAS 17 on 1 January 2019. Probi has only identified a limited number of leases affected by the new standard. These leases are mainly related to rental fees for premises and company cars, but also to production equipment. Probi applied the simplified approach, which is described in more detail on page 60 of the printed 2018 Annual Report.

The following table shows the effects of IFRS 16 on the opening balances at 1 January 2019:

KSEK	
Assets	
Property, plant and equipment (right of use assets)	71,729
Prepayments	-1,071
Liabilities	
Lease liabilities	70,658
Deferred tax assets	237
Other non-current liabilities	-1,960
Net impact on equity	1,723
Minimum lease payments under operating leases as of December 31, 2018	78,589
Recognition exemption	-1,081
for short-term leases	-135
for leases of low-value assets	-946
Effect from discounting at the incremental borrowing rate as of January 1, 2019	-6,850
Liabilities recognized based on the initial application of IFRS 16 as of January 1, 2019	70,658
Liabilities from finance leases as of December 31, 2018	–
Liabilities from leases as of January 1, 2019	70,658

The following table shows the effects of IFRS 16 on the income statement for 2019:

KSEK	Apr-Jun 2019	Jan-Jun 2019
Depreciation lease obligations	-3,531	-6,943
Lease expenses	3,698	7,312
Operating profit (EBIT)	167	369
Financial expenses	-576	-1,152
Income taxes	97	186
Impact on net income for the period	-312	-597
EBITDA	56,482	84,699
EBITDA margin, %	31,3%	26,6%
Adjustment IFRS 16 leasing	-3,698	-7,312
EBITDA excluding IFRS 16 leasing impact	52,784	77,387
EBITDA margin, % excluding IFRS 16 leasing impact	29,3%	24,3%

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

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 of IFRS 16 Leasing and with the exceptions and additions that are stated in RFR 2, Accounting for Legal Entities. The interim report complies with the Swedish Annual Accounts Act.

2. Revenue from Contracts from Customers

A breakdown of the Group's net sales from contracts with customers is presented below:

KSEK	Jan-Jun 2019			Jan-Jun 2018		
	CHC	FF	Total	CHC	FF	Total
Revenue distribution, category						
Goods	292,397	1,857	294,254	251,171	1,818	252,989
Royalty, licences, etc.	2,475	21,735	24,210	1,902	17,554	19,456
Total net sales from contracts with customers	294,872	23,592	318,464	253,073	19,372	272,445
Revenue distribution, geographical markets						
EMEA	49,001	14,561	63,562	29,558	14,557	44,115
Americas	221,588	7,997	229,585	190,303	3,633	193,936
APAC	24,283	1,034	25,317	33,212	1,182	34,394
Total net sales from contracts with customers	294,872	23,592	318,464	253,073	19,372	272,445

3. Currency translation from operating activities

The following table shows the exchange gains and losses from operating activities that are recognised under cost of goods sold:

KSEK	Apr-Jun 2019	Apr-Jun 2018	Jan-Jun 2019	Jan-Jun 2018
Exchange gains operating activities	1,183	2,675	3,293	4,670
Exchange losses operating activities	-1,525	-648	-2,293	-2,003
Exchange result operating activities	-342	2,027	1,000	2,667

4. Currency translation from financing activities

The following table shows the exchange gains and losses from financing activities that are recognised in the financial results:

KSEK	Apr-Jun 2019	Apr-Jun 2018	Jan-Jun 2019	Jan-Jun 2018
Exchange gains financing activities	402	13,927	1,013	34,972
Exchange losses financing activities	-740	-13,211	-847	-33,028
Exchange result financing activities	-338	716	166	1,944

5. Definition of the alternative performance measures not defined in IFRS

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

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

Operating profit (EBIT)

Operating profit (EBIT) is defined as net income before financial income and expenses and tax for the period and is used to measure the profitability of the business.

KSEK	Apr-Jun 2019	Apr-Jun 2018	Jan-Jun 2019	Jan-Jun 2018
Net income	29,836	20,959	38,369	24,262
Income taxes	8,147	6,307	10,546	7,223
Financial result	1,103	961	1,476	1,130
Operating profit (EBIT)	39,086	28,227	50,391	32,615

EBITDA

EBITDA is defined as operating profit (EBIT) before depreciation, amortisation and impairment and is used to measure the profitability of the business.

KSEK	Apr-Jun 2019	Apr-Jun 2018	Jan-Jun 2019	Jan-Jun 2018
Operating profit (EBIT)	39,086	28,228	50,391	32,615
Depreciation and amortisation	17,396	14,495	34,308	27,272
EBITDA	56,482	42,723	84,699	59,887

Other alternative performance measures:	Definition / Bases of calculation	Purpose
EBITDA margin	Defined as EBITDA divided by net sales	Used to measure the profitability of the business before depreciation, amortisation and impairment of tangible and intangible assets
EBITDA excluding effect from IFRS 16 leasing	Defined as EBITDA excluding effect from implementation of IFRS 16 leasing	Used to be able to measure EBITDA between the periods
EBITDA margin excluding effect from IFRS 16 leasing	Defined as EBITDA excluding effect from implementation of IFRS 16 leasing divided by net sales	Used to be able to measure EBITDA margin between the periods
Gross margin	Defined as gross profit divided by net sales	Used to measure product profitability
Market capitalisation on the closing date	Defined as the share price at the end of the period multiplied by the number of shares outstanding	Used to measure the company's market capitalisation at the end of the period
Net sales growth adjusted for currency effects	Defined as net sales for the year translated at the preceding year's exchange rates divided by the preceding year's net sales	Used to measure underlying net sales growth
Operating expenses	Defined as the sum of costs of goods sold, sales and marketing costs, research and development costs, administration expenses, other operating income and other operating expenses	Used to measure the sum of total operating expenses before financial result and tax
Operating margin	Defined as operating profit divided by net sales	Used to measure the profitability of the business