

Year-end report

January-December 2019



Stable performance and increased profitability

Significant events in the fourth quarter

- Net sales rose 2% during the quarter to MSEK 166 (unchanged incl. adjustments for currency effects), which was in line with the company's expectations. Full-year net sales increased 4% to MSEK 626 (MSEK 605 incl. adjustments for currency effects).
- Profitability improved and the EBITDA margin was 29% for full-year 2019 (27% adjusted for IFRS 16), compared with 26% in the preceding year.
- Two exclusive supply agreements were signed with major customers in the US.
- The Lancet Rheumatology published findings from the company's clinical trial showing a connection between reduced osteoporosis and probiotic intake (Probi® Osteo).
- The Board proposes that the 2020 Annual General Meeting approves a dividend of SEK 1.00 (0.00) per share corresponding to MSEK 11.6 (0) for 2019.

Financial overview

MSEK	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
Net sales	166.1	162.9	626.2	604.1
Gross margin, %	47.5%	46.5%	46.6%	46.0%
EBITDA ¹	53.3	44.2	183.4	154.9
EBITDA margin, % ¹	32.1%	27.1%	29.3%	25.6%
Operating profit (EBIT)	34.5	30.6	111.5	101.1
Net income	25.8	23.9	85.9	76.3
Earnings per share before and after dilution, SEK	2.27	2.10	7.54	6.69
Share price on closing day, SEK	222.00	360.00	222.00	360.00
Market cap on closing day	2,529.5	4,101.9	2,529.5	4,101.9

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: February 11, 2020

Time: 10:00 a.m.

Phone: +46 (0)8 50 55 83 65

Participants from Probi:

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Henrik Lundkvist, CFO

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

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 2019, Probi had net sales of MSEK 626. The Probi share is traded on Nasdaq Stockholm, Mid Cap. Probi had about 4,000 shareholders on 31 December 2019.

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 11 February 2020 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

Positive trend ends the year

2019 ended with a clear recovery following a weak third quarter. While the Americas region returned to growth and EMEA stabilised, APAC had a tough fourth quarter. During the quarter, we took a major step into Italy together with a local pharmaceutical company with a strong market position. We also signed important exclusive supply agreements with our two largest customers in the US market. Together with one of our customers in India, we secured a major contract, which provides good conditions for further growth in the APAC region.



For full-year 2019, net sales rose 4% to MSEK 626. Adjusted for currency effects, growth remained largely unchanged compared with 2018. As previously communicated, this is not in line with our long-term target to grow faster than the market and is mainly due to a challenging market in the US. At the same time, we have secured a number of important agreements with existing and new customers which gives us confidence of an increased growth next year. Our profitability was further strengthened during the year, and our EBITDA margin was 29%.

During the second half of the year we initiated an upgrade program of the manufacturing unit in Redmond in the US. The upgrade program aims to further improve the efficiency and quality of production which is central for strengthening our competitiveness. By modernising and upgrading the unit, we are expecting to see positive effects on the gross margin and a stronger capacity to grow both in the US and internationally. The investment programme will continue throughout 2020, but the full impact will not be seen until 2021.

Products with a scientific basis

Our new product concepts – Probi® Osteo for reduced osteoporosis, and Probi FerroSorb® for pregnant women – received a positive response in our markets during the year, backed up by solid scientific evidence. In the case with Probi® Osteo, we are particularly proud that the clinical trial behind the product was published in one of the most prestigious scientific journals, *The Lancet Rheumatology*. That proves the strength of how Probi works with research and development.

Despite a challenging year with organic sales in line with the year-on-year period, I still feel confident that we will show increased growth in 2020. We have a clear focus on broadening our premium segment sales to new customers and markets, a highly respected product portfolio, strengthened production capacity and a fantastic team with unique expertise in probiotics. That gives us a strong foundation to drive growth and profitability. I am looking forward to an exciting 2020 in which we, as a team, will continue to work towards our vision: *Probi – First in Probiotics*.

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

Following a slow third quarter in region Americas the fourth quarter returned to growth. The anticipation is that the slow growth in the US probiotics market will continue in 2020, but with focus on premium products the expectation is that Probi will further strengthen the position in the US. In 2020, Probi will continue strengthening the commercial resources and establish sales in new market channels, with purpose to increase market penetration.

In the fourth quarter Probi signed supply agreements with two of the company's major customers in the US, which solidifies the customer base in the US market. With the supply agreements signed during the fourth quarter, Probi has secured supply agreements with three of the company's largest customers in the US market which provides a platform for further growth.

The efforts to broaden the customer base in EMEA paid off and growth was 13% for 2019, well above the average growth rate for the market. This growth was largely due to the establishments in major European markets such as Italy and Turkey, and the continued positive trend for the Probi range in the in Sweden. The opportunities for growth in the European market are good and Probi is working intensively with several exciting projects in partnership with leading players.

The APAC region had a challenging year in 2019 and sales declined 26%. The company expects that the downturn can be reversed and it is mainly the result of regulatory measures that temporarily have caused a slowdown in the Chinese market. The demand is showing signs of recovery and Probi believes that the company's product portfolio has a competitive edge and continued strong potential. Probi is in a phase of establishing market footprint in the region and focus is on building up the team and finding the right partners. In the fourth quarter one of Probi's most important customers in India won a tender from an Indian authority, guaranteeing sales to the customer for the next two years.

Research and development

During the quarter, two of the company's clinical trials were published. *The Lancet Rheumatology* published results from the study on bone health in postmenopausal women. The results showed a clear reduction in bone loss following intake of Probi's probiotics. The product has been launched under the concept name of Probi® Osteo.

Probi's study on effects on the immune system of children was published in the *European Journal of Nutrition*. The results of the study showed that daily consumption of a combination of two patented Probi strains for three months reduced cold symptoms on children in day care.

During the year, a clinical trial was conducted to study the effect of Probi FerroSorb® on iron status during pregnancy. The results showed improved iron status at later stages of pregnancy. The product was launched in several markets and in Sweden under the local product brand Probi® Gravid.

Sales development

Current quarter

In the fourth quarter of 2019, Probi's net sales totalled MSEK 166.1 (162.9), up MSEK 3.2 or 2% year-on-year. Adjusted for currency effects, net sales amounted to MSEK 161.9, corresponding to a decline of 1%.

Full-year 2019

In 2019, Probi's net sales amounted to MSEK 626.2 (604.1), up MSEK 22.1 or 4% year-on-year. Adjusted for currency effects, net sales amounted to MSEK 604.9, which is in line with the preceding 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-Dec 2019			Jan-Dec 2018		
	CHC	FF	Total	CHC	FF	Total
Net sales	583,719	42,473	626,192	566,797	37,320	604,117
Operating expenses	-491,234	-23,416	-514,650	-479,276	-23,725	-503,001
Operating profit (EBIT)	92,485	19,057	111,542	87,521	13,595	101,116
Financial net	—	—	-2,019	—	—	-2,556
Earnings before income taxes	—	—	109,523	—	—	98,560

During the year, net sales for Consumer Healthcare rose MSEK 16.9, corresponding to 3%. The increase was attributable to sales growth in the Americas and EMEA. Net sales in Functional Food rose MSEK 5.2, or 14%, mainly due to a non-recurring payment from the concluded collaboration with a global FMCG customer.

For the 2020 financial year, the company's segment reporting will be changed and results will be reported per region. This reflects how the company will be organised going forward. The company's assets will not be monitored at segment level. The restated segment reporting for the financial years of 2019 and 2018 is set out below.

KSEK	Jan-Dec 2019				Jan-Dec 2018			
	Americas	EMEA	APAC	Total Group	Americas	EMEA	APAC	Total Group
Net Sales	468,913	113,455	43,824	626,192	444,315	100,351	59,451	604,117
Cost of goods sold	-275,017	-42,195	-17,334	-334,546	-270,961	-32,167	-22,959	-326,087
Gross profit	193,896	71,260	26,490	291,646	173,354	68,184	36,492	278,030

Net sales by region

KSEK	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
Americas	128,045	119,604	468,913	444,315
EMEA	29,654	31,085	113,455	100,351
APAC	8,438	12,161	43,824	59,451
Total	166,137	162,850	626,192	604,117

During the year, Americas (North and South America) accounted for 75% of Probi's total net sales. Net sales in this region rose MSEK 24.6, corresponding to 6%, despite a weaker third quarter. Volumes from one of the most important customers in the US recovered during the year and the level is now considered normalised.

Sales in EMEA (Europe, the Middle East and Africa) rose MSEK 13.1, corresponding to 13%. The increase was attributable to a new large Turkish customer, but also to growth in existing customers.

The performance of APAC (Asia Pacific) was weak in 2019 with negative growth of 26%, corresponding to a decline of MSEK 15.6. This was largely due to slower growth in the Chinese market as a consequence of the introduction of more stringent quality requirements on dietary supplements and health products by Chinese authorities. This is however expected to benefit Probi's well-documented products in the long term.

Earnings

Operating profit (EBIT)

Operating expenses for the year amounted to MSEK 514.7 (503.0), mainly driven by higher costs for goods sold as sales increased, but also by increased cost for commercial resources in the Americas and APAC regions. The gross margin improved slightly year-on-year to 47% (46) of net sales due to a favourable product mix. Sales and marketing costs rose to MSEK 105.1 (91.9) 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 declined to MSEK 46.0 (54.7). The comparative figures include non-recurring employee-related costs of MSEK 4.5. Research and development costs amounted to MSEK 31.0 (32.7).

EBIT for the Consumer Healthcare segment totalled MSEK 92.5 (87.5) for the year, corresponding to an operating margin of 16% (15). EBIT for the Functional Food segment was MSEK 19.1 (13.6), corresponding to an operating margin of 45% (36). 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 year rose to MSEK 111.5 (101.1). Adjusted for currency effects, EBIT totalled MSEK 112.7.

Financial results

The Group's financial results for the year amounted to MSEK -2.0 (-2.6). Net interest income (excluding IFRS 16) amounted to MSEK 0.7 (-3.9). Interest expense related to IFRS 16 amounted to MSEK -2.3 (0). In addition, bank charges amounted to MSEK -1.1 (-0.8). Gains or losses on the translation of loans and cash and cash equivalents denominated in other currencies are recognised in exchange rate gains or losses from financing activities. A currency gain of MSEK 0.7 (2.2) arose during the year.

Profit after tax

Profit after tax for the year totalled MSEK 85.9 (76.3). Tax expense was MSEK 23.6 (22.3).

Earnings per share

Earnings per share for the year amounted to SEK 7.54 (6.69).

Cash flow and financial position

Investments

During the year, investments in intangible assets amounted to MSEK 8.4 (10.2), of which MSEK 3.5 (2.8) pertained to patents and MSEK 4.9 (7.4) to capitalised development costs. Investments in tangible assets increased to MSEK 26.7 (3.8) and primarily pertained to investments in the manufacturing unit in Redmond.

Change in cash and cash equivalents

During the year, cash and cash equivalents rose MSEK 7.7 (43.8) to MSEK 207.0 (199.3). This included a bank loan repayment of MSEK 119.0 (70.2), which was recognised in cash flow from financing activities. Cash flow from operating activities rose MSEK 46.1 year-on-year, of which MSEK 14.7 was attributable to the adoption of IFRS 16 for leases, and the remaining amount to a positive EBIT trend and improved working capital.

Employees

At the end of the period, Probi had 170 (167) employees, of whom 51% (47) were women. The average number of employees during the year was 164 (163).

Related-party transactions

During the year, Probi's expenses from its largest owner, Symrise, amounted to KSEK 154.4 (246.8) and revenues amounted to KSEK 124.1 (104.4). During the year, consulting costs of KSEK 44.9 (199.7) were paid to the then Board member Scott Bush, in addition to Board fees. 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 31 December 2019, there were no significant changes in these risks or uncertainties.

Parent Company

During the year, the Parent Company's operating income rose to MSEK 374.2 (302.8). Profit after tax totalled MSEK 101.3 (65.2). Investments in tangible and intangible assets amounted to MSEK 9.2 (10.8). Otherwise, please refer to the information for the Group.

Financial calendar

Interim report Q1, 2020	24 April 2020
2019 Annual General Meeting	13 May 2020
Interim report Q2, 2020	17 July 2020
Interim report Q3, 2020	21 October 2020
Year-end report, 2020	9 February 2021

Annual General Meeting

The Annual General Meeting for 2019 will be held in Lund on Wednesday, 13 May 2020 at 3:00 p.m. The venue will be announced later. Shareholders who wish to have a matter addressed at the AGM are requested to notify the Chairman of the Board by Friday, 6 March 2020. Such proposals should be e-mailed to bolagsstamma@probi.com or posted to: Probi AB, General Meeting, Ideongatan 1A, SE-223 70 Lund, Sweden.

Shareholders who wish to contact the Nomination Committee may do so by sending an e-mail to bolagsstamma@probi.com or by posting a letter to: Probi AB, Nomination Committee, Ideongatan 1A, SE-223 70 Lund, Sweden.

Proposed appropriation of profit

Based on an assessment of Probi's operations and strategic investment decisions in 2019, the Board of Directors and Chief Executive Officer propose to the 2020 Annual General Meeting that the company pay a total dividend of MSEK 11.6 (0) for 2019, corresponding to SEK 1.00 (0.00) per share.



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, 11 February 2020

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 report has not been audited.

Consolidated statement of comprehensive income

KSEK	Notes	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
Net sales	2	166,137	162,850	626,192	604,117
Cost of goods sold	3	-87,265	-87,107	-334,546	-326,087
Gross profit		78,872	75,743	291,646	278,030
Sales and marketing expenses		-24,565	-28,307	-105,113	-91,854
Research and development expenses		-8,048	-6,643	-31,046	-32,728
Administration expenses		-11,806	-11,283	-45,989	-54,700
Other operating income		33	1,063	2,044	2,368
Operating profit (EBIT)		34,486	30,573	111,542	101,116
Financial income		475	603	1,423	1,565
Financial expenses		-833	-711	-4,123	-6,275
Exchange result financing activities	4	-1,132	420	681	2,154
Financial result		-1,490	312	-2,019	-2,556
Earnings before income taxes		32,996	30,885	109,523	98,560
Income taxes		-7,155	-7,000	-23,636	-22,310
Net income		25,841	23,885	85,887	76,250
Other comprehensive income					
Components to be reclassified to net income					
Exchange rate differences resulting from the translation of foreign operations		-49,439	11,644	36,040	67,003
Cash flow hedge (currency hedges)		1,472	751	99	526
Income taxes payable on these components		-314	-165	-21	-116
Sum of other comprehensive income		-48,281	12,230	36,118	67,413
Total comprehensive income		-22,440	36,115	122,005	143,663
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		2.27	2.10	7.54	6.69

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	31 December 2019	31 December 2018
Capitalised Development Cost	42,775	44,294
Customer base	297,832	311,177
Technology and other intangible assets	131,317	138,424
Goodwill	316,202	304,561
Property, plant and equipment	107,320	29,162
Deferred tax assets	6,008	1,530
Non-current assets	901,454	829,148
Inventories	79,497	68,676
Trade receivables	83,341	106,188
Other assets and receivables	18,356	6,119
Cash and cash equivalents	206,960	199,299
Current assets	388,154	380,282
Total assets	1,289,608	1,209,430
Total equity	1,152,126	1,028,398
Other non-current liabilities	51,564	6,772
Non-current liabilities	51,564	6,772
Borrowings	–	118,481
Trade payables	37,631	31,459
Other current liabilities	48,287	24,320
Current liabilities	85,918	174,260
Total liabilities	137,482	181,032
Liabilities and equity	1,289,608	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	–	–	–	–	76,250	76,250
Other comprehensive income	–	–	67,003	410	–	67,413
Total Comprehensive Income	–	–	67,003	410	76,250	143,663
Dividends	–	–	–	–	–	–
Total transactions with shareholders	–	–	–	–	–	–
Closing balance, 31 December 2018	58,221	600,205	23,930	139	345,903	1,028,398
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	–	–	–	–	85,887	85,887
Other comprehensive income	–	–	36,039	78	–	36,117
Total Comprehensive Income	–	–	36,039	78	85,887	122,004
Closing balance, 31 December 2019	58,221	600,205	59,969	217	433,514	1,152,126

Consolidated statement of cash flows

KSEK	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
Net income	25,841	23,885	85,887	76,250
Adjustments to reconcile net income to cash from operating activities				
Income taxes	7,155	7,000	23,636	22,310
Interest result	171	21	2,082	4,473
Amortisation, depreciation and impairment of non-current assets	18,831	13,609	71,891	53,821
Other non-cash expenses and income	-966	-2,512	-162	2,995
Cash flow before working capital changes	51,032	42,003	183,334	159,849
Change in trade receivables and other current assets	-10,202	-14,210	11,744	-29,363
Change in inventories	-1,600	7,460	-8,359	6,095
Change in trade payables and other current liabilities	4,132	-5,613	3,229	11,290
Income taxes paid	-4,282	–	-16,337	-20,005
Cash flow from operating activities	39,080	29,640	173,611	127,866
Payments for investing in intangible assets	-1,708	-2,078	-8,418	-10,237
Payments for investing in property, plant and equipment	-7,889	-999	-26,731	-3,802
Divestments of tangible assets	6	–	32	–
Cash flow from investing activities	-9,591	-3,077	-35,117	-14,039
Interest paid	-548	-469	-2,986	-5,478
Interest received	475	603	1,423	1,565
Redemption of bank borrowings	0	-13,000	-119,000	-70,200
Repayments for lease obligations	-3,213	–	-12,451	–
Dividends paid	–	–	–	–
Cash flow from financing activities	-3,286	-12,866	-133,014	-74,113
Net change in cash and cash equivalents	26,203	13,697	5,480	39,714
Effects of changes in exchange rates	-4,861	2,678	2,181	4,038
Total changes	21,342	16,375	7,661	43,752
Cash and cash equivalents at opening balance	185,618	182,924	199,299	155,547
Cash and cash equivalents at closing balance	206,960	199,299	206,960	199,299

Condensed Parent Company financial statements

KSEK	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
Operating revenue	100,329	90,832	374,236	302,846
Operating costs	-35,601	-31,783	-122,760	-101,167
Gross profit	64,728	59,049	251,476	201,679
Operating profit (EBIT)	35,060	27,650	130,536	81,992
Result from financial income and expenses	-1,095	54	-850	2,139
Income before tax	33,965	27,704	129,686	84,131
Net income	26,536	21,403	101,318	65,172

KSEK	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
Net income	26,536	21,403	101,318	65,172
Cash flow hedge (currency hedges)	1,473	751	100	526
Income taxes payable on these components	-315	-165	-21	-116
Sum of other comprehensive income	1,158	586	79	410
Total comprehensive income	27,694	21,989	101,397	65,582

KSEK	31 December 2019	31 December 2018
Fixed assets	966,675	968,122
Current assets	195,967	205,806
Total assets	1,162,642	1,173,928
Equity	1,107,933	1,006,539
Total long-term liabilities	4,035	4,076
Current liabilities	50,674	163,313
Total equity and liabilities	1,162,642	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	Okt-Dec 2019	Jan-Dec 2019
Depreciation lease obligations	-3,638	-14,199
Lease expenses	3,763	14,691
Operating profit (EBIT)	125	492
Financial expenses	-548	-2,269
Income taxes	104	434
Impact on net income for the period	-319	-1,343
EBITDA	53,317	183,433
EBITDA margin, %	32.1%	29.3%
Adjustment IFRS 16 leasing	-3,763	-14,691
EBITDA excluding IFRS 16 leasing impact	49,554	168,742
EBITDA margin, % excluding IFRS 16 leasing impact	29.8%	26.9%

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 exception of IFRS 16 Leases and the exemptions and supplements stipulated 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-Dec 2019			Jan-Dec 2018		
	CHC	FF	Total	CHC	FF	Total
Revenue distribution, category						
Goods	578,758	5,162	583,920	561,763	3,918	565,681
Royalty, licences, etc.	4,961	37,311	42,272	5,034	33,402	38,436
Total net sales from contracts with customers	583,719	42,473	626,192	566,797	37,320	604,117
Revenue distribution, geographical markets						
Americas	456,073	12,840	468,913	437,426	6,889	444,315
EMEA	86,026	27,429	113,455	72,152	28,199	100,351
APAC	41,620	2,204	43,824	57,219	2,232	59,451
Total net sales from contracts with customers	583,719	42,473	626,192	566,797	37,320	604,117

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	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
Exchange gains operating activities	1,016	1,790	9,832	8,167
Exchange losses operating activities	-2,593	-1,394	-9,114	-5,362
Exchange result operating activities	-1,577	396	718	2,805

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	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
Exchange gains financing activities	29	1,051	2,767	17,411
Exchange losses financing activities	-1,161	-631	-2,086	-15,257
Exchange result financing activities	-1,132	420	681	2,154

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 as a measure of company's profitability.

KSEK	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
Net income	25,841	23,885	85,887	76,250
Income taxes	7,155	7,000	23,636	22,310
Financial result	1,490	-312	2,019	2,556
Operating profit (EBIT)	34,486	30,573	111,542	101,116

EBITDA

EBITDA is defined as operating profit (EBIT) before depreciation/amortisation and impairment and is used as a measure of the company's profitability.

KSEK	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
Operating profit (EBIT)	34,486	30,573	111,542	101,116
Depreciation and amortisation	18,831	13,609	71,891	53,821
EBITDA	53,317	44,182	183,433	154,937

Other alternative performance measures:	Definition/Bases of calculation	Purpose
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
EBITDA excluding effect from IFRS 16 Leases	Defined as EBITDA excluding effects from the implementation of IFRS 16 Leases	Used to compare EBITDA between periods
EBITDA margin	Defined as EBITDA divided by net sales	Used to measure the company's profitability before depreciation/amortisation and impairment of tangible and intangible assets
EBITDA margin excluding effect from IFRS 16 Leases	Defined as EBITDA excluding effects from the adoption of IFRS 16 Leases divided by net sales	Used to compare the EBITDA margin between periods
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 cost 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 the company's total expenses before financial result and tax
Operating margin	Defined as operating profit divided by net sales	Used to measure the company's profitability