

Two hands are shown from the left and right sides, with fingers spread, framing the central text. The background is a light blue color with a faint geometric pattern of overlapping triangles.

# THE PROBI WAY

2018 ANNUAL REPORT



# WHY YOU SHOULD INVEST IN PROBI

## 01.

A growing global probiotics market. Probi operates in a growing global market. The market is expected to grow by an average of 7% per year through 2023.

## 02.

Taking control of the future. Probi is working systematically to take full control of the driving forces for our customers and end markets, both today and tomorrow. We work methodically and meticulously to follow the trends that are driving demand for our products.

## 03.

World-class research and development. Based on our business intelligence, we conduct research and develop products that meet our customers' needs and requirements. We don't touch a test tube until we know there is a market for our product. That is how Probi has worked for decades and it forms the basis for a commercial research company.

## 04.

Products based on customer needs. End-consumers are becoming increasingly well-informed and discerning, and making their own specific demands. Probi's strategy is to develop and create healthcare products that target specific groups' needs.

## 05.

A complete probiotics group. A few years ago, Probi made a major acquisition in the US. We became a complete, integrated probiotics group with everything under one roof – research and development, formulation, production and sales.

# CONTENTS

2	Our vision is to contribute to a healthier life
3	Significant events in 2018
4	CEO statement
6	Business concept, strategy
8	The Probi Way
10	Listen
16	Develop
22	Market
30	Create
36	Engage
40	The share
43	Five-year summary
	<b>Financial statements under IFRS</b>
45	Directors' report
49	Corporate governance report
52	Financial statements
60	Notes
74	Signatures for the annual report
75	Auditor's Report
78	Board of Directors
80	Management
82	Definitions of key ratios
83	Annual General Meeting
83	Financial calendar for 2019



This is a translation of the Swedish version of the Annual Report. In case of discrepancies, the Swedish wording prevails.

This year's Annual Report is printed on Svanen labelled, climate compensated paper made from pulp from sustainable forestry.

# OUR VISION IS TO CONTRIBUTE TO A HEALTHIER LIFE

Probi AB is a Swedish publicly traded bioengineering company. Our vision is to be a world leader in probiotics and to help people live healthier lives. With world-class research and effective products, Probi is the natural choice for customers, employees and partners who want to share our passion for probiotics.

## Probiotics

For Probi, probiotics are certain types of bacterial strains with beneficial effects on health. Probiotics support the bacteria that are naturally found in the gastrointestinal tract. Taking probiotics is a well-established way to restore and keep gut flora balanced.

Different strains have different effects – one can reduce flatulence, while another curbs colds. Finding the right bacteria among millions of possible strains is a laborious task. Moreover, the bacteria must be able to survive the acidic gastric environment and be suitable for various products, such as food with a certain pH. Scientific documenta-

tion is required to communicate the health benefits of a product to consumers.

## One of the largest probiotic companies in the world

Probi was founded by researchers in Lund in 1991 and is now one of the largest probiotic companies in the world, with four units in the US, Sweden and Singapore. Probi has created a strong product portfolio, primarily in the digestive health and immune system areas. The operations were broadened a few years ago with the acquisition of US company Nutraceutix.

## Own fermentation and production

Probi has its own fermentation, formulation and production capacity in GMP-certified facilities. In Probi's two business segments – Consumer Healthcare and Functional Food – Probi develops, markets and sells probiotics in the form of powder, capsules, tablets and fruit drinks in partnership with leading food, healthcare and pharmaceutical companies.

## Probi's product portfolio

Today, Probi markets a broad portfolio of probiotic products:

**PROBI PREMIUM™** is a range of exclusive and patented health concepts based on well-documented probiotic strains.

**PROBI SELECT™** contains selected probiotic strains that are clinically documented for more general health claims targeted at broad target groups.

**PROBI LIVEBAC®** contains a wide range of probiotic strains for customised multistrain offerings.

**PROBI BIO-TRACT®** is a unique probiotic delivery system available for controlled release and protection of sensitive probiotic strains.

## Commercial research

Probi conducts extensive and structured research and development, and all projects are based on customer needs. In recent years, several studies have presented findings that are important for Probi's future development, in both the long and the short term. Probi holds about 400 patents worldwide.

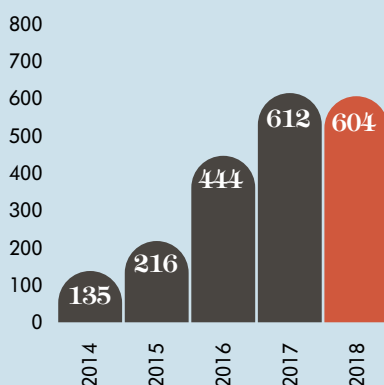
## More than 40 countries

Probi's products are marketed and sold, or currently being launched, in more than 40 countries, and the geographic spread is gradually increasing.

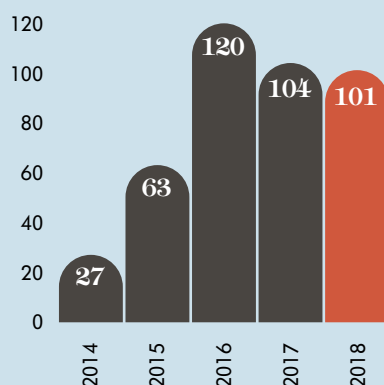
## 167 employees

At the end of 2018, Probi had 167 (168) employees.

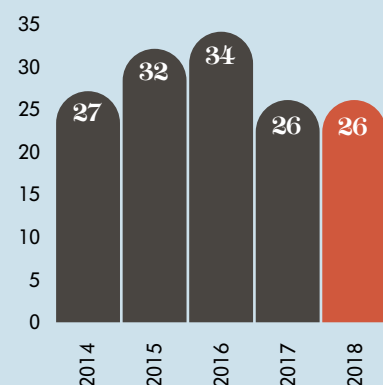
Net sales (MSEK)



Operating profit (MSEK)



EBITDA margin (%)



# SIGNIFICANT EVENTS IN 2018

**604**  
msek

Net sales totalled  
MSEK 604 (612).

**26**  
%

The EBITDA margin  
was 26% (26).

**101**  
msek

Operating profit totalled  
MSEK 101 (104).

**167**  
employees

At 31 December 2018, the number of  
employees in Probi was 167 (168).

## FIRST QUARTER

- Ole Sogaard Andersen was appointed Interim CEO
- One of Probi's major customers in North America began placing orders again following a destocking programme in the second half of 2017
- Long-term development agreement for an OTC probiotic product was signed with Cilag, part of the Johnson & Johnson family of companies
- A successful clinical trial presented positive results for the development of a new probiotics concept for osteoporosis prevention

## SECOND QUARTER

- Market launch of Probi® Osteo, the new premium concept in bone health and prevention of osteoporosis, at Probi's sixth annual partner conference
- Probi received a 2018 Nutralngredients Award for promising research findings on the prevention of celiac disease in children

## THIRD QUARTER

- Tom Rönnlund appointed new CEO and took office at the 1<sup>st</sup> of January, 2019
- Introduction of new customer-oriented organisational structure
- Early resettlement of bank loan totalling MSEK 57

## FOURTH QUARTER

- First commercial order after the introduction of Probi® Osteo
- Promising initial results for physical performance and acute stress in clinical studies with Probi's bacteria

# PROBI WELL POSITIONED FOR THE FUTURE

**H**aving the opportunity to further develop Probi is very inspiring. A global research-driven company with scientifically proven products and employees that are passionate about helping people towards a healthier life – these are all factors that are very important to me.

That is what I said during the autumn when I was offered the CEO position at Probi and it remains true now that I have had a chance since the New Year to learn more about the operations. Probi is well positioned with innovative and well-documented products in a growing global probiotics market. Our team of employees is growing and we are steadily expanding our geographic presence. This provides us with better potential than ever before to capitalise on global business opportunities.

## **Global health trends benefit Probi**

The global market for probiotics is expected to continue to show growth in the years ahead. Our ambition is to grow faster than the market. There is a strong and increasing interest in health and well-being throughout the world, which is not only driven by an aging population but also by a generally greater focus on health in all ages. These are global trends that benefit Probi.

Probiotics continue to be a highly interesting area from both a scientific and a commercial viewpoint. Intensive research in this field is being conducted worldwide and shows that many of the body's functions and

conditions can be linked to the microbiome. Well-established areas for probiotics, such as a strengthened immune response and gastrointestinal health, have been supplemented with exciting areas such as bone health and various mental conditions. The first products in these areas are now being launched in the market. Probi will continue to be positioned at the cutting edge of research and product development, with a focus on delivering innovative products to the market.

During 2018, we presented exciting data from clinical trials in new product areas, such as prevention of bone loss in post-menopausal women and celiac disease in children. We worked intensely to prepare the launch of the new product concept for bone health and, at the end of the year, we secured our first order for our commercial product, Probi® Osteo.

## **Initiatives in Asia with a focus on China**

Towards the end of 2018, we took initiatives in Asia to strengthen our presence and position in this region. The initiatives in Asia are being done with a focus on China, one of the world's largest growth markets for probiotics. At the same time, we have expanded our commercial organisation in the US, our largest market, and are now represented across the country.

## **Well positioned for the future**

In line with expectations, our total net sales in 2018 were slightly lower than in 2017. This was primarily due to remaining effects of a

customer-specific destocking programme in the US. At the same time, we saw a stronger finish to the year with favourable growth rates. In the fourth quarter of 2018, we grew by 36% year-on-year, giving us good momentum to enter into 2019.

Probi has one of the strongest product portfolios in the industry and new innovative products are being launched. We also have a solid financial position. Our sights are set on continuing to pursue profitable growth and to build an even larger global probiotics company through organic growth, strategic partnerships and acquisitions. We have the ambition, drive and ability to broaden our customer base over a number of geographic areas and to reach out with our products to even more health-aware consumers throughout the world. Together with our proven ability to deliver products that satisfy our customers' needs and to adapt to a changing market, these capabilities form the foundation for our work in 2019 and thereafter to be able to live up to our slogan: Probi – First in Probiotics.

Lund, March 2019

Tom Rönnlund  
Chief Executive Officer



# BUSINESS CONCEPT, STRATEGY

Probi operates in the global healthcare products market. The company offers probiotics of the highest quality to food, health and pharmaceutical companies.

## Vision

Probi's vision is to be a world leader in probiotics and to help people live healthier lives. With world-class research and effective products, Probi is the natural choice for customers, employees and partners who want to share our passion for probiotics.

## Mission

Probi contributes to the global development of probiotics through curiosity, passion and research. At Probi, we work with our partners as we focus on consumers' health.

## Business concept

Probi offers probiotics with proven health benefits to leading food and consumer healthcare companies. Probi's exclusive focus on probiotics offers flexibility, expertise and partnership all the way from R&D and marketing, to the production of finished products.

## Strategy

Probi's strategic focus is on probiotic-based products, for which Probi has world-leading, patented technology.

## Two business segments

Probi's business is organised in two business segments: Consumer Healthcare and Functional Food.

### Consumer Healthcare

Consumer Healthcare develops, manufactures and markets Probi's probiotics. Customers are pharmaceutical companies and other companies 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

The Functional Food segment develops food containing Probi's probiotics. Development takes place in partnership with leading food companies. Revenue in Functional Food mainly consists of royalties based on partner-generated sales.

## Probi's product portfolio

Today, Probi markets a broad portfolio of probiotic products:

- Probi Premium™ is a range of exclusive and patented health concepts based on well-documented probiotic strains.
- Probi Select™ contains selected probiotic strains that are clinically documented for more general health claims targeted at broad target groups.
- Probi LiveBac® contains a wide range of probiotic strains for customised multistrain offerings.

- Probi BIO-tract® is a unique probiotic delivery system available for controlled release and protection of sensitive probiotic strains.

## Financial objectives

Probi's overall objectives are to generate a return for its owners, and to generate funds for developing the business operations and creating growth. The Management Team manages and controls the company based on the guidelines and financial objectives adopted by the Board.

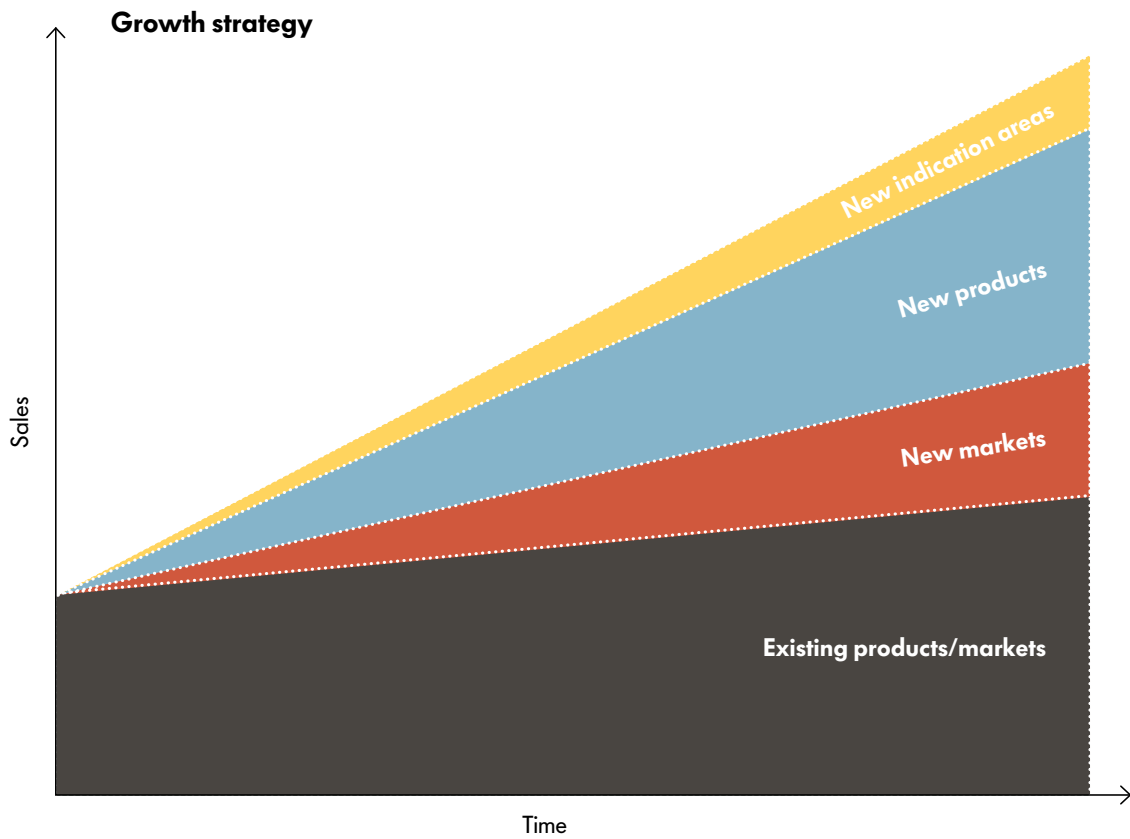
### Growth

To generate growth that outperforms the market. In 2018, Probi did not achieve its growth target. Net sales amounted to MSEK 604 (612). Adjusted for currency effects, net sales amounted to MSEK 599.

### Margin (EBITDA)

Growth is to be combined with a profit margin (EBITDA) exceeding 20%. Probi's EBITDA margin for 2018 was 26% (26). Adjusted for currency effects, the EBITDA margin for 2018 was 26% (26).





### Probi's growth strategy

Probi's growth encompasses four areas: existing products, new markets, new products and new indications. Growth may be achieved organically or through acquisitions in all of these areas.

#### Existing products in existing markets

Probi works every day to secure growth for existing products in existing markets. This will mainly be effected through broader distribution and expanded marketing and sales campaigns. Probi works closely with its key customers to provide the best possible support, and create opportunities for growth in existing markets.

#### New markets

Probi believes there is continued major potential for international growth. The strategy is to launch the company's wide range of products in new geographic markets. Probi sees opportunities for growth in all global markets, especially North America and Asia.

#### New products

Probi's research strategy is to develop additional product platforms. Several clinical development projects are ongoing, to both develop new platforms and strengthen existing ones. A key part of the strategy is to customise specific product concepts based on

Probi's broad and deep clinical expertise.

The strategy also includes developing new product applications based on existing platforms, which may include targeted products that combine probiotics with vitamins or minerals, for example.

#### New indications

Technical advances in microbiome research have increased opportunities to demonstrate the efficacy of probiotics in new indications. Probi partners with several leading microbiome research teams with the aim of commercialising new platforms in promising new indications in the future.

# THE PROBI WAY

Probi is a complete, integrated probiotics group with operations throughout most of the world. We have been building a structured method for running our business for several decades – The Probi Way. The basis is to continuously monitor and listen to the trends that are driving demand for our products. Based on these trends, and in dialogue and partnership with our customers, we conduct research to identify, develop and document the best products for meeting these trends. When we have found them, we work to tell the market about our products, which we then manufacture and distribute effectively.



01.  
LISTEN

02.  
DEVELOP

03.  
MARKET

04.  
CREATE

05.  
ENGAGE

# 01.

## LISTEN



Probi predicts continued strong demand for probiotics. Probi was a pioneer in the field and has always been at the forefront of developments. Initially, the market was relatively small, but has gradually grown larger and wider. The total underlying market continues to grow year by year.

To acquire a deeper understanding of market trends, it is important to follow developments as continuously and closely as possible, in order to stay one step ahead of these developments and our competitors.

That is why Probi attends trade fairs and conferences, not only as an exhibitor, but also as a participant and observer. We subscribe to trend reports and continuously make or commission customised business intelligence reports for specific geographic regions or health areas. Another important part of our business intelligence is the Partner Conference we arrange every year together with a long list of partners, customers, suppliers and opinion leaders from all over the world.



# GLOBAL TRENDS DRIVING THE PROBIOTICS MARKET

Growth in the probiotics market is driven by a combination of global consumer-related trends and increasingly intensive research into the relationship between human health and gut flora.

## Consumer trends

The strong general and global interest in health, fitness and well-being among consumers continues, and is driving demand for products with health benefits, such as probiotics.

The middle class is growing in many parts of the world, especially Asia. Demand for products with health benefits is boosted by the subsequent growth in purchasing power. A growing elderly population in many countries is leading to higher costs for healthcare and drugs, which is increasing demand for self-care products. As people age, their microbiota (gut flora) changes, which may have adverse health effects for many people. Products containing probiotics have demonstrated positive effects on these changes.

A sharp increase in world population and rapid urbanization are driving the growth of industrial food and beverage production. At the same time, more and more consumers are actively seeking information about food and preventive self-care on the Internet and social media sites. Consumers are therefore becoming increasingly aware of the food they eat, and whether it has been sustainably and ethically produced. Demand for products that are healthy and nutritious, as well as safe and sustainable, is increasing. The plant-based food trend represents a fundamental shift in how people view their food. A growing share of mainly young consumers are rejecting dairy products and meat for environmental, health or ethical

reasons. This is increasing demand for traditional dairy product alternatives based on, for example, oats, soy or almonds. These kinds of food products combine well with probiotics to further increase the health benefits.

## Scientific advances are broadening the market

Increasingly intensive research in recent years indicates a strong relationship between gut flora and our health. Research into gut flora and probiotics has increased as new technology has made it possible to analyse the human microbiome. Research findings also show the potential health benefits of probiotics for metabolic and mental conditions, alongside the more established areas of digestive health and immune function. Because of these results, the development of probiotics for new indications is growing, and is also expected to promote continued market growth in the long term as the market becomes larger and wider.

New research findings indicate that the one-to-two kilograms of bacteria carried by every human in their gut flora should be considered a separate organ. Research shows a clear link between gut flora and a range of health problems – from allergies to metabolic conditions such as cardiovascular diseases. Gut flora has been one of the hottest fields of research in life sciences for several years. Of all studies ever published on this topic, more than half were presented between 2015 and 2017. The area also receives a great deal of mass-media coverage, which has led to a growing interest in probiotics among both customers and consumers.

## Continued strong growth for the global probiotics market

According to Euromonitor, the global market for probiotics sold to consumers is expected to grow by an average of 7% per year through 2023. In 2018, global sales of probiotic

products at the consumer level amounted to just over USD 41 billion, and the market is expected to reach USD 58 billion by 2023. According to Euromonitor, functional food products account for just under 90% of global probiotic sales, while consumer healthcare products represent the remaining market share.

## Market players

The probiotics market is fragmented with many different types of partnerships and business relationships between various market players. In recent years, the market has begun to consolidate as several ingredient and pharmaceutical companies have acquired probiotic companies. This also suggests a growing interest in the development of probiotic products among related industries.

A wide range of players are active in the market, from R&D companies to manufacturers, sales companies and brand owners. Integrated players are also active across the entire B2B supply chain.

The market leaders include Chr. Hansen, DuPont/Danisco and Lallemand. Unlike these companies, Probi is fully focused on probiotics. Chr. Hansen and DuPont/Danisco have a well-developed sales and distribution network and large-scale production. Most of the other players are geographically focused on a certain regional market.

” *The strong general and global interest in health, fitness and well-being among consumers continues, and is driving demand for products with health benefits, such as probiotics.*





# FOCUS ON THE MICROBIOME AND PROBIOTICS FOR FUTURE HEALTH

Peter Wennström, founder and lead consultant of the Healthy Marketing Team (HTM), sees six overall trends that will fundamentally re-shape the future role of food. He believes that these trends are central for companies working with any kind of food – and that the drivers will remain highly favourable for probiotics.

In Probi's 2015 Annual Report, Peter Wennström was interviewed about his view of the

general forces driving probiotics. Already then, he spoke about a paradigm shift and said that "if anybody asked me about the three foods that will be the next trend, I would say probiotics, probiotics and probiotics."

"The favourable conditions for probiotic products have continued, and in many ways they are gathering momentum," says Peter today.

His views are based on the six Global Game Changers that his company (Healthy Marketing Team) has identified:

- Food for health and well-being (active nutrition)
- People are getting more, older and wealthier (lifestage nutrition)
- Resources are getting scarce (sustainable nutrition)
- Production with natural and transparent processes (natural nutrition)
- Science for a smarter future (targeted nutrition)
- Technology empowering consumers (i-nutrition)

"The view that what we eat should be both important and positive for our health is growing fast among consumers," says Peter. "Food is the most important building block of our body, and if we work with strong building blocks, we will promote good health."





### Focus on the microbiome

“It all starts and takes place in the stomach – everything we eat affects our bacterial flora. As consumers begin to understand the role of food, the focus is shifting to the stomach and what happens there – in the microbiome.\* Many books have been written about Food Pharmacy, and when you understand what it’s all about, you can never go back to eating like you did before.”

According to Peter, this view is spreading rapidly across major parts of the world, especially amongst the younger generations. The body should be kept clean and only filled with the best.

“Imbalance in the body’s microbiome has been linked to a range of health conditions,” said Peter in Probi’s 2015 Annual Report, “and research shows that changing the microbiome with the right sort of food can lead to better health. And not just the stomach – the microbiome is also linked to several other parts of the body, from bone health to obesity.”

“This means that the microbiome and probiotics will be the focus for well-being as we move forward. In recent years, research has clearly demonstrated the role the food plays, and we now understand more about what creates health.”

Another key trend for probiotics is ‘natural production.’ There is a need for foods that are processed naturally, and fermentation is

a healthy, centuries-old method for preserving food. New fermented products are constantly popping up, alongside a traditionally positive view of fermented products and the bacteria they contain. One such product is Kombucha (fermented tea).

Consumers are beginning to understand that there are beneficial bacteria (targeted nutrition). The reason why there are so many allergies today, for example, is that many children are not exposed to bacteria – their immune systems do not have a chance to develop resistance. One way to build up the immune system is to start introducing bacteria and substances in an orderly fashion from a very early age. A baby born by Caesarean delivery is not exposed to the same micro-organisms as a vaginally born baby. It may be possible in the future to isolate these bacteria and give them to the child afterwards. The role of probiotics in different stages of life is gradually being discovered.

Research and science are continuously providing new knowledge about how food can improve health. Research shows that probiotics may have a positive impact on, for example, diabetes, heart health, bone health and IBS (irritable bowel syndrome, visceral hypersensitivity). Major pharmaceutical companies have also become interested in probiotics in recent years.

“To summarise, the major trend is that the focus on food and health is increasingly

moving towards the gut microbiome,” says Peter. “Many people are fascinated by the fact that they can change their own microbiome in order to achieve well-being and live longer. Just like four-five years ago – and even more accentuated today – the focus moving forward will also be probiotics, prebiotics and probiotics, with the disclaimer that prebiotics\*\* may also be needed.

\* Microbiome = all species of microorganisms inhabiting a particular biological environment, such as the gut

\*\* Prebiotics = substances, such as dietary fibre, that stimulate the growth or activity of beneficial bacteria. (according to the Swedish National Food Agency’s report “Risk-benefit profile: Interactions between food and gut flora – a comprehensive summary of current knowledge” (Swe: Risk- och nyttoprofil interaktioner mellan maten och tarmfloran – en övergripande sammanställning av kunskapsläget) 2018).



Peter Wennström

# 02.

## DEVELOP

The trends that Probi sees are reflected in the research and development that we are pursuing to deliver new products. We don't touch a test tube until we know there is a market for our new product.

The link between new indications and clinical studies is pivotal to Probi's business model and continuously being strengthened. The aim of Probi's research and development strategy is to identify the specific needs and key segments of various markets.

As markets grow, both geographically and in various fields of health, it becomes increasingly important for Probi to make strategic choices regarding future research investments. In 2019, this will be further highlighted by updating the R&D strategy.





# RESEARCH AND DEVELOPMENT

In 2018, Probi was mainly focused on women's and children's health. Activities in these areas included studies in osteoporosis, iron absorption and celiac disease. The research and development focus is also being broadened to include the Asian market and the R&D strategy will be updated with a focus on the specific needs of each market.

## Strategic choices

The link between new indications and clinical studies is pivotal to Probi's business model and continuously being strengthened. The aim of Probi's research and development strategy, which will be updated in 2019, is to identify and target the specific needs and key segments of various markets.

In line with Probi's overall business strategy and expanded sales organisation in Asia, the R&D focus is also being broadened to include the Asian market. In many Asian countries, particularly China, parents are heavily invested in the health of their child. Probi sees major potential in this development, particularly in the traditional areas for probiotic products such as digestive health and immune function. In Asian and other markets, there is major potential in non-traditional areas: metabolic conditions (such as obesity, diabetes and cardiovascular diseases), allergies and health problems related to stress and depression. As markets grow, both geographically and in various fields of health, it becomes increasingly important for Probi to make strategic choices

regarding future research investments. This also means that studies mainly carried out in Europe to date, may also be conducted in Asia and other markets moving forward. By focusing on specific populations, Probi can ensure that market-related needs are captured.

## Women's health

Women are one of the most important target groups in all markets, because women are interested in their own health, as well as that of their family. In many Asian countries, in particular, a family's health is generally a matter for women.

Osteoporosis is a serious health problem, and one in two women over 50 will suffer an osteoporosis-related fracture at some time. The corresponding figure for men is 20%. In women, the degradation of bone mineral density accelerates sharply during menopause – an invisible but widespread problem for a large population. As well as causing suffering and pain, fractures also impose major costs on society. The need for preventive measures is therefore huge.

In 2018, Probi concluded a clinical trial in 250 women and presented its new premium probiotic concept, Probi® Osteo, for the prevention of bone loss and osteoporosis. The new product contains a unique and patented combination of three strains and will be one of the first probiotic products in this segment. It is based on completely new clinical research showing that age-related osteoporosis can be significantly reduced with Probi's probiotic supplements. The findings in bone health are ground-breaking, and all markets are showing a major interest. Probi® Osteo will initially be sold as a dietary supplement, but may also be considered for inclusion in food products. At the end of 2018, the first product based on Probi® Osteo was ordered in North America.

Probi FerroSorb®, Probi's product for

increased iron uptake was launched in 2016. Documentation of the product from several studies shows that a combination of LP299V® and iron can increase iron uptake in women of child-bearing age. In 2018, a trial was carried out to study whether probiotics can prevent the development of iron deficiency during pregnancy. The trial was conducted in collaboration with maternity care centres and midwives in southern Sweden, and the results will be analysed in 2019. In addition to pregnant women being a large and important target group, a potential future product could also be an introduction to probiotics that become a natural part of the mother's and her future child's life.

## Children's health

In 2017, Probi presented successful findings from a trial conducted jointly with researchers at Lund University in children with a genetic susceptibility to celiac disease, and with activation of the immune response which is an early warning sign of the disease. The findings showed that Probi's probiotics could delay the onset of celiac disease in these children. Since there is no treatment for celiac disease except for a gluten-free diet, these findings are highly significant for the target group. The trial and its results were presented at the VitaFoods Europe conference in May, where the project received the 2018 Nutraingredients Award in the Nutrition Research Project category.

A continuation trial has commenced, also in partnership with Lund University. The aim of the trial is to study the effects of a normal diet combined with daily consumption of probiotic supplements or a placebo on the progression of celiac disease, compared with a gluten-free diet during the first three years of life. The trial includes children with a genetically higher risk and the long treatment duration combined with a two-year follow-up

” In 2017, Probi presented successful findings from a trial conducted jointly with researchers at Lund University in children with a genetic susceptibility to celiac disease, and with activation of the immune response which is an early warning sign of the disease.



period will make it possible to study the long-term effects.

Probi is also participating in a new multi-centre clinical trial taking place in the US. The purpose is to determine whether a combination of two of Probi's bacterial strains can prevent rejection in children and adolescents undergoing transplants with donated stem cells.

Both these trials have a long duration and the results are not expected until 2023 at the earliest.

### Active life

There is a major interest in fitness, particularly in European and US markets. The awareness of how digestive health and immune function affect physical performance is also growing. During the year, Probi's concluded its first sports-related trial in partnership with a commercial partner and researcher at Umeå University in Sweden.

Probi also conducted its first trial of probiotics on the gut-brain axis – the relationship between the gastrointestinal tract and the brain – in another lifestyle-related area. The trial was conducted in collaboration with researchers at Lund University in Sweden, and focused on demonstrating the effects of Probi's probiotics on acute stress.

Both trials were randomised, double-blind and placebo-controlled, and produced promising initial results that can be used to support further trials in these areas.

### Digestive health and immune function

Probi aims to maintain its position and continue growing in the company's traditional areas of digestive health and immune function. New indications are continuously evaluated, as well as the need for targeted pro-

ducts. The analysis of results from several completed trials in these areas has provided insights into the mechanisms of action of the bacterial strains that were studied, which supports opportunities to expand product lines in these areas.

### Long-term academic partnerships

Due to the varying health benefits of each bacterial strain, Probi works continuously to identify new and unique strains, and to build up and broaden its strain library. An important part of this process is the long-term research collaboration with Dr Karen Scott from the Rowett Institute at the University of Aberdeen, Scotland, which aims to isolate and characterise novel bacterial strains. These are eventually expected to be commercialised in completely new probiotic products. In 2018, the project achieved its second milestone when a number of strains were selected for further characterisation and trials.

Another important and long-term project is the collaboration with Professor Michiel Kleerebezem from Wageningen University in the Netherlands. In this project, about one hundred strains from Probi's library have been tested against various types of prebiotics. By determining the prebiotics that match the strains best, Probi can formulate new products in which the prebiotic supports the growth and effect of probiotic bacteria.

Probi and Diana (part of the Symrise Group) have launched a joint research programme with Université Laval (INAF) and the Natural Sciences and Engineering Research Council of Canada (NSERC). The aim of this five-year programme is to develop polypeptide and probiotic bacteria blends that can modulate the gut flora and contribute to

positive effects on intestinal tissue.

In order to commercialise strain libraries in OTC products for the self-care segment, Probi signed a long-term development agreement during the year with Cilag GmbH International, part of the Johnson & Johnson family of companies. The parties will conduct a joint development programme and clinically document a new probiotics concept with the aim of launching an OTC product into the global market. The project is financed by Cilag, while Probi provides the probiotics expertise.

### Patents

Patents are an important part of Probi's business model because they protect scientific discoveries and enable the company to develop unique customer offerings. Probi's current patent portfolio contains 30 different patent families with a total of 393 granted patents and 97 patent applications for probiotic strains, their use and delivery technologies. Patents provides various types of protection and the most recent patents will remain valid until 2038. A total 260 of the granted patents and 31 of the patent applications pertain to the use and application of Probi's most important commercial strain, *Lactobacillus plantarum* DSM 9843 (Registered EU trademarks LACTOBACILLUS PLANTARUM 299v®, LP299V® and 299v®). Geographically, the patents cover key markets including the US, Canada, Europe, Japan, China, South Korea, India, Russia, Brazil, Mexico and South Africa.

### About Probi's commercial research

- Probiotics are bacterial strains with beneficial effects on health.
- Different strains provide different health benefits – one strain may reduce digestive problems like flatulence, another can prevent colds.
- Taking probiotics is a well-established way to restore and keep gut flora balanced. Probiotics support the bacteria that are naturally found in the gastrointestinal tract and prevent colonisation by bacterial pathogens.

- Strains that provide health benefits must be isolated from millions of possible bacterial strains. In order to be commercialised, the strains must be able to survive industrial manufacturing processes and transit through the acidic gastric environment. It must also be possible to handle them in attractive and relevant product formats.
- All clinical trials performed by Probi are randomised (the subjects are randomly assigned to two or more groups), placebo-controlled (half of the subjects receive an inactive product)

and double-blind (neither the subjects nor researchers know which subjects are receiving the active product or the control product).

- Scientific documentation is essential for being able to communicate the health benefits of a product to consumers.



# 03.

## MARKET

Probi has successively built up an efficient and strong sales organisation in the company's core markets. An organisation that continuously evolves to suit market needs and in 2018, expanded its sales teams in both North America and Asia.

Probi's biggest market is North America. Probi further strengthened its position in this region by acquiring the US company Nutraceutix in 2016. The North American market is characterised by a high rate of innovation and demand for new product offerings. During the year, many products with Probi's probiotics were launched.

In 2018, Probi accelerated its pace of business development in Asia, which is expected to show upward growth in the coming years. This led to sharp sales growth due to product launches by both new and existing customers.

In Europe, the domestic Swedish market accounts for the highest share of sales. The European market has been growing slowly for several years, due to stricter regulations on the use of nutrition and health claims. In 2018, Probi intensified its efforts in Europe based on new ways of working, which has led to several new agreements and launches.









# STRATEGIC FOCUS ON GEOGRAPHIC EXPANSION

In 2018, Probi evolved into a company with a global organizational structure, continued geographic expansion and a clearer focus on key markets. Probi's strategic focus on the growing Asian market has yielded results in both Consumer Healthcare and Functional Food.

## Consumer Healthcare

### North America

North America has been Probi's biggest market in recent years. Probiotics continue to represent a dynamic category and the ability to meet demand in the North American market requires a wide range of products like

Probi's, with both premium products and more generic formulations.

Customers in the North American market are requesting increasingly innovative products in order to extend their offering beyond digestive health, which continues to dominate. One area that is showing strong growth is probiotic products for women's and children's health. Probi therefore attracted a great deal of attention when Probi® Osteo was presented at the Supplyside West trade show in Las Vegas last November. Probi® Osteo is Probi's product for the prevention of osteoporosis, which is a major health problem in women in particular.

There is also a continued strong consumer trend for innovative and better documented solutions that is gaining market share and gradually replacing the former focus on products with multiple bacterial strains and a high proportion of bacteria. The Probi Select™ line is attracting more and more

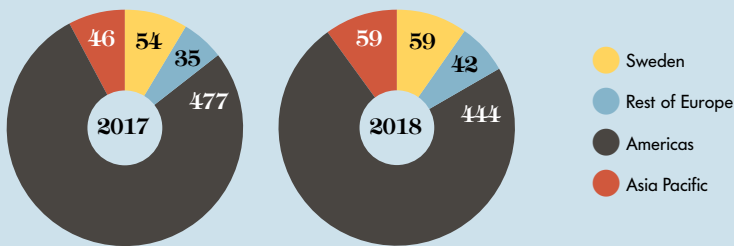
attention from customers. The number of product launches containing these strains, both bulk and consumer products, rose during the year. Probi Select™ was introduced in 2017 and contains three of Probi's probiotic platforms for digestive health and immune function, which are supported by clinical documentation.

During the year, many new Probi products were launched in various sales channels. Probi's sales via e-commerce distributors also rose sharply. A large number of the launches in the North American market were based on Probi Premium™ and Probi Select™. Probi also received its first order for the launch of Probi® Osteo in the US. Probi® Osteo is Probi's product concept for bone health.

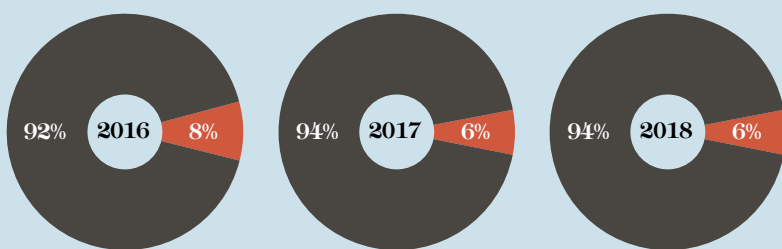
The multi-level marketing (MLM) customer segment is showing a favourable trend as new distributors are added and existing distributors expand their geographic reach. The market for private-label products is also growing.



Geographic distribution of Group Net Sales (MSEK)



Share of Group net sales (MSEK and %)



	2016	2017	2018
● Functional Food	35	34	37
● Consumer Healthcare	409	578	567
	<b>444</b>	<b>612</b>	<b>604</b>

Demand in this area is mainly confined to products with more generic formulations with no requirements on comprehensive scientific documentation. Probi's response to this demand is Probi LiveBac®, which contains a long list of probiotic strains for customised multi-strain offerings.

To capitalise on opportunities in the growing North American market, Probi expanded its sales organisation during the year. Probi is now represented across the country, creating conditions for increased sales through various channels.

#### Europe

During the year, Probi intensified its business development initiatives in Europe, partly by introducing new working methods. The action taken to improve performance and diversify the customer portfolio has delivered results. A number of Probi's existing partnerships developed favourably during the year with sales growth in several countries, including Sweden, Poland and Germany. Several new agreements were negotiated, including distribution collaborations in major strategic markets such as Italy and Germany. The latter relates to the distribution of Probi Select™ and Probi LiveBac® to brand owners in various European markets. In Turkey, Probi signed an agreement with one of the country's leading pharmaceutical companies regarding the launch of Probi's products for

digestive health and immune function.

Probi also entered into partnership with a UK-based e-commerce company, which launched two of Probi's probiotic supplements containing the patented BIO-tract® delivery system. BIO-tract® is Probi's unique and patented delivery technology for probiotics, which ensures that even the most sensitive probiotic strains reach the intestinal tracts.

In 2016, Probi signed an agreement regarding sales of Probi's digestive health product in a large number of European markets. Launches in some of these markets have been delayed. Probi works closely with the customer to improve the value of marketing, increase the launch rate and achieve more efficient market competition.

#### Asia

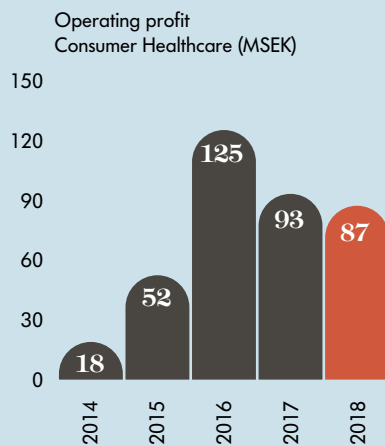
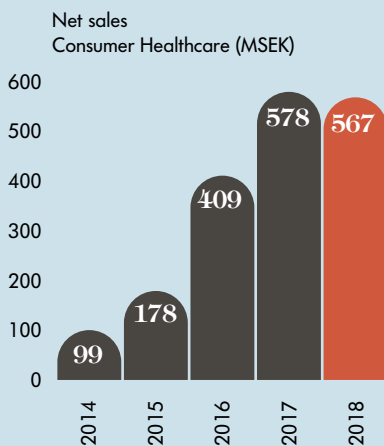
In 2018, a strategic focus for Probi was to strengthen the company's growth potential in the fast-growing Asian market. To increase Probi's market share and presence throughout the region, the company added more employees to its sales organisation and now has its own sales teams in China as well as Singapore. New product formats were also introduced to meet local consumer preferences. Probi® Fast Melt, a powder stick pack (single-serve) that melts in the mouth, has proved very popular with Asian customers.

Probi showed a positive trend throughout the region during the year. Growth was

mainly attributable to both new and existing customers launching Probi's products in Australia. Some of these customers are also active in the fast-growing cross-border e-commerce into China, which contributed to the sales growth. At the beginning of the year, one of Probi's new customers in Australia, whose business mainly comprises exports of probiotic products to China, was acquired by one of the largest dietary supplement companies in China.

At the end of 2018, two products based on Probi Defendum® and Probi Select™ were launched in China under a new Scandinavian brand. Probi is a strategic partner and scientific adviser to this Chinese company. This collaboration is one example of the growing number of major Chinese companies that are establishing subsidiaries in Europe with the aim of identifying European trends, technologies, ingredients and partners with commercial potential for the Chinese and other Asian markets.

In 2019, Probi will intensify its focus on the Asian market by developing ongoing initiatives and evaluating new markets and sales channels.



#### Consumer Healthcare business segment

Consumer Healthcare develops, manufactures and markets Probi's probiotics. Customers are pharmaceutical companies and other companies 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.



**PROBI-MAGE**  
Med levande bakteriekulturer

Lactobacillus plantarum 289c  
Fruktosid och laktosid (sukkersötad)  
KOSTTILLEGGET  
VI VEGETABILISKA KAPSELN  
Litteral vegetabilisk kapsel

**PROBI-MAGE**  
Lactobacillus plantarum 289c  
Fruktosid och laktosid (sukkersötad)  
KOSTTILLEGGET  
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Litteral vegetabilisk kapsel



**Functional Food**

In Functional Food, the demand for product categories other than fruit drinks is increasing. The popularity of plant-based foods, such as oat and soy-based products, increased in several markets, including Asia. Probi undertakes continuous development activities in response to this growing demand for innovative food products.

In 2018, net sales in Functional Food amounted to MSEK 37 (34). Growth was driven by increased business activity in Asia, where new customers launched products containing Probi's probiotics. In addition, royalty revenue from sales of ProViva in Sweden increased. In recent years, ProViva has launched a variety of flavours with no added

sugar. Projects focused on innovation and new launches in collaboration with Danone are expected to continue over the coming years.

Asia is a prioritised market also for Functional Food. During the year, business development activities led to a broader distribution network in Asia with distributors in Australia, China, South Korea, Vietnam and Taiwan serving as extended arms by increasing awareness of Probi's products in their own respective markets. In Asia, potential customers usually prefer to negotiate and conclude agreements with local operators.

Probi has noticed a growing interest from customers in several markets in new probiotic beverages in product categories other than

fruit drinks. In selected parts of the UK, a food company conducted a test launch of a yoghurt containing Probi's probiotics. A South Korean food company's launch of a flavoured yoghurt containing Probi's premium strain LP299V® in 2017 had a positive impact on sales during the year. In South Korea, the same customer launched a new stick pack product based on the same strain.

In 2018, efforts to increase the number of food applications continued, in order to broaden Probi's offering. An application consists of a bacterial strain grown specifically to function in a particular type of food. All foods require their own unique application formulations.

Ensuring the survival of probiotics in food-based products is a complex process and may require a long period of development for each type of food. All of Probi's bacterial strains respond differently to the compositions of different foods. The bacteria must also be able to survive industrial manufacturing processes and the entire cold chain from manufacturer to consumer.

*Food applications offered by Probi include:*

**Fruit drink.** Probi's fruit drink concept has been available on the Scandinavian market for many years, and in the US since 2007. ProViva is one example.

**Juice.** In 2009, Probi developed the world's first fruit juice that combined 100% juice with probiotics, with no loss of flavour or shelf life.

**Shot.** A fruit or vegetable-based drink with a higher concentration of bacteria than fruit drinks and juices.

**Sparkling drink.** The market for sparkling low-calorie drinks is continuing to grow.

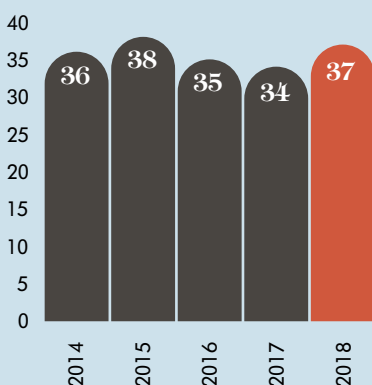
**Sports drink.** Drinks containing Probi's probiotic strains and carefully selected vitamins, minerals, proteins and carbohydrates suit consumers with an active lifestyle as well as athletes.

**Milk, yoghurt and cheese.** A large number of Probi's strains can be used in various dairy products without affecting quality or flavour.

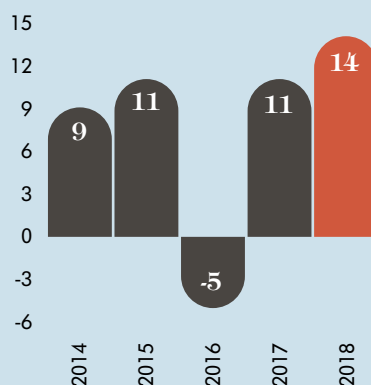
**Vegetable-based milk or yoghurt.** Demand for oat, soy or almond-based products is steadily growing.

**Frozen desserts and ice cream.** Probi launched the world's first ice cream with probiotics as far back as 1999.

Net sales  
Functional Food (MSEK)



Operating profit  
Functional Food (MSEK)



**Functional Food business segment**

*The Functional Food segment develops food containing Probi's probiotics. Development takes place in partnership with leading food companies. Revenue in Functional Food mainly consists of royalties based on partner-generated sales.*



# 04.

## CREATE



In 2016, Probi acquired the US company Nutraceutix and became a complete, integrated probiotics group. All stages of the value chain are now housed under one roof, from research and development to sales.

We have created the freedom to choose either own production of our probiotics, or to source from partners. It is important to continuously ensure that we own the process, while simultaneously creating the best-possible production economy.

The product and application function is responsible for product formulation. Different formulation technologies are used for different types of products and applications, such as drinks, tablets and capsules.

Probiotics production includes fermentation, formulation and packaging. Probi's own fermentation and processing of bacterial cultures is carried out in Redmond, Washington, in the US. In Lafayette, Colorado, capsules and tablets are produced and packaged for distribution to consumers.





# CONTINUED TREND TOWARDS A GLOBAL ORGANISATION

In 2018, efforts to further develop Probi into a complete, global probiotics group continued. In Operations, efforts have gradually shifted from completing the integration of Sweden and the US to creating a function-focused organisation, meaning to think and act globally. In 2018, the management of Operations was centralised and integrated into one global function with overall responsibility.

Operations is responsible for purchasing, supply, production, product and application development, quality and the management of regulatory affairs. Probi possesses a high degree of knowledge in clinical data and clinical trials, and in-depth knowledge of probiotics. There is also an overall general capacity for further development of the company's products with a strong market position.

In 2018, several projects were successfully completed in quality control and to improve productivity in the manufacturing. Another key area for Operations is to harmonise and standardise the products to enable sales in both of Probi's business segments – Consumer Healthcare and Functional Food.

The gradual increase in focus and sales in Asia has led to special demands on new logistics solutions and product documentation since several Asian countries have a specific, and somewhat stricter, regulatory framework. During the first six months of the year, a new collaboration also commenced with a new external partner for the packaging of consumer products, which temporarily

placed specific demands on the Operations organisation. The collaboration was quickly adjusted and ran smoothly for the rest of the year.

### More focus on own production

Due to the continued rapid growth of the probiotics market, Probi is able and willing to increase its focus on in-house production. In its production facilities in the US, Probi worked with knowledge transfer between the various units during the year to develop and optimise their processes. Operations focuses on delivering the right product at the right time to the right customer at the right price. Finding the right balance between own production and partnerships with contract supp-

liers is key. The decision is based on a range of factors, including volume, availability, demand, price and geography.

### Focus on creating one organisation

While every geographic market has different needs and preferences, there is one fundamental factor – the need for high-quality probiotics. There are high levels of competence in many parts of Probi. In 2019, the focus will be to create one organisation for Operations with one shared focus. The overall objective is that Operations will base its work on a functional perspective, with the aim of improving Probi's overall competitiveness and supporting accelerated introduction of innovative probiotic products to the market.

## Operations' duties









# 05.

# ENGAGE

The key to successful implementation of The Probi Way is committed and dedicated employees who work systematically and strategically. Here at Probi, we are proud of our employees, who always base their work on the company's five core values:

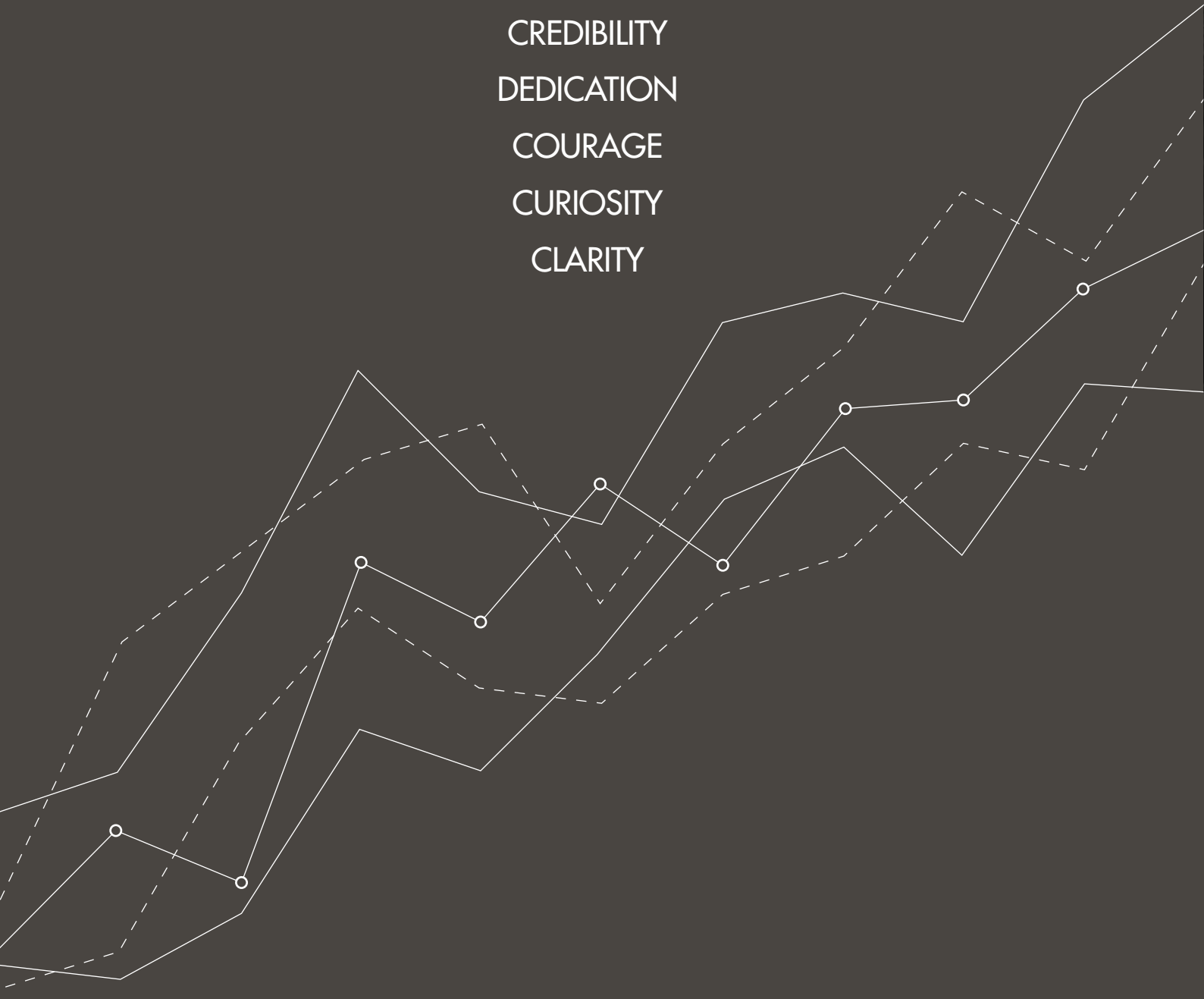
CREDIBILITY

DEDICATION

COURAGE

CURIOSITY

CLARITY





# ONE GLOBAL PROBI

To meet the changing demands of a rapidly growing market, Probi launched a new organisation in 2018 with a stronger customer focus. A Code of Conduct was introduced to provide guidance for employees in social and environmental issues.

The competition for qualified employees is increasing, which means that Probi must continue to be an attractive employer. Efforts to maintain and develop the company's entrepreneurial spirit and high level of employee commitment has remained a priority. The fundamental values expressed in Probi's core values shape the company's culture and per-

meate the daily operations. "Clarity" was a particularly important core value when preparing for the reorganisation.

### Increased global coordination

The aim of the reorganization carried out during the year is to create a global, integrated and more customer-focused Probi. This will create conditions for increased growth, and shorter lead times for new product introductions. By creating two new global functions with one shared focus – Operations and Marketing – coordination between these areas will be optimised and the delegation of responsibilities clearer. Both functions are managed from the US, where Probi conducts most of its sales and most employees are based.

In the US, the sales organisation has been expanded with sales teams based in strategically selected regions of the country, close to

key customers. As part of Probi's continuing expansion in the important Asian market, Probi has increased the commercial resources in Singapore and China.

### Code of Conduct

As the number of employees grows, so does the need to establish fundamental principles for the entire organisation. Therefore, in autumn 2018, an internal Code of Conduct was introduced. The Code of Conduct provides guidelines for employees regarding Probi's position on business ethics, human rights, discrimination on the grounds of nationality, gender and religion, the environment, corruption and the processing of personal data. All managers in the organisation are responsible for ensuring that employees have read, and act in accordance with, the contents of the Code of Conduct.

### Probi's core values

**Credibility** – We deliver on our promises and our products do what we say.

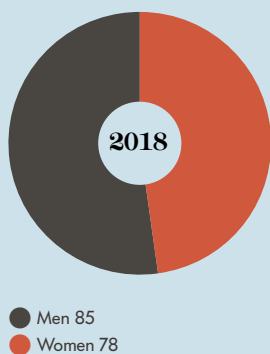
**Dedication** – We never look for the easiest route but always take one step extra to make sure we succeed.

**Courage** – We dare to try new routes by challenging ourselves and established ways of thinking.

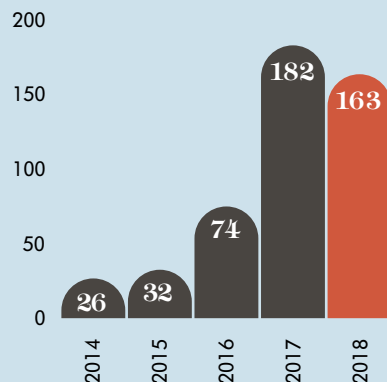
**Curiosity** – We always want to learn more about our customers' needs so that we can jointly develop new business solutions.

**Clarity** – We explain where the company is heading and tell things as they are, both to each other and to our business partners.

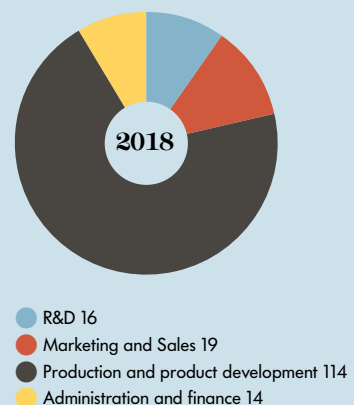
Gender distribution



Average number of employees



Employees distributed by function







# THE SHARE

Probi has been listed on Nasdaq Stockholm since 2004 and is traded under the PROB ticker. Probi is traded in the Mid Cap segment, which consists of companies with market capitalisation from MEUR 150 to EUR 1 billion. Probi belongs to the Healthcare and Biotech sectors.

## Share capital

At the end of 2018, Probi's share capital amounted to SEK 58,220,625 (58,220,625), represented by 11,644,125 shares (11,644,125). Each share carries the right to one vote and the same rights to a share in the company's assets and profit. The quotient value of the share is SEK 5.

## Ownership

At 31 December 2018, the number of registered shareholders was 4,222 compared with 5,120 at 31 December 2017. Of the total number of shares, institutional ownership accounted for about 88.8% (86.4), private owners 11.2% (13.6) and foreign owners 61.9% (56.5). Europe accounts for the largest proportion of shares held by foreign owners, corresponding to 60.7% (55.8) of the total number of shares. Probi's principal owner,

Symrise AG, held 56.4% of the capital and 57.6% of the voting rights at year-end. Symrise AG treats Probi AB as a subsidiary in its consolidated financial statements and consolidates the company in full.

## Holding of treasury shares

At year-end, Probi held 250,000 treasury shares, corresponding to 2.1% of the total number of shares, with a quotient value of SEK 5 per share. These shares were acquired in 2011 for MSEK 11.8. No shares were bought back during 2012-2018.

## Share performance

In 2018, Probi's share price rose 6% and was quoted at a closing price of SEK 360.00 (340.00) at year-end. OMX Stockholm PI declined 8% during the year. The highest and lowest prices in 2018 were SEK 516.00 (613.00) and SEK 298.80 (290.00), respectively. On 31 December 2018, Probi's market capitalisation was MSEK 4,102 (3,874). During 2018, 2,481,283 (6,116,665) Probi shares were traded on Nasdaq OMX Stockholm. The average turnover of shares per trading day was 9,925 (24,369).

## Dividend policy

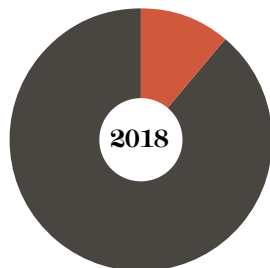
In future, the dividend will be based on Probi's earnings level and financial position, as well as requirements for the financing of available expansion and acquisition opportunities. On an annual basis, the Board will evaluate the potential to pay a dividend and, in so doing, will balance the shareholders' expectations of a reasonable dividend yield with the company's needs to self-finance its continued growth and expansion.

Based on an assessment of Probi's course of business and strategic investment decisions in 2018, the Board proposes that the 2019 Annual General Meeting resolves that no dividends will be paid for the 2018 financial year and that the Parent Company's retained earnings of MSEK 894,9 be carried forward.

## Options programme

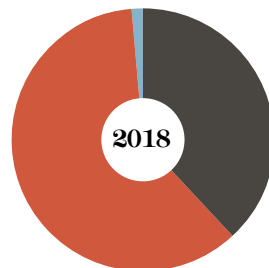
Probi has no outstanding convertible loans and no outstanding warrants.

Distribution institutional/legal entities – private owners (no. of shares)



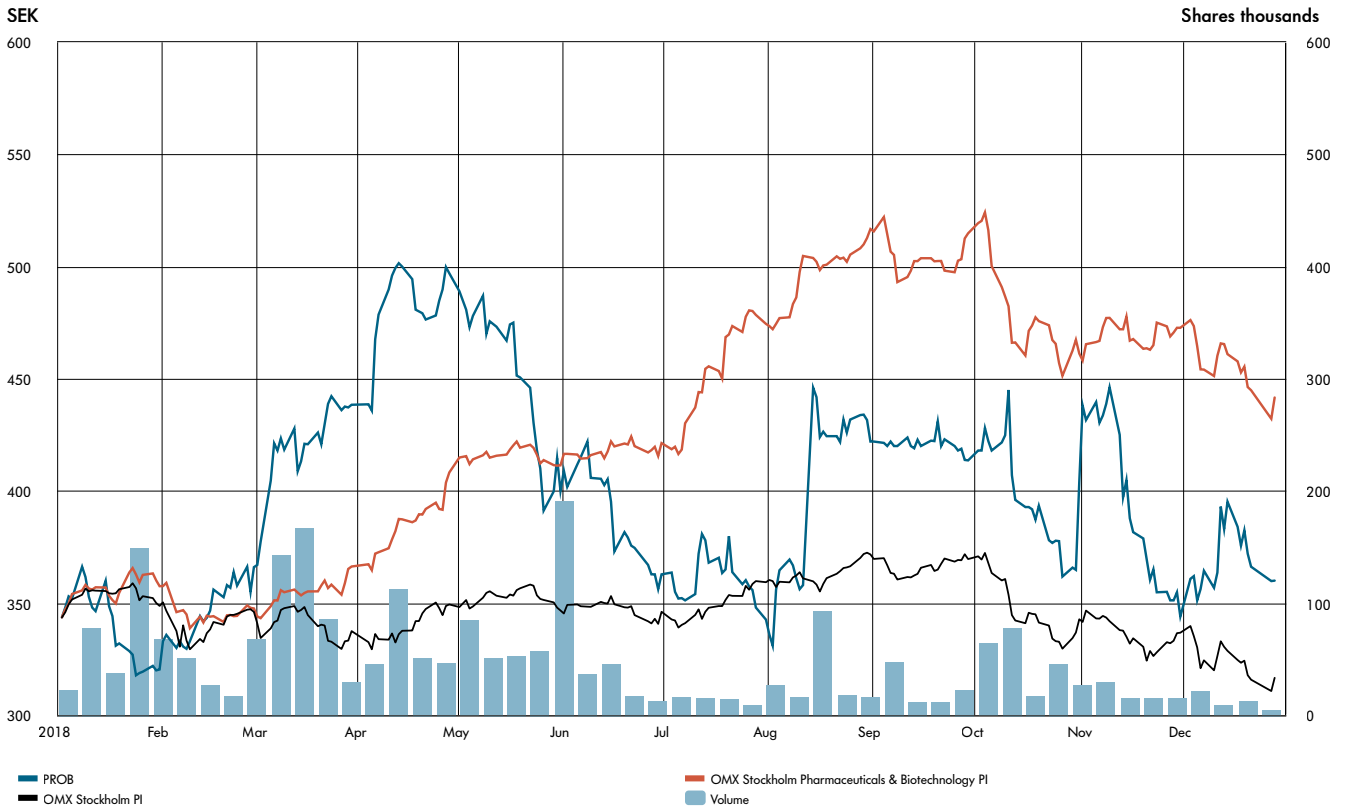
- Legal entities, 88,8%
- Physical persons, 11,2%

Distribution Swedish – foreign shareholders (no. of shares)

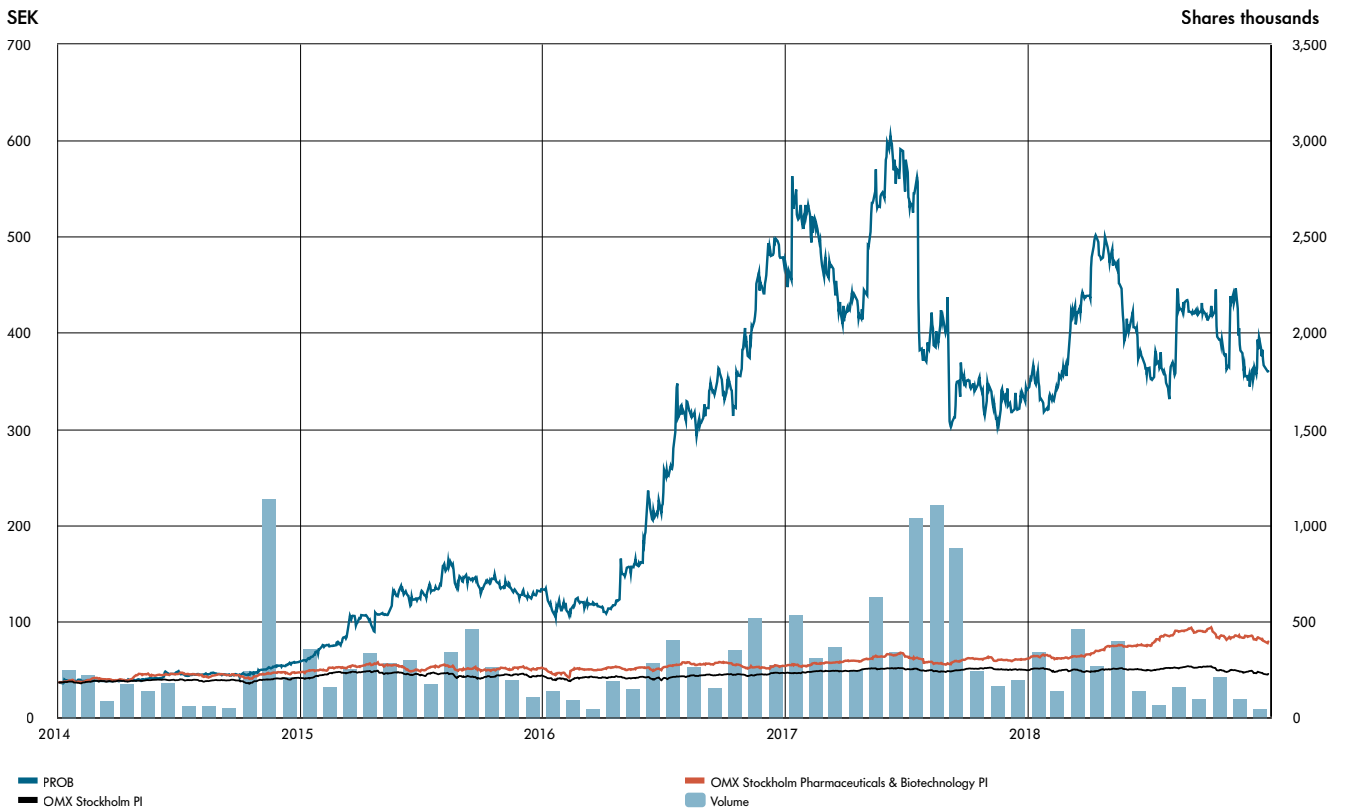


- Sweden, 38,1%
- Rest of Europe, 60,7%
- Rest of the world, 1,2%

### The share 2018



### The share 2014–2018



## Share capital development

Event	Year	Issue price	Increase in no. of shares	Total no. of shares	Par value of share	Increase in the share capital	Share capital
Establishment	1991		500	500	100	50,000	50,000
Bonus issue 1:1	1997		500	1,000	100	50,000	100,000
Targeted issue <sup>1</sup>	1997		150	1,150	100	15,000	115,000
Split 100:1	1997		113,850	115,000	1	-	115,000
Bonus issue 34:1	1998		3,910,000	4,025,000	1	3,910,000	4,025,000
Targeted issue <sup>2</sup>	1998		1,006,250	5,031,250	1	1,006,250	5,031,250
Bonus issue 15:10	1998		7,546,875	12,578,125	1	7,546,875	12,578,125
Targeted issue <sup>3</sup>	1998	12	1,721,875	14,300,000	1	1,721,875	14,300,000
Bonus issue 13:10	1998		18,590,000	32,890,000	1	18,590,000	32,890,000
Rights issue	2000	10	8,222,500	41,112,500	1	8,222,500	41,112,500
Reverse split 5:1	2004		-	8,222,500	5	-	41,112,500
New issue	2004		1,142,800	9,365,300	5	5,714,000	46,826,500
Rights issue	2016	264	2,278,825	11,644,125	5	11,394,125	58,220,625

<sup>1</sup> Issue targeted to founders and senior executives.

<sup>2</sup> Issue targeted to Skånemejerier's owner group and Probi AB.

<sup>3</sup> Issue targeted to shareholders in Skånemejerier, employees of Probi AB and Skånemejerier and certain other related parties.

## Shareholders

	No. of Series A shares	Share of capital (%)	Proportion of votes (%)
Symrise AG	6,568,479	56,4%	57,6%
Swedbank Robur fonder	1,251,000	10,7%	11,0%
Fjärde AP-fonden	1,023,809	8,8%	9,0%
SEB	226,089	1,9%	2,0%
Avanza pension	120,959	1,0%	1,1%
Länsförsäkringar Fondförvaltning	103,000	0,9%	0,9%
BNY Mellon SA/NV	60,472	0,5%	0,5%
KBC Bank NV	57,012	0,5%	0,5%
Göran Molin m bolag	47,000	0,4%	0,4%
Other	1,936,305	16,6%	17,0%
<b>Total Shares outstanding</b>	<b>11,394,125</b>	<b>97,9%</b>	<b>100,0%</b>
Probi AB	250,000	2,1%	-
<b>Total no. of shares</b>	<b>11,644,125</b>	<b>100,0%</b>	<b>100,0%</b>

## Holding per shareholder

Share distribution	No. of shareholders	No. of shares	Proportion of shares (%)
1 – 500	3,567	391,091	3,4
501 – 1 000	329	244,681	2,1
1 001 – 5 000	257	525,927	4,5
5 001 – 10 000	25	169,856	1,5
10 001 – 15 000	14	179,736	1,5
15 001 – 20 000	4	77,450	0,7
20 001 -	26	10,055,384	86,3
<b>Total</b>	<b>4,222</b>	<b>11,644,125</b>	<b>100,0</b>

## Five-year summary

<b>Income statement (TSEK)</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Net sales</b>	<b>604,117</b>	<b>612,244</b>	<b>443,475</b>	<b>215,711</b>	<b>135,242</b>
Cost of goods sold	-326,087	-334,321	-172,990	-65,231	-44,670
<b>Gross profit</b>	<b>278,030</b>	<b>277,923</b>	<b>270,485</b>	<b>150,480</b>	<b>90,572</b>
Sales and marketing expenses	-91,854	-79,899	-54,773	-38,325	-22,096
Research and development expenses	-32,728	-36,606	-47,930	-30,614	-27,773
Administration expenses	-54,700	-58,554	-48,036	-18,743	-13,989
Other operating income/expenses	2,368	1,223	219	270	335
<b>Operating Profit/EBIT</b>	<b>101,116</b>	<b>104,087</b>	<b>119,965</b>	<b>63,068</b>	<b>27,049</b>
Financial result	-2,556	-11,762	6,718	22	1,041
<b>Earnings before income taxes</b>	<b>98,560</b>	<b>92,325</b>	<b>126,683</b>	<b>63,090</b>	<b>28,090</b>
Income taxes	-22,310	-23,233	-24,836	-14,051	-6,325
<b>Net income</b>	<b>76,250</b>	<b>69,092</b>	<b>101,847</b>	<b>49,039</b>	<b>21,765</b>
	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Balance sheet (TSEK)</b>					
Intangible assets	493,895	487,984	559,358	40,820	27,250
Goodwill	304,561	279,706	308,802	2,762	2,762
Property, plant and equipment	29,162	34,389	41,490	4,581	4,864
Deferred tax assets	1,530	4,621	8,478	-	43
Current assets	180,983	148,487	188,691	36,697	32,889
Cash and cash equivalents	199,299	155,547	103,136	143,024	108,181
<b>Total assets</b>	<b>1,209,430</b>	<b>1,110,734</b>	<b>1,209,955</b>	<b>227,884</b>	<b>175,989</b>
Equity	1,028,398	884,736	892,067	187,239	145,953
Non-current liabilities	6,772	5,781	5,796	122	145
Current liabilities	174,260	220,217	312,092	40,523	29,891
<b>Liabilities and equity</b>	<b>1,209,430</b>	<b>1,110,734</b>	<b>1,209,955</b>	<b>227,884</b>	<b>175,989</b>
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Cash Flow (TSEK)</b>					
<b>Cash flow from operating activities before working capital changes</b>	<b>159,849</b>	<b>181,632</b>	<b>134,795</b>	<b>69,157</b>	<b>36,030</b>
Working capital changes	-31,983	-35,944	-45,010	-7,211	-46
<b>Cash flow from operating activities</b>	<b>127,866</b>	<b>145,688</b>	<b>89,785</b>	<b>61,946</b>	<b>35,984</b>
Cash flow from investing activities	-14,039	-26,263	-930,052	-19,463	-13,486
Cash flow from financing activities	-74,113	-48,045	800,185	-7,640	-5,618
<b>Net change in cash and cash equivalents</b>	<b>39,714</b>	<b>71,380</b>	<b>-40,082</b>	<b>34,843</b>	<b>16,880</b>
Effects of changes in exchange rates	4,038	-18,969	194	-	-
<b>Total changes</b>	<b>43,752</b>	<b>52,411</b>	<b>-39,888</b>	<b>34,843</b>	<b>16,880</b>
Cash and cash equivalents as of 1 January	155,547	103,136	143,024	108,181	91,301
Cash and cash equivalents as of 31 December	199,299	155,547	103,136	143,024	108,181
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Key figures</b>					
Gross Margin %	46%	45.4%	61.0%	69.8%	67.0%
EBITDA, MSEK	154.9	157.3	152.6	69.2	36.2
EBITDA Margin %	25.6%	25.7%	34.4%	32.1%	26.8%
Average number of employees	163	182	74	32	26
<b>Share data</b>					
Earnings per share before and after dilution, SEK	6.69	6.06	10.73	5.38	2.39
Share price on closing day, SEK	360.00	340.00	475.50	141.50	61.50
Market capitalization on closing day, MSEK	4,102	3,874	5,418	1,290	561
Number of outstanding shares on closing day	11,394,125	11,394,125	11,394,125	9,115,300	9,115,300
Average number of outstanding shares	11,394,125	11,394,125	9,495,104	9,115,300	9,115,300

For definitions of key ratios refer to page 82.

# **PROBI AB (PUBL)**

**Annual Report and consolidated financial statements  
for 2018 financial year**

# DIRECTORS' REPORT

The Board of Directors and the Chief Executive Officer of Probi Aktiebolag (publ) with its registered office in Lund, Sweden, Corporate Registration Number 556417-7540, hereby present the annual accounts and consolidated financial statements for 2018.

Probi was founded 1991 and is a leading player in probiotic research and development, manufacturing and sales of effective and well-documented probiotics. The company's research relates to living microorganisms with scientifically proven health benefits. The main fields of research are gut health, immune system and nutrient absorption, iron absorption and stress and recovery. Probi's customers are leading companies active in the Consumer Healthcare and Functional Food business areas.

## Significant events in 2018

- One of Probi's major customers in North America, who initiated a destocking programme during the second half of 2017, again started to make orders and a gradual expansion of orders occurred in the second half of 2018. For full-year 2018, the destocking programme had a negative impact of MSEK 15.4 on net sales.
- Probi reported positive results from a clinical trial in postmenopausal women, which confirmed that probiotics can reduce bone loss after menopause. The probiotics used in the trial contain a unique combination of three of Probi's proprietary strains that form the foundation of the development of Probi® Osteo, a new probiotics concept for osteoporosis prevention. The market launch of the new premium concept, Probi® Osteo, occurred at Probi's annual partner conference and Probi secured its first commercial order for the concept at the end of the year from a customer in the North American market.
- Probi signed a long-term development agreement with Cilag, one of the Johnson & Johnson family of companies. The intention is that Probi and Cilag will jointly develop and clinically document a new probiotics concept and subsequently launch an OTC product globally. The project

is financed by Cilag, while Probi provides the probiotics expertise.

- Probi won the 2018 NutraIngredients Award in the category Nutrition Research Project for promising research findings on the prevention of celiac disease in children. The concept, which is based on clinical trials concluded in 2017, has attracted considerable attention among researchers focusing on autoimmune metabolic diseases and on paediatrics. Further trials in the area commenced in 2018.
- Two clinical trials completed during the year led to promising initial findings that support continued development for new indications. The first trial, conducted in partnership with a commercial partner, evaluated the effects of Probi's probiotic strains on physical performance. The second trial, conducted in partnership with researchers at Lund University, Sweden, studied the effects of Probi's probiotics on acute stress.
- Tom Rönnlund was appointed new CEO, effective 1 January 2019. He joins Probi from Navamedic ASA, a Norwegian publicly traded company. Tom Rönnlund has more than 20 years of experience of sales, marketing and executive positions in the health and medical care sector. Ole Søgård Andersen served as Interim CEO during March-December 2018.
- During the year, Probi repaid MSEK 70 of the bank loans raised in connection with the acquisition of Nutraceutix in 2016. Total bank loans at year-end amounted to MSEK 118.

## Sales and results

Probi's net sales for the full-year amounted to MSEK 604.1 (612.2). The total decline was MSEK 8.1 or 1% year-on-year. At the preceding year's exchange rates, net sales for the full-year would have been MSEK 13.6 lower year-on-year, corresponding to a 2% decline. In 2018, net sales were adversely affected in an amount of MSEK 15.4 by a destocking programme introduced in 2017 by one of Probi's largest customers in North America.

Net sales in Probi's largest market, Americas (North and South America), amounted to MSEK 444.3 (479.0), corresponding to 74% of Probi's total net sales. The MSEK 34.7 (-7%) decline was due to the destocking programme described above by one of Probi's largest customers, and to lower overall market growth for probiotics in the US. The APAC (Asia and the Pacific area) accounted for Probi's strongest year-on-year sales growth. Net sales rose 43% to MSEK 59.5 (41.5), driven by strong growth among new and existing customers in China, Australia and India. In 2018, sales in EMEA (Europe excl. Sweden, the Middle East and Africa) rose 10% year-on-year to MSEK 41.8 (38.0). In Sweden, net sales grew 9% to MSEK 58.6 (53.8), driven by growth for Probi's key customers in both the Consumer Healthcare and Functional Food segments.

Operating expenses for the full-year amounted to MSEK 503.0 (508.2). The gross margin improved slightly year-on-year to 46% (45) of net sales. Sales and marketing costs of MSEK 91.9 (79.9) increased in line with expanded commercial resources in the Americas and APAC regions. Administrative expenses amounted to MSEK 54.7 (58.6). Research and development costs amounted to MSEK 32.7 (36.6).

Consolidated EBIT for the year totalled MSEK 101.1 (104.1). Adjusted for currency effects, EBIT totalled MSEK 100.8.

The Group's financial result for the year amounted to MSEK -2.6 (-11.8). Net interest was MSEK -4.5 (-5.2). Gains and losses on the translation of loans in other currencies, and changes in the fair value and realisation of forward contracts, are recognised in exchange rate gains or losses from financing activities and a gain of MSEK 2.2 (-6.0) was recognised during the year.

Profit after tax for the year totalled MSEK 76.3 (69.1). Tax expense was MSEK 22.3 (23.2).

Earnings per share for the year amounted to SEK 6.69 (6.06).

## Cash flow and financial position

During the year, cash and cash equivalents rose MSEK 43.8 to MSEK 199.3 (155.5). Cash

flow from operating activities declined MSEK 17.8 year-on-year, partly due to a positive realisation of MSEK 30.9 on forward contracts related to currency risks in 2017.

Cash flow from investing activities was MSEK -14.0 (-26.3). Investments in intangible assets amounted to MSEK 10.2 (18.1), of which MSEK 2.8 (2.7) pertained to patents and MSEK 7.4 (15.4) to capitalised development expenses. During the year, capitalised development expenses mainly related to clinical trials in immune health and nutrient absorption. Investments in tangible assets amounted to MSEK 3.8 (8.2).

Cash flow from financing activities was MSEK -74.1 (-48.0). This included a MSEK 70.2 (32.1) repayment on the bank loans raised in connection with the acquisition of Nutraceutix in 2016.

### Five-year summary

A financial five-year summary is available on the company's [www.probi.com](http://www.probi.com) website and in the printed version of the 2018 Annual Report on page 43.

### Segment information

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. The Functional Food segment develops food containing Probi's probiotics. Development takes place in partnership with leading food companies. Revenue in Functional Food mainly consists of royalties based on partner-generated sales. No business transactions are conducted between the two segments.

#### Consumer Healthcare

In 2018, net sales in Consumer Healthcare amounted to MSEK 566.8 (578.0). EBIT for the business segment totalled MSEK 87.5 (93.2), corresponding to an operating margin of 15% (16). On the whole, the decrease in sales and earnings was due to not being able to fully offset the continued effects of the destocking initiated in 2017 by a North American customer, despite growth in other areas during the year.

A slight decline in growth in the business segment's largest market, North America, was noted during the year. Meanwhile, the market is changing and demand for innovative and well-documented products is increa-

sing. One area that is showing strong growth is probiotic products for the health of women and children. During the year, multiple new Probi products were launched in various sales channels. Probi's sales via e-commerce distributors also rose sharply. In addition, Probi's volumes are developing well to customers active in the "Multi-Level Marketing" (MLM) segment and in the market for private labels. Many of the launches in the North American market were based on Probi Premium® and Probi Select™. Probi also received orders for the first launch of Probi® Osteo in the US. Probi® Osteo is Probi's product concept for reduced bone loss, which is mainly designed for older women. To further strengthen Probi's position in the North American market, Probi has expanded its sales organisation in the US and now has a greater geographic reach in the country.

The fast-growing Chinese and South-east Asian markets are a key strategic focus area for Probi. In 2018, the business segment's sales in this region rose 41% year-on-year. Growth derived mainly from both new and existing customers launching Probi's products in Australia. Some of these customers are also active in the fast-growing cross-border e-commerce into China, which contributed to the sales growth. At the end of 2018, two products based on Probi Defendum® and Probi Select™ were launched in China under a new Scandinavian brand. Probi is a strategic partner and scientific adviser to this Chinese company. Also during the year, new product formats were introduced to meet local consumer preferences. Probi also strengthened its sales organisation in 2018 with additional employees in China and Singapore to increase the local presence and capture new business opportunities across the region.

Probi intensified its business development initiatives in Europe during the year and the business segment's sales increased 12%. A number of Probi's existing partnerships developed favourably during the year with sales growth in several countries, including Sweden, Poland and Germany. At the end of the year, the market launch of Probi's products in digestive health and immune function was initiated in Turkey by a leading local pharmaceutical company. Additional new agreements were secured, including distribution collaborations in major strategic markets such as Italy and Germany. The latter relates to the distribution of Probi Select™ and Probi LiveBac® to consumer product companies in various European markets.

#### Functional Food

In 2018, net sales in Functional Food amounted to MSEK 37.3 (34.2). EBIT for the Functional Food segment totalled MSEK 13.6 (10.9), corresponding to an operating margin of 36% (32). The growth and improved earnings were driven by increased business activity in Asia, where new customers launched products containing Probi's probiotics. A South Korean food company's launch in 2017 of a flavoured yoghurt containing Probi's premium strain LP299V® had a positive impact on sales during the year. In South Korea during the year, the same customer launched a new stick pack product based on the same strain. Royalty revenue from sales of ProViva in Sweden also increased.

### Research and development

Probi's research programme generated promising results in 2018, which strengthened our product offerings and benefited the launch of products in new areas of health. Several clinical trials completed during the year are expected to further contribute to a continued solid and innovative product portfolio. Total research and development expenses amounted to MSEK 40.1 (52.0), of which MSEK 7.4 (15.4) was capitalised.

One of Probi's most important achievements in 2018 was the completion and successful outcome of the clinical trial in postmenopausal women, which confirmed that probiotics can reduce bone loss after menopause. The randomised, double-blind, placebo-controlled trial comprised 250 postmenopausal women who underwent therapy for a period of 12 months. The probiotics used in the trial contain a unique combination of three of Probi's proprietary strains. The findings show that the subjects in the placebo group exhibited a statistically significant decrease in bone density during the trial period, while the subjects treated with probiotics did not experience any decrease in bone density. The findings attracted a great deal of interest when they were presented at the Annual General Meeting of the American Society for Bone and Mineral Research (ASBMR) in Montreal, Canada.

Another important milestone in 2018 was the development of a new product concept based on the positive results for Probi's probiotics in children with a genetic susceptibility for celiac disease. The trial was completed in 2017 and the concept received a NutraIngredients Award in the Nutrition Research Project category at the VitaFoods Europe conference in May 2018. A follow-up trial on newborns with an elevated risk of developing celiac disease was launched in 2018 to assess



whether a gluten-free diet, or intake of probiotics, early in life can prevent the disease.

Two clinical trials were completed in the fourth quarter. Both led to promising initial findings that support continued development for new indications. The first trial, conducted in partnership with a commercial partner, evaluated the effects of Probi's probiotic strains on physical performance. The second trial, conducted in partnership with researchers at Lund University, Sweden, studied the effects of Probi's probiotics on acute stress.

In line with Probi's focus on innovation and research, the company continuously invests in partnerships with prestigious academic research teams. The ongoing partnerships with Professor Michiel Kleerebezem from the Host-Microbe Interactomics Group at Wageningen University in the Netherlands, and with Dr Karen Scott from the Rowett Institute at the University of Aberdeen in Scotland, are proceeding as planned and will enter their next planned phases in 2019.

Probi is also collaborating with Diana, a division of the Symrise Group, on the launch of a research programme with Laval University in Québec, Canada, and the Natural Sciences and Engineering Research Council (NSERC) to study the effects of polyphenols and probiotic combinations on gastrointestinal bacterial flora (microbiota) and associated intestinal markers. The aim of this five-year programme is to develop synergistic blends of prebiotic polyphenols and probiotic bacteria in order to modulate the gut flora and contribute to positive intestinal development.

As part of Probi's investments in more exploratory research, potentially new areas of health for probiotics are being investigated in studies initiated by external researchers. As part of this process, collaborations were recently initiated with the Industrial Research Center of Personalized Medicine in Diabetes at Lund University in Sweden and the Children's Oncology Group in the US.

## Employees

At year-end, Probi had 167 (168) employees, of whom 47% (46) were women. The average number of employees during the year was 163 (182).

## Events after the balance-sheet date

No significant events took place after the balance-sheet date.

## Risks and uncertainties

Probi pursues continuous efforts to identify and evaluate the various types of risks to which its operations are exposed, including analysing and evaluating possible risks and

assessing their probability and possible consequences. Actions are also taken to minimise any adverse effects that these risks would have on the business and the company's development should they arise. This provides Probi with a distinct impression of what the risks are and how they should be resolved.

### *Changes in consumer trends*

An over-riding social trend among consumers in many geographic markets is that interest in health, health products and a healthy lifestyle is continuing to increase. The prevailing health trend has favourably influenced customer demand for, among other products, probiotics. If the prevailing health trend diminishes or changes and leads to a change in consumption patterns and changes in consumer trends, this could result in demand for Probi's products slowing or declining, which could have a negative impact on Probi's operations, financial position and earnings.

### *Agreements with strategically selected customers*

Probi has agreements with a number of customers in various countries that market Probi's products and technology or plan to do so. If one or more of these partnerships were terminated or not lead to launches, this would have a negative impact on Probi's revenue, earnings and financial position.

### *Acquisitions*

Probi's business strategy includes growing through acquisitions. Opportunities for this depend on the company's ability to identify suitable acquisition targets, implement the acquisitions on favourable terms for Probi and successfully integrate them into the Group. If acquisitions cannot be implemented, the company's capacity for future growth could decline. The implementation of acquisitions could also give rise to a number of risks, such as if the due-diligence studies carried out ahead of an acquisition prove to be insufficient or subject to shortcomings. Such flaws could, for example, result in expected acquisition synergism not being realised or in unforeseen costs arising from the integration process, which could have a negative impact on Probi's operations, financial position and earnings.

### *Competition*

The growing interest in probiotics entails that Probi faces increased international competition, such as in the form of increased price pressure from ingredients companies, other suppliers of probiotic and new players becoming active in the market. Competition will also come from other products with equiva-

lent health benefits. In the long term, this could impose a threat to Probi's market position and growth.

### *Regulatory risks*

The requirements and regulations for the use of health claims for probiotics, for example, are constantly being sharpened. Since 1 July 2007, nutritional and health claims have been regulated by an EU directive (1924/2006) that applies in all EU countries, which entails considerable restrictions on possibilities to communicate the health-related benefits of products to consumers. A sharpening of regulatory processes is also under way in other geographic markets. Since Probi's continued expansion presumes product launches in a greater number of geographic markets, a sharpening of regulatory processes in various markets could entail a risk of increased costs and delayed launches for Probi.

### *Patents and rights*

Probi's continued development depends largely on continued successful research and the ability to protect future revenue streams through sales of products with extensive patent protection. Thus, it is vital that granted patents can be maintained and that newly developed products and applications can be patented or protected in some other way. There is a risk that current or future patents, trademarks and other intellectual property rights held by Probi will not provide adequate protection against infringement and competition. Moreover, patents held by other operators could limit the potential for or impede Probi and its licensees from freely utilising a certain product or production method in specific markets.

### *Operations subject to permit obligations*

Probi conducts operations that require permits under environmental legislation in the US. While Probi currently holds the permits required to conduct these operations, there is a risk that the company will be unable in the future to fulfil appropriate conditions for such permits, or that the regulatory framework is changed so that additional operations become subject to permit obligations without Probi having the capacity to obtain appropriate permits. If Probi should lack requisite permits in the future for a certain part of its operations, this would have a negative impact on Probi's operations, financial position and earnings.

### *Product supply*

A significant portion of Probi's future growth is based on the delivery of ready-made products in the form of powder, capsules and

tablets. Accordingly, Probi is dependent on a limited number of suppliers complying with agreed requirements in areas such as quality, volumes and delivery dates.

#### *Product liability*

Probi could become subject to product liability claims should the company's products be alleged to have caused personal injury or property damage. Probi's insurance programme contains product liability protection. Probi's business could give rise to claims for damages that are not covered by the insurance, which could have an adverse impact on Probi's earnings and financial position.

#### *Strategic research and development*

Probi's research and development, and its product development, encompass both proprietary efforts and partnerships with external Swedish and international researchers and organisations. However, there is no guarantee that these efforts or partnerships will lead to new and launchable products, or that Probi will receive exclusive rights to the results.

#### *Key individuals and employees*

The company's future development is dependent on being able to retain employees and recruit new employees with the skills that are in demand.

#### *Information technology*

A secure and reliable IT environment with high availability is a prerequisite for conducting operations efficiently. External and internal attempts to trespass the IT environment that limit its availability or result in losses of company information could have an adverse impact on Probi's earnings and financial position.

#### *Financial risks*

The Probi Group is exposed to several financial risks that primarily arise from the purchase and sale of products in foreign currency. Exchange and interest rates impact the Group's earnings and cash flow. The Group is also exposed to liquidity risks and to credit and counterparty risks. The company's financial policy is established by the Board and contains guidelines for the management of

various types of financial risk exposure. The corporate finance function in the Group is responsible for identifying and effectively limiting the Group's financial risks. For more information, refer to Note 3.

#### **Future development**

Probi's business model is based on conducting research and development, obtaining patents for and documenting probiotic bacteria and developing and producing ready-made probiotic consumer products. Probi's strategy is based on complementary business models for the two business areas Consumer Healthcare and Functional Food. The company's long-term objective is to continue creating profitable growth by expanding and advancing its sales in the global market for products in both business areas. The global market for probiotics is anticipated to continue to show growth in the years ahead. In view of this, Probi's assessment is that the prospects for continued growth are favourable, and that both earnings and cash flow from operating activities will be positive during the financial year ahead.

#### **Sustainability reporting**

According to Chapter 6, Section 11 of the Annual Accounts Act, Probi has chosen to prepare its statutory sustainability report in a document that is separate from the Annual Report. The Sustainability Report is published on the company's [www.probi.com](http://www.probi.com) website.

#### **Ownership structure and share capital**

Probi's shares have been listed on Nasdaq Stockholm since 2004. Since 1 January 2017, Probi has belonged to the Nordic Mid Cap segment, comprising companies with a market capitalisation ranging from MEUR 150 to EUR 1 billion. At 31 December 2018, Probi had 4,222 (5,120) shareholders according to Euroclear Sweden AB. On that date, Probi had two owners with shareholdings representing at least one-tenth of the votes for all shares in the company: Symrise AG, Germany, and Swedbank Robur funds, Sweden, with 57.6% and 11.0% of the votes, respectively. At the end of 2018, Probi's share capital amounted to SEK 58,220,625 (58,220,625), distributed among 11,644,125 shares (11,644,125). All shares are of the same class

and carry one vote and equal rights to the company's assets and earnings. The Articles of Association contain no restrictions on the transferability of the shares.

At year-end, Probi held 250,000 treasury shares, corresponding to 2.1% of the total number of shares, with a quotient value of SEK 5 per share. These shares do not carry voting rights and are not entitled to dividends.

#### **Proposed allocation of profit in the Parent Company**

The following profits in the Parent Company are at the disposal of the Annual General Meeting (SEK):

Profit brought forward	250,276,002
Share premium reserve	579,064,772
Profit for the year	65,582,725
<b>Total</b>	<b>894,923,499</b>

Based on an assessment of Probi's operations and strategic investment decisions in 2018, the Board of Directors propose that the 2019 AGM resolve that no dividend be paid for the 2018 financial year and that retained profit of SEK 894,923,499 be carried forward.

# CORPORATE GOVERNANCE REPORT

Probi AB (publ) is a Swedish limited liability company whose shares have been listed on Nasdaq Stockholm since 2004. According to its Articles of Association, Probi shall engage in the development, manufacture and marketing of products that stimulate the growth and/or regulate the natural microflora in humans and conduct other compatible operations.

Probi's Corporate Governance is based on applicable legislation, resolutions by the Annual General Meeting (AGM), Articles of Association, listing agreement, the Swedish Code of Corporate Governance (the "Code") and work by the Board of Directors and Executive Management. For more information about the contents of the Code, reference is made to [www.bolagsstyrningskollegiet.se](http://www.bolagsstyrningskollegiet.se).

This Corporate Governance Report pertains to the 2018 financial year and has been prepared in accordance with the Swedish Annual Accounts Act and the Code's regulations. Probi's Articles of Association and additional information about Probi's Corporate Governance are available at [www.probi.com](http://www.probi.com), under "Investor Relations."

## Application of the code

Probi, its Board of Directors and Nomination Committee apply the Swedish Code of Corporate Governance. No deviation from the Code has taken place.

## General Meeting of Shareholders

Shareholders exercise their influence over the company at General Meetings of Shareholders, Probi's highest decision-making body. The Annual General Meeting (AGM) is held within six months of the end of the financial year. Official notification of the Meeting is sent not earlier than six weeks and not later than four weeks prior to the Meeting. All shareholders listed in the shareholder registry and who registered their interest are entitled to participate in the Annual General Meeting and vote. Each share carries one vote.

The Annual General Meeting was held in Lund on 2 May 2018. The Board of Directors, auditors and Nomination Committee were elected at the AGM, which also resolved on guidelines for the remuneration of senior executives, as described in the following. The Board of Directors was also authorised

during the period prior to the 2019 AGM, on one or more occasions, to:

- make decisions regarding a new rights issue of up to a total of 1,164,412 shares. This authorisation includes the right to resolve to disapply the shareholders' preemptive rights and that payment is to be made in cash, in kind, or offsetting debt. When disapplying the shareholders' preemptive rights, the issue price is to be set on normal market terms. At the date of the resolution by the AGM, full exercise of the authorisation would have entailed 9% dilution of the share capital and voting rights. The Board did not exercise this authorisation during 2018.
- make decisions regarding the buyback of treasury shares. This authorisation includes acquisitions on Nasdaq Stockholm of own shares in a number that at no time exceeds 10% of all outstanding shares. According to the authorisation, any acquisition is to take place on Nasdaq Stockholm at a price within the registered price interval at the time of acquisition, meaning the spread between the highest and lowest selling price. Payment for the shares is to be made in cash. The Board did not exercise this authorisation in 2018.
- make decisions regarding the transfer of treasury shares. This authorisation includes a transfer of not more than the number of shares held by the company at the time of transfer. Any transfer may only take place at a price within the registered price span on Nasdaq Stockholm on each occasion, meaning the spread between the highest and lowest selling price. The Board was also authorised, with or without applying the shareholders' preemptive rights, to make decisions on the transfer of treasury shares in a manner other than that described above. Transfers may be made in return for cash payment, in the form of property other than cash or through the offsetting of debt. The Board did not exercise this authorisation during 2018.

## Remuneration of senior executives

The 2018 AGM resolved on the following guidelines for remuneration of senior executives. Probi is to offer market-aligned total remuneration that enables the recruitment and retention of senior executives. Remuneration of executive management shall comprise fixed salary, variable cash salary, the opportunity to participate in long-term share or share-based incentive plans, pension and other remuneration. Combined, these comprise components of the employee's total remuneration.

The fixed salary is to take into account the employee's areas of responsibility and experience. The variable cash salary is to depend on the employee's fulfilment of quantitative and qualitative goals and for the CEO is capped at 60% of fixed salary and for other senior executives is capped at 50% of fixed salary. Variable remuneration is to be connected to pre-determined conditions and must ensure a long-term commitment to the company's development. Remuneration and benefits are to be in line with normal market terms and contribute to facilitating the executive's ability to complete his/her work tasks. Executive management's employment agreements include stipulations governing notification termination notice. When employment is terminated by the employee, the period of notice is normally between three and six months. When employment is terminated by the company, remuneration during the period of notice and in the form of severance pay may not when combined exceed an amount corresponding to fixed salary for a period of 12 months.

The above guidelines do not encompass share-based incentive plans that may be resolved specifically by a General Meeting of Shareholders.

The Remuneration Committee is entitled to deviate from the aforementioned guidelines if the Board finds specific reasons to motivate this in isolated cases.

Ahead of the 2019 AGM, the Board proposes that the Meeting resolve on guidelines with the same wording, with the addendum that for senior executives employed in the American organization, variable salary can be paid with a maximum of one annual salary.

## Nomination Committee

The Nomination Committee is elected at the AGM and its principal tasks are to:

- evaluate the Board's composition and duties
- prepare proposals to the AGM for the election of Board members and Chairman of the Board and their remuneration
- prepare proposals for the AGM for the election of auditors and their remuneration

On 2 May 2018, the AGM resolved that the Nomination Committee should consist of four owner representatives. Heinz-Jürgen Bertram (CEO Symrise AG) (convenor), Bengt Jeppsson (Professor at the Department of Surgery at Lund University), Marianne Flink (Swedbank Robur Funds) and Jannis Kitsakis (Fourth Swedish National Pension Fund) were re-elected as members of the Nomination Committee.

The Nomination Committee's proposals are presented in conjunction with the official notification of the AGM. Shareholders who wish to contact the Nomination Committee can do so in accordance with the information provided on Probi's [www.probi.com](http://www.probi.com) website.

## Board of Directors

According to Probi's Articles of Association, the Board is to consist of no fewer than three and no more than seven members, with no more than three deputies, and be elected at the AGM. The company's Articles of Association lack specific stipulations concerning the appointment and dismissal of Board Members and concerning amendments to the Articles of Association. The AGM on 2 May 2018 resolved to elect a Board consisting of seven Members with no deputies. In accordance with the Nomination Committee's proposal, the Meeting resolved on the re-election of the Board Members Jean-Yves Parisot, Jan Nilsson, Jonny Olsson, Anna Malm Bernsten, Charlotte Hansson and Scott Bush and the new election of Irène Corthésy Malnoë. Jean-Yves Parisot was re-elected Chairman of the Board. A presentation of the Board Members is available on the company's [www.probi.com](http://www.probi.com) website and in the printed version of the 2018 Annual Report on pages 78-79.

The AGM resolves on principles and monetary limits for Board fees. For 2018, the Board's fees were fixed at KSEK 1,600, of which KSEK 400 for the Chairman of the Board and KSEK 200 for each of the other six Board members. A resolution was also

made concerning remuneration for work on committees. The Chairman of the Audit Committee is to receive KSEK 70 and each member KSEK 40. The Chairman of the Remuneration Committee is to receive KSEK 30 and each member KSEK 20.

For a brief period, Board members may perform consulting services for Probi. This is pursuant to a Board decision and only if it is deemed to be the most cost-efficient and advantageous option for the company. This type of consulting fee is recognised in the Annual Report. For information regarding Board fees, see Notes 10 and 29.

## CEO

A presentation of the CEO is available on the company's [www.probi.com](http://www.probi.com) website and in the printed version of the 2018 Annual Report on page 80.

## Auditors

The 2018 AGM elected the registered accounting firm Ernst & Young AB with Authorised Public Accountant Peter Gunnarsson as auditor-in-charge for the period up to the 2019 AGM.

## Work of the Board and its formal work procedures

The Board is ultimately responsible for Probi's organisation and the administration of the company's affairs. The Board decides whether to appoint or dismiss the CEO, and on major organisational and operational changes. The Board's duties also include evaluating and determining strategies, business plans and budgets. The Board also adopts quarterly reports, year-end reports and annual reports.

Every year, the Board evaluates the CEO's performance in relation to the identified long and short-term objectives. In conjunction with this, the CEO's objectives for the coming financial year are set. No representative from executive management participated in this evaluation.

The Board annually prepares a procedure regulating the division of work and responsibilities between the Board, Chairman and CEO. The work procedure also defines the spheres of responsibility of the Audit and Remuneration Committees. This work procedure is adopted at the Board's statutory meeting, which is held in conjunction with the AGM.

The Chairman of the Board is responsible for continuously monitoring the company and ensuring that all Board Members continuously

receive the relevant information for making decisions and evaluating Probi. The Chairman must consult with the CEO on strategic issues, supervise Board meetings and ensure that Board matters do not contravene the regulations regarding conflicts of interest stipulated by the Companies Act. The Board annually establishes instructions for the CEO. This includes guidelines for the ongoing administration, accounting and asset management and internal control of the company. These instructions also cover the CEO's authorisations and disclosure requirements towards the Board.

The Board is to convene no fewer than four scheduled Board meetings distributed equally during the year and hold one statutory meeting. In addition to regular items, the scheduled Board meetings in 2018 focused primarily on strategic and structural issues involving Probi's long-term development and growth. The Board of Directors also held a further five minuted meetings, mainly by telephone, in 2018. These meetings addressed matters such as in connection with strategic investment decisions, negotiations of commercial agreements and the adoption of quarterly and year-end reports.

## Audit Committee

The task of the Audit Committee is to assist the Board of Directors in its fulfilment of the Board's supervisory obligations in terms of internal control, audits, any internal audits, risk management, accounting and financial reporting, and to prepare matters involving the procurement of audit and other services as well as preparing certain accounting and audit matters that are to be addressed by the Board. The sphere of responsibility of the Audit Committee is defined in the Board of Directors' work procedure and in the instructions for the Audit Committee. The Audit Committee maintains continuous contact with the company's auditors, who personally report their findings and observations at least twice annually. The auditors also provide information on the priority areas that future audits are to examine, while the Audit Committee informs the auditors about issues or areas that it wishes them to specifically highlight.

Charlotte Hansson was appointed Chair of the Audit Committee and Anna Malm Bernsten and Jonny Olsson were appointed members of the Committee. The company's auditor and CFO regularly attend the Audit Committee's meetings.

## Remuneration Committee

The task of the Remuneration Committee is to assist the Board of Directors by providing proposals concerning remuneration issues and regularly monitoring and evaluating remuneration structures and remuneration levels for the CEO and other members of the company's executive management. The

Committee's work also includes providing proposals concerning policies for remuneration and other terms and conditions of employment for the CEO and senior executives that are to be resolved by the AGM. The sphere of responsibility of the Remuneration Committee is defined in the Board of Directors' work procedure and in the instructions

for the Remuneration Committee. For information regarding salaries and remuneration of the CEO and other senior executives, see Note 10.

Jean-Yves Parisot was appointed Chairman and Jan Nilsson member of the Remuneration Committee.

## Board members' meeting attendance in 2018

Name	Year elected	Independent of the company	Independent of major shareholders	Attendance of Board meetings	Attendance of Audit Committee meetings	Attendance of Remuneration Committee meetings
Jean-Yves Parisot	2015	Yes	No	10/10		1/1
Jan Nilsson	2010	Yes	Yes	8/10		1/1
Jonny Olsson	2015	Yes	Yes	10/10	5/5	
Anna Malm Bernsten	2017	Yes	Yes	10/10	5/5	
Charlotte Hansson	2017	Yes	Yes	10/10	5/5	
Scott Bush	2017	Yes	Yes	10/10		
Irène Corthésy Malnoë	2018	Yes	Yes	5/10		

## The Board's internal control report

According to the Companies Act and the Swedish Code of Corporate Governance, the Board is responsible for the internal control of financial reporting. This report is limited to the internal control of financial reporting.

Authorisation and responsibility are documented and recognised in internal guidelines and instructions. These encompass matters such as the division of responsibilities among the Board, the Audit Committee, the Remuneration Committee and the CEO, accounting and reporting instructions and attestation instructions for the Parent Company. The purpose of the instructions in these documents is to provide reasonable assurance regarding the quality and reliability of the company's external financial reporting and to minimise the risk of irregularities and improper benefits to other parties at the expense of the company.

The Board monitors the company's financial development through reporting at Board

meetings and through continuous financial reporting. The CEO is responsible for preparing and presenting reports at each Board meeting, with the following principal content for the period in question:

- Sales and market development and status of R&D projects
- Balance sheets, income statements and cash flow analyses
- Investments and tied-up capital
- Key ratios
- Forecasts for current quarters and full-year

The CEO must also, in accordance with the established time schedule, submit a financial report to the Board members.

## Quality of financial reporting

The Board is responsible for ensuring the quality of the company's financial reporting. The information submitted by executive

management is continuously evaluated by the Board and the Audit Committee. In this work, it is essential to ensure that actions are taken concerning potential shortcomings that are detected and implementing the adopted quality improvements. The Audit Committee accounts for this work concerning contact with the company's auditor.

Considering the size and risk exposure of the company, and the follow-up and control procedures, it has not been deemed warranted to establish a specific internal audit function. Each year, the question of establishing a specific internal audit function is to be addressed by the Board.

## Information and communication

The Board has adopted a communication policy that specifies procedures and systems designed to ensure that Probi provides the market with relevant, reliable, correct and current information concerning the company's development and financial position.

# FINANCIAL STATEMENTS

## Consolidated statement of comprehensive income

Currency: SEK 000s	Note	2018	2017
<b>Net sales</b>	<b>6,7</b>	<b>604,117</b>	<b>612,244</b>
Cost of goods sold	8,10,13,27	-326,087	-334,321
<b>Gross profit</b>		<b>278,030</b>	<b>277,923</b>
Sales and marketing expenses	8,10,13	-91,854	-79,899
Research and development expenses	8,10,13	-32,728	-36,606
Administration expenses	8,9,10,13	-54,700	-58,554
Other operating income		2,368	1,223
<b>Operating profit</b>	<b>6</b>	<b>101,116</b>	<b>104,087</b>
Financial income		1,565	612
Financial expenses		-6,275	-6,341
Exchange result financing activities		2,154	-6,033
<b>Financial result</b>	<b>11</b>	<b>-2,556</b>	<b>-11,762</b>
<b>Earnings before income taxes</b>		<b>98,560</b>	<b>92,325</b>
Income taxes	12	-22,310	-23,233
<b>Net income</b>		<b>76,250</b>	<b>69,092</b>
<b>Other comprehensive income</b>			
Components to be reclassified to net income			
Exchange rate difference resulting from the translation of foreign operations		67,003	-64,460
Cash flow hedge (currency hedges)		526	-646
Income taxes payable on those components		-116	76
<b>Sum of other comprehensive income</b>		<b>67,413</b>	<b>-65,030</b>
<b>Total comprehensive income</b>		<b>143,663</b>	<b>4,062</b>
Number of outstanding shares at the end of the reporting period		11,394,125	11,394,125
Average number of shares		11,394,125	11,394,125
Earnings per share before and after dilution SEK		6.69	6.06

Income for the year and comprehensive income are attributable in their entirety to the Parent Company's shareholders. Since the company currently has no outstanding convertible loans or outstanding warrants, no dilution effect can be recognised.

Probi bought back own shares in 2011 and owned a total of 250,000 treasury shares at the end of 2018.

## Consolidated statement of financial position

Assets			
Currency: SEK 000s	Note	2018	2017
<b>Non-current assets</b>			
Capitalised development cost	14	44,294	41,045
Customer base	15	311,177	307,946
Technology and other intangible assets	16	138,424	138,993
Goodwill	17	304,561	279,706
Property, plant and equipment	18,19	29,162	34,389
Deferred tax assets	12	1,530	4,621
<b>Total non-currents assets</b>		<b>829,148</b>	<b>806,700</b>
<b>Current assets</b>			
Inventories	21	68,676	69,140
Trade receivables	22,23	106,188	59,344
Other assets and receivables		938	12,837
Prepaid expenses and accrued income	24	5,181	7,166
Cash and cash equivalents	3,22	199,299	155,547
<b>Total current assets</b>		<b>380,282</b>	<b>304,034</b>
<b>Total assets</b>		<b>1,209,430</b>	<b>1,110,734</b>
Shareholders' equity and liabilities			
Currency: SEK 000s	Note	2018	2017
<b>Equity</b>			
Share capital		58,221	58,221
Other contributions received		600,205	600,205
Cumulative translation differences and Other reserves		24,069	-43,344
Accumulated profit		345,903	269,654
<b>Total equity</b>		<b>1,028,398</b>	<b>884,736</b>
<b>Non-Current liabilities</b>			
Other non-current liabilities	12	6,772	5,781
<b>Total non-current liabilities</b>		<b>6,772</b>	<b>5,781</b>
<b>Current liabilities</b>			
Borrowings	22,25	118,481	175,868
Trade payables	22	31,459	27,042
Other current liabilities		5,083	5,762
Accrued expenses and deferred income	26	19,237	11,545
<b>Total current liabilities</b>		<b>174,260</b>	<b>220,217</b>
<b>Total equity and liabilities</b>		<b>1,209,430</b>	<b>1,110,734</b>

# Consolidated statement of cash flows

Currency: SEK 000s

	Note	2018	2017
<b>Net income</b>		<b>76,250</b>	<b>69,093</b>
Adjustments to reconcile net income to cash provided from operating activities			
Income taxes		22,310	23,232
Interest result		4,473	5,175
Amortisation, depreciation and impairment of non-current assets		53,821	53,231
Other non-cash expenses and income <sup>1</sup>		2,995	30,901
<b>Cash flow before working capital changes</b>		<b>159,849</b>	<b>181,632</b>
Change in trade receivables and other current assets		-29,363	27,373
Change in inventories		6,095	-2,730
Change in trade payables and other current liabilities		11,290	-31,655
Income taxes paid		-20,005	-28,932
<b>Cash flow from operating activities</b>		<b>127,866</b>	<b>145,688</b>
<b>Investing activities</b>			
Payments for investing in intangible assets	14,15,16,17	-10,237	-18,135
Payments for investing in property, plant and equipment	18, 19	-3,802	-8,171
Divestment of tangible assets		-	43
<b>Cash flow from investing activities</b>		<b>-14,039</b>	<b>-26,263</b>
<b>Financing activities</b>			
Interest paid		-5,478	-5,200
Interest received		1,565	612
Redemption of bank borrowings	25	-70,200	-32,063
Dividends paid		-	-11,394
<b>Cash flow from financing activities</b>		<b>-74,113</b>	<b>-48,045</b>
<b>Net change in cash and cash equivalent</b>		<b>39,714</b>	<b>71,380</b>
Effects of changes in exchange rates		4,038	-18,969
<b>Total changes</b>		<b>43,752</b>	<b>52,411</b>
Cash and cash equivalents as of 1 January		155,547	103,136
Cash and cash equivalents as of 31 December		199,299	155,547

<sup>1</sup> Other non-cash-impacting revenue and costs pertain to changes in the fair value of financial derivatives and other unrealised exchange-rate differences.



## Consolidated statement of changes in shareholders' equity

Currency: SEK 000s

	Share capital	Other contributions received	Cumulative translation differences	Other reserves	Accumulated profit	Total equity
<b>Opening balance 1 January 2017</b>	<b>58,221</b>	<b>600,205</b>	<b>21,387</b>	<b>299</b>	<b>211,955</b>	<b>892,067</b>
Net income	-	-	-	-	69,093	69,093
Other comprehensive income	-	-	-64,460	-570	-	-65,030
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-64,460</b>	<b>-570</b>	<b>69,093</b>	<b>4,063</b>
Dividends	-	-	-	-	-11,394	-11,394
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-11,394</b>	<b>-11,394</b>
<b>Closing balance, 31 December 2017</b>	<b>58,221</b>	<b>600,205</b>	<b>-43,073</b>	<b>-271</b>	<b>269,653</b>	<b>884,735</b>
<b>Opening balance 1 January 2018</b>	<b>58,221</b>	<b>600,205</b>	<b>-43,073</b>	<b>-271</b>	<b>269,653</b>	<b>884,735</b>
Net income	-	-	-	-	76,250	76,250
Other comprehensive income	-	-	67,003	410	-	67,413
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>67,003</b>	<b>410</b>	<b>76,250</b>	<b>143,663</b>
Dividends	-	-	-	-	-	-
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Closing balance, 31 December 2018</b>	<b>58,221</b>	<b>600,205</b>	<b>23,930</b>	<b>139</b>	<b>345,903</b>	<b>1,028,398</b>

Income for the year and comprehensive income are attributable in their entirety to the Parent Company's shareholders.

## Parent Company's income statement

Currency: SEK 000s

	Note	2018	2017
<b>Income statement</b>			
Net sales	7	297,465	299,605
Other revenue	7	5,381	5,636
<b>Total operating revenue</b>	<b>7</b>	<b>302,846</b>	<b>305,241</b>
Cost of goods sold	8,10,13,27	-101,167	-102,613
<b>Gross profit</b>		<b>201,679</b>	<b>202,628</b>
Sales and marketing expenses	8,10,13	-48,674	-33,317
Research and development costs	8,10,13	-32,728	-36,606
Administration cost	8,9,10,13	-38,285	-39,055
<b>Operating profit</b>	<b>8</b>	<b>81,992</b>	<b>93,650</b>
Interest income		6,266	9,731
Interest expenses		-5,451	-5,200
Financial income		17,405	83,647
Financial expenses		-16,081	-90,856
<b>Financial result</b>	<b>11</b>	<b>2,139</b>	<b>-2,678</b>
Difference between book depreciation and depreciation according to plan		-	470
<b>Earnings before income taxes</b>		<b>84,131</b>	<b>91,442</b>
Income taxes	12	-18,958	-20,294
<b>Net income</b>		<b>65,173</b>	<b>71,148</b>
<b>Other comprehensive income</b>			
Components to be reclassified to net income			
Cash flow hedge (currency hedges)		526	-645
Income taxes payable on those components		-116	76
<b>Sum of other comprehensive income</b>		<b>410</b>	<b>-569</b>
<b>Total comprehensive income</b>		<b>65,583</b>	<b>70,579</b>

## Parent Company's balance sheet

Assets			
	Note	2018	2017
Currency: SEK 000s			
<b>Fixed assets</b>			
Capitalised development cost	14	44,294	41,045
Technology and other intangible assets	16	11,526	11,259
Property, plant and equipment	18,19	2,982	4,082
Shares in Group companies	20	909,320	777,320
Long-term receivable from Group companies		-	176,992
Deferred tax	12	-	76
<b>Total fixed assets</b>		<b>968,122</b>	<b>1,010,774</b>
<b>Current assets</b>			
Inventories	21	3,522	4,609
Trade receivables	22,23	65,476	27,198
Other current receivables		612	12,837
Derivatives	27	208	-
Prepaid expenses and accrued income	24	2,627	4,699
Cash and cash equivalents	3,22	133,361	90,667
<b>Total current assets</b>		<b>205,806</b>	<b>140,010</b>
<b>Total assets</b>		<b>1,173,928</b>	<b>1,150,784</b>
Shareholders' equity and liabilities			
	Note	2018	2017
Currency: SEK 000s			
<b>Restricted equity</b>			
Share capital (no of shares: 11,644,125)		58,221	58,221
Statutory reserve		21,140	21,140
Reserve for capitalised development expenses		32,254	24,843
<b>Total restricted equity</b>		<b>111,615</b>	<b>104,204</b>
<b>Non-restricted equity</b>			
Accumulated profit		250,276	187,107
Share premium reserve		579,065	579,065
Income for the year		65,583	70,579
<b>Total non-restricted equity</b>		<b>894,924</b>	<b>836,751</b>
<b>Total equity</b>		<b>1,006,539</b>	<b>940,955</b>
<b>Provisions</b>			
Deferred tax liability	12	40	-
<b>Total provisions</b>		<b>40</b>	<b>-</b>
<b>Long-term liabilities</b>			
Liabilities to Group companies		4,035	4,035
<b>Total long-term liabilities</b>	<b>22</b>	<b>4,035</b>	<b>4,035</b>
<b>Current liabilities</b>			
Bank loan	22,25	118,481	175,868
Accounts payable - trade	22	26,077	18,494
Short-term payable Group companies		2,090	393
Tax liabilities		-	940
Other current liabilities		4,414	4,178
Accrued expenses and deferred income	26	12,252	5,921
<b>Total current liabilities</b>		<b>163,314</b>	<b>205,794</b>
<b>Total equity and liabilities</b>		<b>1,173,928</b>	<b>1,150,784</b>

## Parent Company's cash flow statement

Currency: SEK 000s

	Note	2018	2017
<b>Net income</b>		<b>65,173</b>	<b>71,148</b>
Adjustments to reconcile net income to cash provided from operating activities			
Income taxes		18,958	20,294
Interest result		-136	-3,944
Amortisation, depreciation and impairment of non-current assets		8,358	8,212
Other non-cash expenses and income <sup>1</sup>		181	-10,890
<b>Cash flow before working capital changes</b>		<b>92,534</b>	<b>84,820</b>
Change in trade receivables and other current assets		-24,335	57,982
Change in inventories		1,087	3,955
Change in trade payables and other current liabilities		16,492	-32,922
Income taxes paid		-20,005	-28,918
<b>Cash flow from operating activities</b>		<b>65,773</b>	<b>84,917</b>
<b>Investing activities</b>			
Payments for investing in intangible assets	14,15,16,17	-10,237	-18,135
Payments for investing in property, plant and equipment	18, 19	-537	-2,034
Redemption of loan, subsidiaries		44,992	-
<b>Cash flow from investing activities</b>		<b>34,218</b>	<b>-20,169</b>
<b>Financing activities</b>			
Interest paid		-5,478	-5,200
Interest received		6,173	9,730
Redemption of bank borrowings	25	-70,200	-32,063
Realized currency changes bank loan		12,208	-
Dividends paid		-	-11,394
<b>Cash flow from financing activities</b>		<b>-57,297</b>	<b>-38,927</b>
<b>Net change in cash and cash equivalent</b>		<b>42,694</b>	<b>25,821</b>
Effects of changes in exchange rates		-	-
<b>Total changes</b>		<b>42,694</b>	<b>25,821</b>
Cash and cash equivalents as of 1 January		90,667	64,846
Cash and cash equivalents as of 31 December		133,361	90,667

<sup>1</sup> Other non-cash-impacting revenue and costs pertain to changes in the fair value of financial derivatives and other unrealised exchange-rate differences.

## Parent Company's statement of changes in shareholders' equity

Currency: SEK 000s

	Share capital	Statutory reserve	Reserve for capitalised development expenses	Non-restricted equity	Total equity
<b>Opening balance, 1 January 2017</b>	<b>58,221</b>	<b>21,140</b>	<b>9,444</b>	<b>792,965</b>	<b>881,770</b>
Net Income	-	-	-	71,148	71,148
Other comprehensive income <sup>1</sup>	-	-	-	-569	-569
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70,579</b>	<b>70,579</b>
Reserve for capitalised development expenses			15,399	-15,399	-
<b>Total conversion between categories within Equity</b>	<b>-</b>	<b>-</b>	<b>15,399</b>	<b>-15,399</b>	<b>-</b>
Dividends	-	-	-	-11,394	-11,394
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-11,394</b>	<b>-11,394</b>
<b>Closing balance, 31 December 2017</b>	<b>58,221</b>	<b>21,140</b>	<b>24,843</b>	<b>836,751</b>	<b>940,955</b>
<b>Opening balance, 1 January 2018</b>	<b>58,221</b>	<b>21,140</b>	<b>24,843</b>	<b>836,751</b>	<b>940,955</b>
Net Income	-	-	-	65,173	65,173
Other comprehensive income <sup>1</sup>	-	-	-	411	411
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>65,584</b>	<b>65,584</b>
Reserve for capitalised development expenses			7,411	-7,411	-
<b>Total conversion between categories within Equity</b>	<b>-</b>	<b>-</b>	<b>7,411</b>	<b>-7,411</b>	<b>-</b>
Dividends	-	-	-	-	-
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Closing balance, 31 December 2018</b>	<b>58,221</b>	<b>21,140</b>	<b>32,254</b>	<b>894,924</b>	<b>1,006,539</b>

There are 11,644,125 shares, each with a quotient value of SEK 5. Of these, Probi AB holds 250,000 shares, corresponding to 2.1%.

<sup>1</sup> Of which, 410 (-569) pertains to the fund for fair value of cash-flow hedges.

# NOTES

## Note 1 General information

Probi Aktiebolag (publ) with its registered residence in Lund, Sweden, was founded 1991 and is a leading player in the field of probiotics.

Probi's vision is to be a world leader in probiotics and to help people live healthier lives. With world-class research and effective products, Probi is the natural choice for customers, employees and partners who want to share our passion for probiotics.

Probi offers dedicated probiotic expertise and partnership all the way from R&D to finished products. Probi's manufacturing is certified according to Good Manufacturing Practice (GMP) and produces proven and effective probiotics in custom-made formats with value-adding delivery technologies.

The company's research relates to living microorganisms with scientifically proven health benefits. The fields of research are digestive health, immune response and nutrient absorption. Probi's customers are leading companies active in the Consumer Healthcare and Functional Food business areas.

The Group comprises the Parent Company, Probi AB, and four subsidiaries: Probi Asia-Pacific Pte. Ltd., Probi USA Inc., Probi Food AB (dormant) and Probi Feed AB (dormant). In turn, Probi AB is a subsidiary of Symrise AG, Corp. Reg. No. HRB 200436, with its registered office in Holzminden, Germany. Consolidated financial statements for Symrise AG are available at [www.symrise.com](http://www.symrise.com).

Probi's shares are listed on Nasdaq Stockholm, Mid Cap.

## Note 2 Accounting and measurement policies

The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act, "RFR 1, Supplementary accounting regulations for Groups" as well as the International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union.

The preparation of financial statements in accordance with IFRS requires the use of a number of important assessments and estimations for accounting purposes. Management is required to make certain estimates when applying the Group's accounting policies. Areas requiring a high degree of assessment that are complex, or areas in which assumptions and estimates are of significant importance for the consolidated financial statements, are specified in Note 4.

### *New and revised standards*

For the 2018 financial year, the Group applied IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers for the first time.

IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement. The new standard is divided into three parts: (1) Classification and measurement, (2) Impairment and (3) Hedge accounting. IFRS 9 contains three measurement categories for financial assets: fair value via profit or loss, fair value via other comprehensive income and amortised cost. The measurement category to which a financial asset belongs is determined partly by the company's purpose for holding the asset ("business model") and partly by the nature of the financial asset's contractual cash flows. The new standard also contains new rules for impairment testing of financial assets, which means that the previous incurred-loss method is being replaced by a new expected-loss method. This means that the financial statements must

reflect expected credit losses and changes in these expectations. The new hedge accounting rules are intended to ensure that the company's risk management is reflected in the financial statements. The new standard entails expanded opportunities to hedge risk components of non-financial items, and that more types of instruments may be part of a hedge relationship.

Probi has reviewed IFRS 9 and no material differences that impacted the company's financial position were identified compared with the financial information reported for 2017. Implementation of IFRS 9 resulted in increased disclosure requirements; refer to Notes 22, 23 and 27.

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts, as well as all associated IFRICs and SICs. Revenue is recognised when the customer gains control of the sold good or services, a policy that replaces the former policy, whereby revenue was recognised when material risks and benefits were transferred to the buyer. The basic principle according to IFRS 15 is that an entity recognises revenue in a way that reflects the transfer of the promised goods or services to the customer for the amount that the company expects to receive in exchange.

During 2017, Probi conducted an analysis of the impact of IFRS 15 on material revenue streams. No revenue streams were identified where IFRS 15 would have any impact on the consolidated financial statements. The transition to IFRS 15 was effected using the retrospective transition method. Since implementation did not have any transitional effects on the opening balances at 1 January 2018, recalculation of the comparative figures for 2017 was not done. For the comparison year 2017 Probi applied IAS 18 Revenue.

### *New and revised standards and interpretations that have yet to become effective*

IFRS 16 Leases superseded IAS 17 on 1 January 2019. The main purpose of the new standard is to recognise operating leases in the balance sheet. During preparations for implementation of the new standard, Probi identified about ten leases that are affected by the new standard. These leases mainly relate to rental fees for premises and company cars, but a few leases also relate to technical equipment. Probi has decided to apply the simplified approach for transition to IFRS 16, which means the impact of applying the standard will be adjusted in opening balances for the 2019 financial year, without recalculating the comparative figures. The lease liability is measured at the present value of remaining lease payments using the marginal interest rate for loans on 1 January 2019. In addition, the asset is measured at an amount corresponding to the lease liability. Probi has decided not to recognise short-term leases and leases for which the underlying asset has a low value according to the new standard. Probi established an average marginal interest rate for loans based on a borrowing rate of 1.40%, adjusted by a risk factor for the financial environment in which the transaction is implemented. The estimated annual effect on EBITDA is +14 MSEK regarding existing agreements, and the impact on the net result is expected to be very limited. Calculated effects of the new standard on the balance sheet are presented in the tables below.

## TRANSITION TO IFRS 16 (SEK000s)

<b>Assets</b>	
Property, plant and equipment (right of use assets)	71,729
Prepayments	-1,071
<b>Liabilities</b>	
Lease liabilities	70,658
Deferred tax assets	237
Other non-current liabilities	-1,960
<b>Net impact on equity</b>	<b>1,723</b>
<b>Minimum lease payments under operating leases as of December 31, 2018</b>	
<b>78,589</b>	
Recognition exemption	
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
<b>Liabilities additionally recognized based on the initial application of IFRS 16 as of January 1, 2019</b>	<b>70,658</b>
Liabilities from finance leases as of December 31, 2018	-
<b>Liabilities from leases as of January 1, 2019</b>	<b>70,658</b>

### 2.1 Basis of preparation of the consolidated financial statements

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. The valuation basis is the cost, unless otherwise stated.

The most important accounting policies applied during the preparation of these consolidated financial statements are stipulated below. These policies have been applied consistently for all years presented, unless otherwise indicated. The Parent Company applies the same accounting policies as the Group, with the exceptions and supplements stipulated in RFR 2 Accounting for legal entities. The accounting policies for the Parent Company are stipulated in section 2.16 entitled "The Parent Company's accounting policies".

### 2.2 Consolidated financial statements

The consolidated financial statements include the financial statements of the Parent Company and those of all subsidiaries. All companies over which the Group has obtained control, according to the requirements of IFRS 10, are fully consolidated as subsidiaries. Subsidiaries are included in the consolidated financial statements from the date on which the controlling influence is transferred to the Group. Subsidiaries are excluded from the consolidated financial statements from the date on which the controlling influence ceases.

Balance sheets of foreign subsidiaries are measured at the exchange rate applying on the balance sheet date and income statements at the average exchange rate. Exchange rates are derived from The Swedish central bank.

### 2.3 Segment reporting

Operating segments are recognised in a manner that corresponds with the internal reporting, which is submitted to the highest chief operating decision-maker, in accordance with IFRS 8 Operating Segments. At Probi, this function has been identified as the Management Group.

### 2.4 Net sales

Probi's net sales comprise revenue from sales of own products and

royalty revenue from business partners who conduct licensed sales of goods containing Probi's products. Probi recognises revenue when the performance obligation has been met for each of the company's operations, as described per revenue category below. The performance obligation comprises the actual goods or the royalty licence and is recognised as revenue for the period during which it was provided. Probi's payment terms extend from advance payments up to 90 days credit depending on delivery-specific factors. For further information about the Group's allocation of revenue, refer to Note 7.

- **Income from goods sold:** Income from goods sold is recognised upon delivery of the goods in accordance with the sales and delivery conditions in each individual case.
- **Royalty revenue:** Royalty revenue is recognised as revenue on a percentage basis, based on the licensee's reporting of the sales value of consumer products containing Probi's products and ingredients.

Implementation of IFRS 15 had no impact on consolidated net sales compared with the previous policy whereby revenue was recognised when significant risks and benefits were transferred to the buyer. This means that no recalculations were required for 2017.

### 2.5 Income tax

Current income tax comprises tax payable or recoverable in respect of the year in question, together with adjustments made in respect of current tax for previous years. Deferred tax is calculated based on all temporary differences arising between the recognised and fiscal values of assets and liabilities. Deferred tax assets referring to loss carryforwards or other future fiscal deductions are recognised to the extent that it is likely that the deductions can be offset against surpluses in conjunction with future taxation.

The measurement of all tax liabilities/receivables is based on nominal amounts and is undertaken in accordance with the tax regulations and tax rates determined or announced, and which are likely to be adopted. Tax is recognised in profit or loss, except when the tax pertains to items recognised in other comprehensive income or directly in shareholders' equity.

In such cases, tax is also recognised in other comprehensive income or shareholders' equity.

### 2.6 Intangible assets

- **Goodwill:** Goodwill is tested at least annually to identify any impairment requirements and is recognised at cost less accumulated impairments. Goodwill impairments are not reversed. Profit or losses on the sale of a unit include the residual carrying amount of the goodwill referring to the divested unit. Goodwill is allocated among the smallest cash-generating units in connection with impairment testing.
- **Capitalised development cost:** Research expenses are expensed on an ongoing basis. Development expenses are recognised as assets from the date on which it is deemed that the project or activity to which they relate will lead to a technically and commercially viable product or lead in some other way to future economic value for the company. When Probi deems that the criteria with regard to identifiability, control, future economic benefit and the ability to reliably measure the cost have been met, it capitalises these development expenses. Capitalised development expenses consist of direct costs for materials, services and personnel costs, with a supplementary charge for a reasonable share of indirect costs. Development expenses recognised as an asset are amortised

over the expected useful life. Amortisation is initiated when the asset is ready for use. The value of capitalised assets not yet ready for use is impairment tested annually. Such testing could lead to the value of the asset being impaired. The asset's carrying amount is reduced and the reduction is recognised in operating profit as an impairment loss. Capitalised assets can also be scrapped, in which case the entire carrying amount of the asset will be derecognised from the statement of financial position and recognised in operating profit as being discarded.

- **Customer base:** The customer base is a part of the recognised intangible assets identified in the acquisition of Nutraceutix, which became effective on 3 October 2016. The amortisation period for the customer base is 15 years.
- **Technology and other intangible assets:** Technology and other intangible assets are part of the intangible assets identified in the acquisition of Nutraceutix, which became effective on 3 October 2016. The amortisation period for technology is 15 years and 10 years for other intangible assets. Other intangible assets also include patent expenses with an amortisation period of 10 years. Annual fees and other additional fees are expensed on an ongoing basis.

## 2.7 Tangible fixed assets

Tangible fixed assets are recognised at cost less depreciation. The cost includes expenses directly attributable to the acquisition of the asset. Additional charges are added to the carrying amount of the asset or are recognised as a separate asset, depending on which method is appropriate, and only when it is likely that the future economic benefits associated with the asset will accrue to the Group, and when the cost of the asset can be reliably measured. All other forms of repairs and maintenance are recognised as costs in profit or loss during the period in which they arise.

Depreciation of tangible fixed assets is performed on a straight-line basis as follows:

- Equipment, tools, fixtures and fittings 3–10 years.
- Improvements to leased buildings is recognised during the remaining term of the lease under the current lease

Profit on the divestment of tangible fixed assets is recognised under Other operating income and losses under Operating expenses.

## 2.8 Impairment of non-financial assets

Assets with an indeterminate useful life are not impaired; instead, they are tested annually with regard to any impairment requirement. Depreciated assets are evaluated with regard to a reduction in value, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is effected in the amount by which the asset's carrying amount exceeds its recoverable amount. When assessing the impairment requirement, assets are grouped at the lowest level at which separate identifiable cash flows (cash-generating units) exist.

## 2.9 Leasing

Leases within the Group are classified as either financial or operational leasing.

- **Operational leasing agreements:** Leasing of fixed assets for which the lessor, in all material respects, remains as the owner of the asset is classified as operating leasing. The leasing fees for operating leasing are expensed on a straight-line basis over the period of the lease.

- **Financial lease agreements:** When the lease entails that the Group, in its capacity as lessee, in all material respects enjoys the economic benefits and carries the financial risks attributable to the leased object, in the same way as direct ownership, the object is recognised as a fixed asset in the consolidated balance sheet. A corresponding obligation to pay future leasing charges is recognised as a liability.

Refer to "New and revised standards and interpretations that have yet to become effective" in Note 2, for more information on how the new standard IFRS 16 will impact the Group's financial position in 2019.

## 2.10 Financial instruments

The Group's financial instruments are classified and recognised in the balance sheet in accordance with IFRS 9 and include cash and cash equivalents, accounts receivable, accounts payable, bank loans and currency forward contracts.

- **Cash and cash equivalents:** Cash and cash equivalents include cash and bank balances. Cash and cash equivalents do not include any current investments.
- **Accounts receivable:** Accounts receivable arise when the Group supplies goods or services directly to a customer without intending to trade in the receivable. Accounts receivable are recognised at nominal value less any decline in value. The Group applies the simplified method for calculating expected credit losses. This method entails that the expected losses throughout the term of the receivable are used as the starting point for accounts receivable. The expected credit loss rates are based on qualitative judgments, the customers' payment history and the number of days of delays. Accounts receivable are written off when there is no reasonable expectation of repayment. Credit losses on accounts receivable are recognised within EBIT. For further information, refer to Note 23.
- **Accounts payable:** Accounts payable are commitments to pay for goods or services acquired in operating activities from suppliers. Accounts payable are classified as current liabilities if they fall due within one year; otherwise they are recognised as long-term liabilities.
- **Receivables and liabilities in foreign currencies:** Receivables and liabilities in foreign currency are recognised at the exchange rates prevailing on the balance sheet date. Exchange-rate changes regarding receivables and liabilities relating to operations are recognised in operating profit, while exchange-rate changes pertaining to financial receivables and liabilities are recognised in net financial items.
- **Bank loans:** The Group's liability to external credit institutions is measured at amortised cost.
- **Currency forward contracts:** All contracts pertain to hedging of currency exposure resulting from customer receipts in USD and supplier payments in USD and are initially and subsequently measured at fair value in the balance sheet. When applying hedge accounting, the relationship between the hedging instrument and the hedged item is documented on an ongoing basis, as is an assessment of hedge effectiveness, at both the inception of the transaction and on an ongoing basis. Effectiveness refers to the degree to which fair value and cash flow changes in the hedging instrument offset corresponding changes in the hedged item. If the hedge accounting criteria are met, the effective portion of change in fair value when derivatives held for cash flow hedges are re-me-



asured is recognised in other comprehensive income and accumulated in the hedging reserve in equity. The cumulative hedging gain or loss that was recognised in the hedging reserve is reversed to profit or loss in the same period as the hedged cash flow affects profit or loss. Measurement gains/losses from the derivative financial instrument will be reclassified to sales or cost of goods sold depending on the underlying transaction (accounts receivable or accounts payable in foreign currency). After reclassification, these hedging gains and losses will be offset against the actual currency gains and losses from operating business in cost of goods sold. Measurement gains/losses are recognised in the financial result insofar as currency risk hedges are used to hedge the financial activity. Any ineffective portion of the change in value is recognised immediately in profit or loss. If the hedging relationship is interrupted but cash flow is still expected to occur, the cumulative change in value is recognised in the hedging reserve until the underlying cash flow for the hedging transaction is no longer expected to occur, and the cumulative change in value recognised in the hedging reserve is immediately transferred to profit or loss. During 2018, Probi applied hedge accounting for derivatives in order to hedge expected operating flows in USD. Hedge accounting was not applied for derivatives whose purpose is to hedge financial receivables and liabilities. See Note 27 for further information about the financial derivatives.

#### 2.11 Inventories

Inventories are measured, using the first-in-first-out (FIFO) principle, at the lower of the cost and the net sales value on the balance-sheet date. The cost of the finished goods comprises the cost of raw materials, direct salaries, other direct costs and attributable to indirect manufacturing costs, based on normal manufacturing capacity. The net sales value is the estimated sales price in operating activities, less any applicable variable sales overheads.

#### 2.12 Provisions

Provisions are recognised when the Group has, or may be deemed to have, a legal or informal obligation as a result of events that have occurred, and when it is likely that payments will be required in order to meet the obligation. A further requirement is that it is possible to make a reliable estimate of the amount to be paid. A provision for restructuring measures is made once a detailed, formal plan for the measures has been established.

#### 2.13 Remuneration of employees

##### *Pensions*

Pensions are classified as defined-contribution or defined-benefit plans. Obligations resulting from defined-contribution plans are fulfilled by paying premiums to independent authorities or companies that administrate the plans. Most of Probi's employees in Sweden are covered by the ITP plan 1 via continuous payments to Collectum. This is recognised as a defined-contribution scheme. The majority of Probi's employees in the US are covered by a 401(k) plan, which is a defined-contribution plan. All pension plans are thus recognised as defined-contribution plans over the period during which the employees performed the service to which the contribution relates.

##### *Severance payments*

Severance payments are made when an employment contract is terminated by Probi prior to pensionable age or when an employee accepts voluntary redundancy in exchange for such payment. A sever-

ance payment is recognised when there is an obligation that employees be made redundant in accordance with set rules, without the option of re-employment, or when there is an obligation to provide remuneration upon termination of employment based on an offer made to encourage the individual to take voluntary redundancy.

##### *Bonus plans and variable remuneration*

Probi recognises a liability and a cost for bonus plans when there is a legal obligation to do so according to the employment agreement or after a special decision by the Remuneration Committee.

#### 2.14 Acquisition and sale of treasury shares

When acquiring and selling own shares, the funds, including fees, are recognised as a decrease or increase in shareholders' equity. Repurchased shares are not recognised as an asset in the balance sheet and any gain or loss is not recognised in profit or loss.

#### 2.15 Statement of cash flows

The statement of cash flows is prepared in accordance with the indirect method. Recognised cash flow only includes transactions involving disbursements or receipts. Cash and cash equivalents are defined as cash and bank balances.

#### 2.16 Parent Company's accounting policies

The Parent Company applies the same accounting policies as the Group, with the exceptions and supplements stipulated in "RFR 2 Accounting for legal entities" and in accordance with the Swedish Annual Accounts Act (ÅRL). This implies that the Parent Company's financial statements apply the IFRSs and IFRICs that have been adopted by the EU when this is possible within the framework of the Swedish Annual Accounts Act and with regard to the relationship between reporting and taxation. The Parent Company posts a provision to the development cost reserve in restricted equity, in accordance with the Swedish Annual Accounts Act

The Parent Company annually impairment tests participations in subsidiaries based on analyses of future cash flows in the subsidiaries. If events or changes in circumstances indicate that an impairment loss may need to be recognised, then tests are carried out more frequently.

##### *Amended accounting policies*

For the 2018 financial year, the Parent Company applied IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers for the first time. For information about IFRS 9 and IFRS 15, refer to information for the Group in Note 2, New and revised standards.

##### *New and revised standards and interpretations that have yet to become effective*

IFRS 16 Leases, which superseded IAS 17 on 1 January 2019, will not be applied for the Parent Company. Fees connected to operational leases are treated as operational expenses.

#### Note 3 Financial risk factors

Probi's business activities are exposed to various financial risks. These can be divided into market risks (including currency risks and interest rate risks), credit risks and liquidity risks. Probi's Financial Policy, which describes the management of financial risks, is revised and adopted by the Board on an annual basis.

### 3.1 Market risks

#### Currency risks

The Probi Group is exposed to several financial risks that primarily arise in the purchase and sale of products in foreign currency, as well as the financing of the business acquired in the US. Exchange rates affect the Group's earnings and cash flow. 89% of Probi's revenue in 2018 was invoiced in foreign currency, whereof 75% in USD and 14% in EUR. The company's financial policy is established by the Board and contains guidelines for the management of various types of financial risk exposure. The objective is to minimise currency exposure, and thus the currency risk, to the greatest possible extent. According to the company's financial policy, the average hedge ratio, i.e. hedged exposure as percentage of total exposure, shall not exceed 75%. A smaller (higher) hedge quota may be assigned to the more distant (closer) planning.

The Board has approved currency hedging through the use of forward contracts with maturities of up to 12 months, provided that the arrangement qualifies for hedge accounting. The corporate finance function in the Group is responsible for identifying and effectively limiting the Group's financial risks. For more detailed information, refer to Note 27.

A sensitivity analysis shows that the effect on operating profit in 2018 of a 5% change in the USD/SEK exchange rate would have been MSEK +/- 0.8 and the impact on equity would have been MSEK +/- 46.2.

#### Interest-rate risk

The Probi Group is exposed to interest-rate risk through its net debts. The Group's interest-bearing liabilities carry variable interest with a maximum fixed-rate period of three months, according to financing agreements with the Group's lenders. A 1-percentage-point change in the interest rate would have affected net interest income/expense by MSEK 1.2 at the closing date rate of utilisation of the revolving credit facility. In the company's assessment, reasonable changes in interest rates would not affect the Group's earnings so materially that there would be a need to hedge interest rates through financial instruments. This assessment will be continually updated.

### 3.2 Credit risks

Credit risk is related to the counterparties' creditworthiness and requires a measurement of whether the counterparty can fulfil its obligations. The customers' financial performance is monitored on an ongoing basis. During recent years, Probi has suffered no material bad debt losses. For further information, see Note 23.

### 3.3 Liquidity risk

Cash-flow forecasts are established regularly to ensure that the Group has sufficient cash funds to satisfy requirements in operating activities. For cash and cash equivalents that are not required for operating activities, the surplus liquidity, a reduction of drawn credit facilities can be considered. In addition, alternative investments can be considered if these can be expected to lead to a better return on invested funds.

#### Note 4 Important estimates and assessments for accounting purposes

Estimates and assessments are measured on an ongoing basis and are based on historical experience and other factors, including expectations in relation to future events, considered reasonable under current circumstances. The estimates and assessments that could involve a risk of considerable adjustments in the carrying amounts of assets and liabilities in the coming financial years are addressed below.

#### Impairment testing of capitalised development expenses

Probi carried out impairment tests in 2018 to determine the recoverable amount of the projects that had been capitalised at 31 December 2018. The value in use, meaning the present value of the anticipated future cash flow from the products encompassed by the capitalised development costs, did not indicate any impairment requirement. Accordingly, with reasonable assurance, these costs will generate revenues for Probi in the years ahead.

#### Impairment testing of goodwill

Goodwill is impairment tested annually and is recognised at cost less accumulated impairments. Goodwill impairments are not reversed. Profit or losses on the sale of a unit include the residual carrying amount of the goodwill referring to the divested unit. Goodwill is allocated among the smallest cash-generating units in connection with impairment testing. Any acquired goodwill is allocated at the acquisition date to the cash-generating units that are expected to benefit from the synergies deriving from the business combination. In determining the value in use of the cash-generating units, the company makes assessments on market trends, consumer preferences and category dynamics. Further information about the key assumptions can be found in Note 17.

#### Revenue recognition

There are no significant assessments made regarding the revenue recognition.

### Note 5 Management of capital

The aim of Probi's management of the capital structure is to be able to fulfil the Group's short and long-term obligations, to generate returns to shareholders and benefits for other stakeholders. It is also important to maintain a capital structure that minimises the cost of the capital. If the capital structure were to need adjustment in the future, this could be achieved through external borrowing, the issuance of new shares, share buybacks or changes to the dividend that is paid to shareholders.

#### Probi's financial objectives:

##### Growth

To generate growth that outperforms the market. Probi's growth in 2018 was a negative 1% (positive 38).

##### Margin

Growth is to be combined with a profit margin (EBITDA) exceeding 20%. Probi's EBITDA margin in 2018 was 26% (26). Adjusted for currency effects, the EBITDA margin for 2018 was 26% (26).

#### Proposed allocation of profit in the Parent Company

The following profits in the Parent Company are at the disposal of the Annual General Meeting (SEK):

Profit brought forward	250,276,002
Share premium reserve	579,064,772
Income for the year	65,582,725
<b>Total</b>	<b>894,923,499</b>

The Board of Directors propose that the profits at the disposal of the AGM be distributed as follows:

to be carried forward	894,923,499
<b>Total</b>	<b>894,923,499</b>

The earnings brought forward by the Group totalled KSEK 345,903 according to the consolidated statement of financial position and other contributions received amounted to KSEK 600,205.

#### Note 6 Segment information

Probi's business is organised in two business areas: Consumer Healthcare (CHC) and Functional Food (FF).

##### Consumer Healthcare

Consumer Healthcare develops, manufactures and markets Probi's probiotics. Customers are pharmaceutical companies and other companies 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

Functional Food develops food that contains Probi's probiotics. Development takes place in partnership with leading food companies. There are no sales or other transactions between the two segments.

OPERATING INCOME PER OPERATING SEGMENT				
The Group 2018	CHC	FF	Corporate	Total
<b>Net sales</b>	<b>566,797</b>	<b>37,320</b>	-	<b>604,117</b>
Cost of goods sold	-323,715	-2,372	-	-326,087
Sales and marketing expenses	-83,032	-8,822	-	-91,854
R&D expenses	-24,337	-8,391	-	-32,728
Administration expenses	-50,530	-4,170	-	-54,700
Other operating income	2,338	30	-	2,368
<b>Operating profit</b>	<b>87,521</b>	<b>13,595</b>	-	<b>101,116</b>
Financial net	-	-	-2,556	-2,556
<b>Earnings before income taxes</b>	<b>87,521</b>	<b>13,595</b>	<b>-2,556</b>	<b>98,560</b>

The Group 2017	CHC	FF	Corporate	Total
<b>Net sales</b>	<b>578,011</b>	<b>34,233</b>	-	<b>612,244</b>
Cost of goods sold	-332,076	-2,245	-	-334,321
Sales and marketing expenses	-71,494	-8,405	-	-79,899
R&D expenses	-26,518	-10,088	-	-36,606
Administration expenses	-55,846	-2,708	-	-58,554
Other operating income	1,223	-	-	1,223
<b>Operating profit</b>	<b>93,300</b>	<b>10,787</b>	-	<b>104,087</b>
Financial net	-	-	-11,762	-11,762
<b>Earnings before income taxes</b>	<b>93,300</b>	<b>10,787</b>	<b>-11,762</b>	<b>92,325</b>

Probi has two customers who each account for more than 10% of consolidated sales. The customers, with sales of MSEK 65.0 (121.8) and MSEK 64.6 (46.6) are both recognised in the Consumer Healthcare segment.

OPERATING REVENUE DISTRIBUTED BY GEOGRAPHIC AREAS			
2018	CHC	FF	Total
Sweden	30,370	28,181	<b>58,551</b>
EMEA, excluding Sweden	41,782	18	<b>41,800</b>
Americas	437,426	6,889	<b>444,315</b>
APAC	57,219	2,232	<b>59,451</b>
<b>Net sales</b>	<b>566,797</b>	<b>37,320</b>	<b>604,117</b>

2017	CHC	FF	Total
Sweden	26,627	27,191	<b>53,818</b>
EMEA, excluding Sweden	37,961	-	<b>37,961</b>
Americas	472,711	6,268	<b>478,979</b>
APAC	40,712	774	<b>41,486</b>
<b>Net sales</b>	<b>578,011</b>	<b>34,233</b>	<b>612,244</b>

Probi does not allocate assets to the business segments.

#### Note 7 Revenue distribution

REVENUE DISTRIBUTION			
The Group 2018	CHC	FF	Total
Goods	561,763	3,918	<b>565,681</b>
Royalties, licenses, etc.	5,034	33,402	<b>38,436</b>
<b>Net sales</b>	<b>566,797</b>	<b>37,320</b>	<b>604,117</b>

The Group 2017	CHC	FF	Total
Goods	565,995	1,956	<b>567,951</b>
Royalties, licenses, etc.	12,016	32,277	<b>44,293</b>
<b>Net sales</b>	<b>578,011</b>	<b>34,233</b>	<b>612,244</b>

Parent Company 2018	CHC	FF	Total
Goods	254,581	3,918	<b>258,499</b>
Royalties, licenses, etc.	5,564	33,402	<b>38,966</b>
<b>Net sales</b>	<b>260,145</b>	<b>37,320</b>	<b>297,465</b>

Other revenue	5,351	30	<b>5,381</b>
<b>Total revenue</b>	<b>265,496</b>	<b>37,350</b>	<b>302,846</b>

Parent Company 2017	CHC	FF	Total
Goods	258,250	1,956	<b>260,206</b>
Royalties, licenses, etc.	7,122	32,277	<b>39,399</b>
<b>Net sales</b>	<b>265,372</b>	<b>34,233</b>	<b>299,605</b>

Other revenue	5,571	65	<b>5,636</b>
<b>Total revenue</b>	<b>270,943</b>	<b>34,298</b>	<b>305,241</b>

#### Note 8 Cost distribution

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Product costs	-210,478	-212,157	-90,911	-93,916
Exchange result from operating activities	2,804	-1,734	1,079	2,541
Employee benefit expenses	-130,577	-134,822	-47,866	-46,372
Other external costs	-112,307	-107,435	-74,798	-65,632
Depreciation and discarding of fixed assets	-53,821	-53,230	-8,358	-8,212
<b>Total</b>	<b>-504,379</b>	<b>-509,378</b>	<b>-220,854</b>	<b>-211,591</b>

## Note 9 Auditors' fees

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Deloitte</b>				
Audit assignment	197	747	-	375
Audit-related services	27	230	27	230
Tax consultancy	34	63	34	63
Other services	5	87	5	87
<b>Total Deloitte</b>	<b>263</b>	<b>1,127</b>	<b>66</b>	<b>755</b>
<b>Ernst &amp; Young</b>				
Audit assignment	577	-	347	-
Audit-related services	117	-	117	-
Tax consultancy	22	-	22	-
Other services	-	-	-	-
<b>Total Ernst &amp; Young</b>	<b>716</b>	<b>-</b>	<b>486</b>	<b>-</b>
<b>Total</b>	<b>979</b>	<b>1,127</b>	<b>552</b>	<b>755</b>

"Audit assignment" refers to the statutory auditing and fee for audit consultancy. "Audit-related services" refers to the review of management and financial information resulting from the legislation, Articles of Association, statutes and agreement which culminate in a report or any other document that is intended to be used as analytical material for parties other than the consultant. Everything else is classified as "Other assignments."

## Note 10 Average number of employees, salaries, other remuneration and social security contributions

	AVERAGE NUMBER OF EMPLOYEES							
	THE GROUP		PARENT COMPANY		SUBSIDIARIES			
	2018	2017	2018	2017	2018	2017	2018	2017
Women	78	84	27	28	-	-	51	56
Men	86	98	11	10	2	1	73	87
<b>Total</b>	<b>164</b>	<b>182</b>	<b>38</b>	<b>38</b>	<b>2</b>	<b>1</b>	<b>124</b>	<b>143</b>

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Board of Directors</b>				
Jörn Andreas	-	29	-	29
Anna Malm Bernsten	230	150	230	150
Scott Bush	203	150	203	150
Benedicte Fossum	-	44	-	44
Charlotte Hansson	253	150	253	150
Irène Corthésy Malnöe	153	-	153	-
Jan Nilsson	215	194	215	194
Jonny Olsson	230	194	230	194
Jean-Yves Parisot	426	375	426	375
Eva Redhe	-	44	-	44
Chief Executive Officer				
Peter Nählstedt	3,837	3,666	3,837	3,666
Chief Executive Officer				
Ole Sogaard Andersen	2,728	-	2,728	-
Other members of management, average (5 st (6))	9,628	12,472	5,564	8,420
Other employees	76,384	78,286	18,446	20,321
<b>Total</b>	<b>94,287</b>	<b>95,753</b>	<b>32,285</b>	<b>33,737</b>

	2018	2017	2018	2017
<b>Social Security contributions, total:</b>	<b>22,761</b>	<b>26,246</b>	<b>15,687</b>	<b>19,013</b>
Of which pension costs:	6,890	8,927	5,641	7,230
Board Members	-	-	-	-
Chief Executive Officer				
Peter Nählstedt	840	1,021	840	1,021
Chief Executive Officer				
Ole Sogaard Andersen	-	-	-	-
Other members of management, average (5 st (6))	1,214	2,864	1,117	2,422
Other employees	4,836	5,042	3,684	3,787

The CEO and an additional six senior executives were entitled to bonuses that are capped at 60% and 50%, respectively, of the fixed annual salary. The outcome is based on fulfilment of quantitative and qualitative goals established annually by the Board. The Remuneration Committee is entitled to deviate from the aforementioned guidelines if the Board finds specific reasons to motivate this in isolated cases.

At December 31, 2018, KSEK 3,866 (3,063) including social security contributions was reserved for bonuses to personnel. The amount will be paid in 2019 and distributed as follows: The CEO, KSEK – (729); senior executives (5 people (6)) KSEK 1,534 (821), and other employees, KSEK 2,332 (1,513).

The notice period for the CEO is four months if given by the CEO. If notice is given by the company, the notice period is 12 months. The retirement age for the CEO is 65. The notice period for other senior executives varies between six and nine months if given by Probi, and between three and six months if given by the employee. There are no other severance pay or pension agreements within the company other than those described above.

The CEO's remuneration is determined by the Board of Directors and that of other management personnel by the CEO and the Chairman of the Board. The company has no outstanding and unrecognised pension commitments, as all pensions for senior executives are defined-benefit pensions. Executive management comprises seven men and two women as per 31 December 2018. The Board comprises four men and three women.

## Note 11 Financial income and expenses

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Interest income	1,565	612	6,266	9,731
Exchange-rate gains	17,411	83,682	17,405	83,647
Exchange-rate losses	-15,257	-89,716	-15,257	-89,715
Interest expenses	-6,038	-5,786	-5,451	-5,200
Other financial expenses	-237	-554	-824	-1,141
<b>Total</b>	<b>-2,556</b>	<b>-11,762</b>	<b>2,139</b>	<b>-2,678</b>

Net interest for the full-year 2018 amounted to MSEK -4.5 (- 5.2) due largely to loans raised in connection with the acquisition of Nutraceutix in 2016.

Exchange gains and losses arising from the revaluation of loans, cash and cash equivalents held in a foreign currency, or market valuation and realisation of forward contracts, are recognised in the exchange rate gains/losses from financing activities. A gain of MSEK 2.2 (-6.0) arose in 2018, mainly due to the appreciation of the USD against the SEK. For 2018, MSEK 0.6 (0.6) was expensed due to fees to the financial institution providing external borrowings.

## Note 12 Income tax

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Current tax for the year	-18,994	-19,995	-18,958	-20,294
Deferred tax	-3,364	-648	-	-
Tax effect from change in tax rate	48	-2,590	-	-
<b>Deferred tax expenses/income</b>	<b>-3,316</b>	<b>-3,238</b>	<b>-</b>	<b>-</b>
<b>Total income taxes</b>	<b>-22,310</b>	<b>-23,233</b>	<b>-18,958</b>	<b>-20,294</b>

### Derivation of the effective tax rate

Income before tax	98,560	92,324	84,131	91,442
Expected tax expense at local tax rates	-21,889	-20,565	-18,509	-20,117
Tax effect from previous years	-	316	-	-
Tax effect from non deductible expenses	-518	-239	-449	-177
Tax effect from change in tax rate	48	-2,590	-	-
Tax effect from value adjustments to deferred tax assets	-	-	-	-
Other tax effects	49	-155	-	-
<b>Total effective tax</b>	<b>-22,310</b>	<b>-23,233</b>	<b>-18,958</b>	<b>-20,294</b>

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Change in deferred tax assets</b>				
Deferred tax from temporary differences	-9,337	-6,604	-76	76
Tax effect from change in tax rate	48	-2,590	-	-
Deferred tax in capitalised tax loss carry-forward	6,199	5,225	-	-
<b>Total change in deferred tax asset</b>	<b>-3,090</b>	<b>-3,969</b>	<b>-76</b>	<b>76</b>

### Change in deferred tax liabilities

Deferred tax from temporary differences	-	111	-40	103
<b>Total change in deferred tax liabilities</b>	<b>-</b>	<b>111</b>	<b>-40</b>	<b>103</b>
<b>Total change deferred tax</b>	<b>-3,090</b>	<b>-3,858</b>	<b>-116</b>	<b>179</b>

DEFERRED TAX ASSETS AND LIABILITIES, 2018	THE GROUP			PARENT COMPANY		
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	NET DEFERRED TAX	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	NET DEFERRED TAX
Intangible assets	5,058	-10,754	-5,696	-	-	-
Property, plant and equipment	-	-972	-972	-	-	-
Financial assets	-	-	-	-	-40	-40
Inventories	860	-	860	-	-	-
Trade receivables, prepayments and other assets	102	-	102	-	-	-
Other provisions and liabilities	1,266	-229	1,037	-	-	-
Losses carried forward	6,199	-	6,199	-	-	-
<b>Sub-total</b>	<b>13,485</b>	<b>-11,955</b>	<b>1,530</b>	<b>-</b>	<b>-40</b>	<b>-40</b>
Offsetting	-11,955	11,955	-	-	-	-
<b>Total</b>	<b>1,530</b>	<b>-</b>	<b>1,530</b>	<b>-</b>	<b>-40</b>	<b>-40</b>

DEFERRED TAX ASSETS AND LIABILITIES, 2017	THE GROUP			PARENT COMPANY		
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	NET DEFERRED TAX	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	NET DEFERRED TAX
Intangible assets	4,455	-5,341	-885	-	-	-
Property, plant and equipment	-	-1,245	-1,245	-	-	-
Financial assets	76	-	76	76	-	76
Inventories	807	-	807	-	-	-
Trade receivables, prepayments and other assets	34	-	34	-	-	-
Other provisions and liabilities	800	-191	609	-	-	-
Losses carried forward	5,225	-	5,225	-	-	-
<b>Sub-total</b>	<b>11,398</b>	<b>-6,777</b>	<b>4,621</b>	<b>76</b>	<b>-</b>	<b>76</b>
Offsetting	-6,777	6,777	-	-	-	-
<b>Total</b>	<b>4,621</b>	<b>-</b>	<b>4,621</b>	<b>76</b>	<b>-</b>	<b>76</b>

On 31 December 2018, the Group's loss carryforwards pertaining to federal tax in the US amounted to MSEK 26.1 (22.2). Including additional loss carryforwards pertaining to tax in the US, the Group's total loss carryforwards corresponded to a deferred tax asset of MSEK 6.2 (5.2)

at 31 December 2018. All loss carryforwards were capitalised at this date. Company management is of the opinion that based on the Group's current and future structure, the prerequisites for utilising the deficit are warranted.

### Note 13 Operating leases

Operating leases include rental leases for premises, office equipment and car leasing. The nominal value of future minimum lease fees for operating leases is distributed as follows:

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Leasing costs for the year	18,020	15,679	4,642	4,402
Falls due for payment within one year	14,712	17,126	4,713	4,740
Falls due for payment after one but within five years	52,761	61,313	12,634	17,092
Falls due for payment after more than five years	11,536	25,002	-	-

### Note 14 Capitalised costs for development activities

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Opening cost	67,282	51,883	67,282	51,883
New acquisitions	7,411	15,399	7,411	15,399
<b>Closing accumulated cost</b>	<b>74,693</b>	<b>67,282</b>	<b>74,693</b>	<b>67,282</b>
Opening depreciation	-15,186	-11,140	-15,186	-11,140
Depreciation/amortisation for the year	-4,162	-4,046	-4,162	-4,046
<b>Closing accumulated depreciation/amortisation and discarding</b>	<b>-19,348</b>	<b>-15,186</b>	<b>-19,348</b>	<b>-15,186</b>
Opening impairment	-11,051	-11,051	-11,051	-11,051
<b>Closing accumulated impairment</b>	<b>-11,051</b>	<b>-11,051</b>	<b>-11,051</b>	<b>-11,051</b>
<b>Closing residual value</b>	<b>44,294</b>	<b>41,045</b>	<b>44,294</b>	<b>41,045</b>

## Note 15 Customer base

	THE GROUP	
	2018	2017
Opening cost	335,940	371,235
Translation differences	30,150	-35,295
<b>Closing accumulated cost</b>	<b>366,090</b>	<b>335,940</b>
Opening depreciation	-27,994	-6,187
Depreciation/amortisation for the year	-23,647	-23,227
Translation differences	-3,272	1,420
<b>Closing accumulated depreciation</b>	<b>-54,913</b>	<b>-27,994</b>
<b>Closing residual value</b>	<b>311,177</b>	<b>307,946</b>

The customer base is a part of the recognised intangible assets identified in the acquisition of Nutraceutix, which became effective on 3 October 2016.

## Note 16 Technology and other intangible assets

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Opening cost	214,491	226,658	72,648	69,912
New acquisitions	2,826	2,736	2,826	2,736
Translation differences	12,730	-14,902	-	-
<b>Closing accumulated cost</b>	<b>230,047</b>	<b>214,491</b>	<b>75,474</b>	<b>72,648</b>
Opening depreciation	-75,498	-62,040	-61,389	-58,922
Depreciation/amortisation for the year	-14,476	-14,174	-2,559	-2,467
Translation differences	-1,649	716	-	-
<b>Closing accumulated depreciation</b>	<b>-91,623</b>	<b>-75,498</b>	<b>-63,948</b>	<b>-61,389</b>
<b>Closing residual value</b>	<b>138,424</b>	<b>138,993</b>	<b>11,526</b>	<b>11,259</b>

Technology and other intangible assets are part of the intangible assets identified in the acquisition of Nutraceutix, which became effective on 3 October 2016. This category also includes capitalised patents and licenses of MSEK 11.5 (11.3).

## Note 17 Goodwill

In accordance with IAS 36, goodwill is tested for impairment at least once per year. If events or changes in circumstances indicate that an impairment loss may need to be recognised, then tests are carried out more frequently.

The largest component of goodwill, an amount of KUSD 33,642, arose from the 2016 acquisition of Nutraceutix and consists largely of the synergies and economies of scale from combining the operations of Probi and Nutraceutix.

For impairment tests, goodwill is to be allocated to the cash-generating unit within the Group that is intended to benefit from the synergies of the business combination. Every unit with goodwill allocated to it represents the lowest level within the Group at which goodwill is monitored for internal management purposes. The units are not larger than an operating segment as defined in IFRS 8. Probi's lowest

cash-generating units at which goodwill is monitored are the operating segments Consumer Healthcare (CHC) and Functional Food (FF). Goodwill resulting from the business combination of Nutraceutix is allocated in its entirety to the CHC segment.

The Group's total goodwill at the end of 2018 amounted to MSEK 304.6 (279.7), of which MSEK 301.8 (276.9) was allocated to CHC and MSEK 2.8 (2.8) to FF. The year-on-year increase was attributable to changed exchange rates.

Probi carries out its annual impairment test for goodwill of the cash-generating unit CHC on 30 September. In view of materiality, no impairment test for the cash-generating unit FF was performed.

The recoverable amount is represented by value in use and was determined as the present value of future cash flows. The future cash flows were derived from the Probi Group's budget and mid-term business plan. The calculation of the present value of estimated future cash flows is mainly based on assumptions relating to future selling prices and/or sales volumes and costs while taking into account any changed economic circumstances.

In applying value in use, the cash-generating unit is measured as currently used. Net cash inflows outside of the planning period are determined on the basis of long-term business expectations using individual growth rates derived from the respective market information.

The business plan is based on a detailed planning horizon for the financial years 2019 to 2022. A growth rate of 2.0 % was assumed for the measurement of perpetual annuity. The cash flows determined in this manner were discounted with a weighted average capital cost (WACC) factor before tax of 5.88 % for CHC. Cost of equity and borrowing costs were weighted with a capital structure based on a group of comparable companies. Capital market data and data from comparable companies were used in determining cost of equity and borrowing costs. There were no indications of impairment for the fiscal year.

Probi's management believes that no reasonable possible change in any of the above key assumptions would cause the CHC's recoverable amount to fall below the carrying amount.

## Note 18 Improvements to leased property

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Expenditure on leased property</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Opening cost	12,448	9,446	3,588	3,588
New acquisitions	2,308	3,526	-	-
Disposal	-	-43	-	-
Translation differences	680	-481	-	-
<b>Closing accumulated cost</b>	<b>15,436</b>	<b>12,448</b>	<b>3,588</b>	<b>3,588</b>
Opening depreciation	-6,037	-4,641	-2,795	-2,342
Depreciation/amortisation for the year	-1,491	-1,449	-453	-453
Translation differences	-134	53	-	-
<b>Closing accumulated depreciation</b>	<b>-7,662</b>	<b>-6,037</b>	<b>-3,248</b>	<b>-2,795</b>
<b>Closing residual value</b>	<b>7,774</b>	<b>6,411</b>	<b>340</b>	<b>793</b>

The expense in the Parent Company is related to improvements in connection with the renovation and expansion of Probi's leased premises in Lund. The consolidated statements also include improvement expenses for leased premises in Redmond (WA) and Lafayette (CO), USA.

## Note 19 Equipment and tools

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Opening cost	78,153	77,076	12,555	10,571
New acquisitions	1,493	4,644	537	2,034
Discarding	-521	-	-521	-50
Translation differences	3,224	-3,567	-	-
<b>Closing accumulated cost</b>	<b>82,349</b>	<b>78,153</b>	<b>12,571</b>	<b>12,555</b>
Opening depreciation	-50,176	-40,391	-9,266	-8,070
Depreciation/amortisation for the year-10,044 -10,334			-1,184	-1,246
Amortisation on disposed equipment	521	-	521	50
Translation differences	-1,262	549	-	-
<b>Closing accumulated amortisation</b>	<b>-60,961</b>	<b>-50,176</b>	<b>-9,929</b>	<b>-9,266</b>
<b>Closing residual value</b>	<b>21,388</b>	<b>27,977</b>	<b>2,642</b>	<b>3,289</b>

## Note 20 Participations in Group companies

	2018	2017
Carrying amount	909,320	777,320

### Specification of the Parent Company's shareholding in Group companies

	Share of equity	Share of votes	No. of shares	Carrying amount	Shareholders' equity
Probi Asia-Pacific Pte. Ltd.					
201537643C, Singapore	100%	100%	50,000	298	1,288
Probi Food AB					
556354-1951, Lund	100%	100%	10,000	3,931	3,935
Probi Feed AB					
556540-4364, Lund	100%	100%	1,000	100	100
Probi Inc, USA					
81-2766100, Delaware	100%	100%	100	904,991	923,100

## Note 21 Inventories

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Raw materials and consumables	30,373	31,889	-	-
Semi finished goods	23,071	26,932	-	-
Finished goods	15,232	10,319	3,522	4,609
<b>Total</b>	<b>68,676</b>	<b>69,140</b>	<b>3,522</b>	<b>4,609</b>

For inventory valuation principles, refer to Note 2.11.

## Note 22 Financial assets and liabilities

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Financial assets</b>				
<b>Derivatives designated as hedging instruments</b>				
Foreign exchange forward contracts recognized in income statement	28	-	28	-
Foreign exchange forward contracts recognized in OCI	180	-	180	-
<b>Financial assets at amortized cost</b>				
Trade receivable	106,188	59,344	65,476	27,198
Cash and cash equivalent	199,299	155,547	133,361	90,667
<b>Total financial assets</b>	<b>305,695</b>	<b>214,891</b>	<b>199,045</b>	<b>117,865</b>

### Financial liabilities

	2018	2017	2018	2017
<b>Derivatives designated as hedging instruments</b>				
Foreign exchange forward contracts recognized in income statement	-	58	-	58
Foreign exchange forward contracts recognized in OCI	-	79	-	79

### Financial liabilities at amortized cost

	2018	2017	2018	2017
Liabilities to Group Companies, > five years	-	-	4,035	4,035
Bank loans	119,000	176,992	119,000	176,992
Trade payables	31,459	27,042	26,077	18,494
<b>Total financial liabilities</b>	<b>150,459</b>	<b>204,171</b>	<b>149,112</b>	<b>199,658</b>

Derivatives identified as hedging instruments reflect the positive valuation to fair value of currency forward contracts connected to hedges of cash flow forecasts in USD.



## Note 23 Accounts receivable

Carrying amount corresponds to the fair value of accounts receivable.

THE GROUP						
31 December 2018	Current	Overdue <30 days	Overdue 30-60 days	Overdue 61-90 days	Overdue >90 days	Total
Estimated unbilled trade receivables	2,482	-	-	-	-	2,482
Invoiced trade receivables	87,299	10,258	3,716	1,656	1,370	104,299
Allowance for expected credit losses	-90	-10	-4	-2	-487	-593
<b>Total trade receivables</b>	<b>89,691</b>	<b>10,248</b>	<b>3,712</b>	<b>1,654</b>	<b>883</b>	<b>106,188</b>
Expected credit loss rate	0.1%	0.1%	0.1%	0.1%	35.5%	0.6%

THE GROUP						
31 December 2017	Current	Overdue <30 days	Overdue 30-60 days	Overdue 61-90 days	Overdue >90 days	Total
Estimated unbilled trade receivables	-	-	-	-	-	-
Invoiced trade receivables	44,620	10,370	727	3,655	308	59,680
Allowance for expected credit losses	-	-	-	-28	-308	-336
<b>Total trade receivables</b>	<b>44,620</b>	<b>10,370</b>	<b>727</b>	<b>3,627</b>	<b>0</b>	<b>59,344</b>
Expected credit loss rate	0.0%	0.0%	0.0%	0.8%	100.0%	0.6%

PARENT COMPANY						
31 December 2018	Current	Overdue <30 days	Overdue 30-60 days	Overdue 61-90 days	Overdue >90 days	Total
Estimated unbilled trade receivables	2,482	-	-	-	-	2,482
Invoiced trade receivables	59,135	3,859	-	-	57	63,051
Allowance for expected credit losses	-31	-2	-	-	-24	-57
<b>Total trade receivables</b>	<b>61,586</b>	<b>3,857</b>	-	-	<b>33</b>	<b>65,476</b>
Expected credit loss rate	0.1%	0.1%	-	-	42.1%	0.1%

PARENT COMPANY						
31 December 2017	Current	Overdue <30 days	Overdue 30-60 days	Overdue 61-90 days	Overdue >90 days	Total
Estimated unbilled trade receivables	-	-	-	-	-	-
Invoiced trade receivables	20,649	3,078	33	3,438	-	27,198
Allowance for expected credit losses	-	-	-	-	-	-
<b>Total trade receivables</b>	<b>20,649</b>	<b>3,078</b>	<b>33</b>	<b>3,438</b>	-	<b>27,198</b>
Expected credit loss rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
<b>Allowance as at 1 January</b>	<b>336</b>	-	-	-
Provision for expected credit losses	237	362	57	-
Translation differences	20	-26	-	-
<b>Allowance as at 31 December</b>	<b>593</b>	<b>336</b>	<b>57</b>	-

## Note 24 Prepaid expenses and accrued income

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Prepaid rent	1,090	2,006	1,090	1,072
Accrued sales revenue	-	1,923	-	1,923
Insurance premiums	681	816	313	542
Prepaid marketing and sales costs	1,506	-	722	171
Prepaid R&D expenses	-	515	-	515
Other items	1,904	1,906	502	476
<b>Total</b>	<b>5,181</b>	<b>7,166</b>	<b>2,627</b>	<b>4,699</b>

## Note 25 Owed to credit institutions

	CURRENCY	NOMINAL AMOUNT	UTILISED AMOUNT	UNUTILISED AMOUNT	INTEREST RATE TERMS	MATURITY
Bank loans (revolving lines of credit)	SEK	204,987	119,000	85,987	Stibor + 1.4%	2020-07-27
Accrued interest	SEK		19			
Capitalised arrangement expenses	SEK		-538			
<b>Recognised amount</b>			<b>118,481</b>			
Overdraft facility	SEK	30,000	-	30,000	Stibor + 1.1%	2020-07-27
<b>Total</b>		<b>234,987</b>		<b>115,987</b>		

	2017	Cash flows	Foreign exchange movement	Amortization	2018
Short-term borrowings	177,037	-70,200	12,182	-	119,019
Capitalized arrangement expenses	-1,124	-	-	586	-538
<b>Total liabilities from financing activities</b>	<b>175,913</b>	<b>-70,200</b>	<b>12,182</b>	<b>586</b>	<b>118,481</b>

Probi AB has a financing agreement with Handelsbanken that was signed on 27 July 2016 and runs until 27 July 2020. The agreement includes a revolving credit facility in an original amount of MUSD 35 and an overdraft facility of MSEK 30. As of the fourth quarter of 2018, in accordance with this agreement, Probi has decided to denominate the revolving credit facility in SEK. The scope of the revolving loan has been reduced to the equivalent of MUSD 1.4 per quarter and at year-end it was MSEK 205.0.

MSEK 119.0 of the facility was utilised at 31 December 2018. The overdraft facility had not been utilised at year-end. The use of the revolving credit facility is fixed for a period of three months at a time, which is why the loan is classified as short-term.

The financing agreement contains two financial conditions or key ratios/covenants, which must be fulfilled during the contractual term. According to these conditions, the KPIs of net debt/EBITDA and interest coverage ratio must not deviate from agreed levels.

## Note 26 Accrued expenses and deferred income

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Accrued holiday pay including social security contributions	6,512	5,330	2,503	2,275
Social security contributions	726	676	726	676
Accrued administration and selling expenses	7,270	1,524	6,988	843
Accrued variable remuneration to employees	3,866	3,063	1,998	2,044
Other items	863	953	37	83
<b>Total</b>	<b>19,237</b>	<b>11,545</b>	<b>12,252</b>	<b>5,921</b>

## Note 27 Hedge accounting

Anticipated operating cash flows – hedge accounting

	DUE DATE	IN ORIGINAL CURRENCY	TUSD	AMOUNT TO RECEIVE (+) OR TO PAY (-) TSEK	VALUE CHANGE 31 DEC 2018 TSEK	VALUATION 31 DEC 2018 TSEK
Amount to be sold	2019-01-28	TUSD	436	3,922	28	3,950
Amount to be sold	2019-02-26	TUSD	655	5,877	42	5,919
Amount to be sold	2019-03-27	TUSD	503	4,502	33	4,535
Amount to be sold	2019-04-26	TUSD	198	1,767	12	1,779
Amount to be sold	2019-05-28	TUSD	260	2,314	16	2,330
Amount to be sold	2019-06-26	TUSD	183	1,625	11	1,636
Amount to be sold	2019-07-26	TUSD	231	2,045	12	2,057
Amount to be sold	2019-08-27	TUSD	273	2,410	14	2,424
Amount to be sold	2019-09-26	TUSD	217	1,911	10	1,921
Amount to be sold	2019-10-28	TUSD	208	1,826	9	1,835
Amount to be sold	2019-11-26	TUSD	413	3,616	15	3,631
Amount to be sold	2019-12-23	TUSD	190	1,660	6	1,666
			<b>3,767</b>	<b>33,475</b>	<b>208</b>	<b>33,683</b>

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Value change at opening balance	-136	6,040	-136	6,040
Realized hedge instrument	136	-6,040	136	-6,040
New acquisitions	208	-136	208	-136
<b>Value change at closing balance</b>	<b>208</b>	<b>-136</b>	<b>208</b>	<b>-136</b>

## Note 28 Pledged assets and contingent liabilities

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Chattel mortgages	800	800	800	800
Bank guarantee, Swedish Customs	268	165	268	165
<b>Total pledged assets</b>	<b>1,068</b>	<b>965</b>	<b>1,068</b>	<b>965</b>

The company has no contingent liabilities.

## Note 29 Related-party transactions

Transactions with related parties recognised in statement of comprehensive income:

	THE GROUP		PARENT COMPANY	
	2018	2017	2018	2017
Symrise AG (largest shareholder)	104	32	55	32
Symrise AG (largest shareholder)	-247	-15	-195	-15
Atherioco AB, related party:				
Jan Nilsson (Board member and Chairman of Probi Scientific Advisory Board)	-	-30	-	-30
Probiotic Consulting LLC, related party:				
Scott Bush (Board member)	-200	-165	-200	-109

During the year, Probi's principal owner, Symrise AG, was invoiced KSEK 104.4 (32.0) and Probi received invoices amounting to KSEK 246.8 (15.4) from Symrise AG. Board member Scott Bush invoiced fees amounting to KSEK 199.7 (165.1) for project-related consulting services by Probiotic Consulting LLC. The purchase and sale of goods and services to and from related parties is conducted on normal market terms. No other related-party transactions took place during the reporting period.

In addition to these transactions, the following Board fees were partly invoiced from own companies: Anna Malm Bernsten (board member) via Bernsten Konsult AB, Scott Bush (board member) via Probiotic Consulting LLC, Charlotte Hansson (board member) via Scandinavian Insight Consulting AB and Jonny Olsson (Board member) via Jonny Olsson Consulting. Furthermore, CEO Ole Søggaard Andersen invoiced his remuneration from his own company, OSA 2015. The amounts are recognised in Note 10 "Average number of employees, salaries, other remuneration and social security contributions."

## Note 30 Events after the balance-sheet date

No significant events took place after the balance-sheet date.

# SIGNATURES FOR THE ANNUAL REPORT

The Annual Report and consolidated financial statements were approved for issuance by the Board on 28 March 2019. The consolidated statement of comprehensive income and the statement of financial position, as well as the Parent Company's income statement and balance sheet will be presented to the Annual General Meeting on 7 May 2019 for adoption.

The Board of Directors and CEO affirm that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and that they provide a true and fair view of the Group's financial

position and earnings. The Annual Report has been prepared in accordance with generally accepted accounting standards and provides a true and fair view of the Parent Company's financial position and earnings.

The Directors' Report for the Group and Parent Company provides a true and fair overall account of the development of the Group's and Parent Company's business, financial position and earnings and describes significant risks and uncertainties facing the Parent Company and the companies within the Group.

Lund, 28 March 2019

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*

Tom Rönnlund  
*CEO*

Our audit report was issued on 2 April 2019  
Ernst & Young AB

Peter Gunnarsson  
*Authorised Public Accountant*

# AUDITOR'S REPORT

To the general meeting of the shareholders of Probi AB (publ), corporate identity number 556417-7540

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of Probi AB (publ) for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 44-74 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 49-51. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the

group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Other matters

The audit of the annual accounts for 2017 was performed by another auditor who submitted an auditor's report dated 14 March 2018 with unmodified opinion in the Report on the annual accounts and consolidated accounts.

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

### Capitalized development cost

#### Description

Book value of capitalized development cost amounts to 44,3 MSEK in the consolidated statement of financial position and in the

financial statement of the parent company per 31 December 2018. Development expenditure is recognized as an asset if the product or process are technologically and commercially useful and if the company has sufficient resources to complete the development and then sell or use the intangible asset in their production. On a regular basis the company tests if events or changes in conditions indicate any impairment requirement. Impairment testing for projects are made through calculation of net present value of future cash flows. Projects lacking estimated future economic benefits are impaired. Forecasted future cashflows are based on assumptions of future revenues.

The initial recognition of capitalized development costs and the impairment tests performed are based on assumptions applied by the company and represent significant amounts. We have thus determined capitalized development cost to represent a key audit matter.

A description of the accounting policies and important assumptions applied are included in note 2 and note 4. Note 14 contains information about the amounts of capitalized development cost, depreciation and impairment.

#### How our audit addressed this key audit matter

During our audit we have evaluated and tested the company's process for assessing if an expenditure fulfills the criteria for being capitalized as development cost. We have also evaluated and tested the company's process for assessing indications of impairment and tested the impairment test, for example by review of the reasonableness of assumptions of future revenues. We have also examined whether the disclosures in the annual report are appropriate.

### Other intangible assets and shares in group companies

#### Description

Other intangible assets such as customer relations, technologies and goodwill amount to 754,2 MSEK in the consolidated statement of financial position and shares in subsidiaries amounts to 909,3 MSEK in the financial statement of the parent company per 31 December 2018. The company evaluates whether the book value of these assets

exceeds its recoverable amount on an annual basis or upon indications of declining value. The recoverable amount is determined for each cash-generating unit through means of a calculation of net present value of future cash flows. Future cash flows are based on various assumptions by management such as development in earnings, growth, investment needs and discount rates.

A description of the impairment tests is included in note 17. Note 15 through 17 includes information about the amounts of cost, depreciation and impairment. Note 20 contains a specification of shares in subsidiaries including carrying amounts.

*How our audit addressed this key audit matter*  
During our audit we have evaluated and tested the company's process for constructing the impairment test, for example by evaluating the accuracy of forecasts and assumptions made historically. With the support of our valuation specialists, we have examined the company's method and model for conducting impairment tests. We have evaluated and tested the company's sensitivity analysis and conducted independent sensitivity analysis for key assumptions. We have evaluated the chosen discount rate and assumptions on long-term growth with support of our valuation specialists. We have examined whether the disclosures in the annual report are appropriate.

### Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 2-43 and 78-83. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and

obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

### Report on other legal and regulatory requirements

#### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Probi AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

#### Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

#### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the

dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

#### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based

primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

#### The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 49-51 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of Probi AB (publ) by the general meeting of the shareholders on the 2 May 2018 and has been the company's auditor since the 2 May 2018.

Malmö, 2 April 2019

Ernst & Young AB

Peter Gunnarsson  
Authorized Public Accountant

# BOARD OF DIRECTORS



## **Jean-Yves Parisot** Chairman of the Board, born 1964.

**Education:** MBA and DVM (Doctor in Veterinary Medicine).

**History:** Chairman of the board since 2015. President Diana, a division of the Symrise Group. Formerly leading roles with Air Liquide, Danisco, Rhodia, Rhône-Poulenc, Merial and Pfizer.

**Other Board assignments:** President of the Board of VetAgroSup

**Shares in the company:** –

**Independent in relation to the company:** Yes

**Independent in relation to major shareholders:** No



## **Jonny Olsson** Board member, born 1964.

**Education:** Master of Business Administration degree.

**History:** Board member since 2015. Owner and CEO of Jonny Olsson Consulting AB. Formerly leading roles with Tetra Pak, Oriflame and Ericsson.

**Other Board assignments:** Liquid Consulting Inc & AB.

**Shares in the company:** 1,284 shares.

**Independent in relation to the company:** Yes

**Independent in relation to major shareholders:** Yes



## **Jan Nilsson** Board member, born 1953.

**Education:** Medical programme and Doctor of Medicine, Karolinska Institute, Sweden.

**History:** Board member since 2010. Professor of Experimental Cardiovascular Research at Lund University. Formerly held such positions as Dean of the Faculty of Medicine at Lund University, 2000–2005, and Deputy Secretary General for the Medical Research Council, 1995-1999.

**Other Board assignments:** Atherioco AB, MedScienta AB and the Swedish Research Council.

**Shares in the company:** –

**Independent in relation to the company:** Yes

**Independent in relation to major shareholders:** Yes



## **Charlotte Hansson** Board member, born 1962.

**Education:** Candidate of Sciences in Biochemistry, University of Copenhagen, Market & Economics, IHM (Institute for Higher Market Education), Stockholm.

**History:** Board member since 2017. Owner and CEO of Scandinavian Insight Consulting AB. Formerly leading roles with MorgonTidig Distribution KB, Jetpak Group AB, Danzas ASG Eurocargo AB, Carl Zeiss AB and Beckman Coulter.

**Other board assignments:** Orio AB, DistIT AB and Momentum Group AB.

**Shares in the company:** 500 shares.

**Independent in relation to the company:** Yes

**Independent in relation to major shareholders:** Yes





**Scott Bush** Board member, born 1956.

**Education:** MBA and B.Sc.

**History:** Board member since 2017. Owner and President of Probiotic Consulting LLC. Formerly leading roles with DuPont, Danisco, and Rhodia.

**Other board assignments:** International Probiotics Association

**Shares in the company:** –

**Independent in relation to the company:** Yes

**Independent in relation to major shareholders:** Yes



**Anna Malm Bernsten** Board member, born 1961.

**Education:** M.Sc., KTH

**History:** Board member since 2017. Owner and CEO of Bernsten Konsult AB. Formerly leading roles with Oatly, GE Healthcare Life Sciences, ASSA ABLOY, and Pharmacia & Upjohn.

**Other board assignments:** CellaVision AB, Medivir AB, Björn Axén AB, Moberg Pharma AB, Biolamina AB and Pägengruppen AB.

**Shares in the company:** –

**Independent in relation to the company:** Yes

**Independent in relation to major shareholders:** Yes



**Irène Corthésy Malnoë** Board member, born 1958.

**Education:** PhD in Molecular Biology, Lausanne University and Master in Technology Enterprise, IMD Business School.

**History:** Board member since 2018. Senior consultant within Life Science. Formerly leading roles with Nestlé Health Science, NRC and the Division of Gastroenterology, at Lausanne University Hospital.

**Other board assignments:** –

**Shares in the company:** –

**Independent in relation to the company:** Yes

**Independent in relation to major shareholders:** Yes

# MANAGEMENT



**Tom Rönnlund** CEO, born 1972.

**Education:** M.Sc. Business and Economics, Stockholm University.

**History:** Tom Rönnlund joined Probi as CEO in 2019. Before joining Probi, Tom served as CEO for Navamedic ASA, a stock-listed Norwegian pharmaceutical and medtech company. Tom has more than 20 years' experience working in the healthcare industry, and has held several positions in sales, marketing and general management at IQVIA and in international biopharmaceutical companies such as Bristol-Myers Squibb and Eli Lilly.

**Shares in the company:** –



**Henrik Lundkvist** CFO, born 1977.

**Education:** M.Sc. Business and Economics, Lund University.

**Historik:** Henrik Lundkvist joined Probi as CFO in January 2019 from GCE Group, a global manufacturer of gas control equipment, where he served as CFO since 2015. Prior to that he has held senior finance positions at E.ON Sverige AB and began his career as an auditor with EY.

**Shares in the company:** –



**Niklas Brandt** Vice President HR & IT, born 1959.

**Education:** Business Administration degree, Lund University.

**History:** Niklas Brandt has been in the company since 2008 when he was employed as CFO. He joined the company from Moving AB, where he was CFO for six years. Prior to that he has held a number of senior positions in finance and administration in various companies, such as Tibnor and EF Education.

**Shares in the company:** 1,250 shares.



**Linda Neckmar** Vice President EMEA and APAC, born 1973.

**Education:** M.Sc. Chemical Engineering, Lund University.

**History:** Linda Neckmar joined Probi 2011 as Marketing and Sales Director Consumer Healthcare. Linda Neckmar has extensive experience from the biotech industry, both from pharmaceutical R&D, international business development and marketing & sales. Prior to joining Probi she worked for Biolvent International AB and OxiGene Inc.

**Shares in the company:** 1,500 shares.



## David Winkler

Vice President Americas, born 1972.

**Education:** B.Sc. Foods and Nutrition and M.Sc. Food Science & Chemistry, Kansas State University, Executive MBA, Benedictine College.

**History:** David Winkler joined Probi as Director of Sales and Commercialization, Americas in 2017. Previously he served as Director of Sales for DuPont's Probiotics and Dietary Supplement business for North America. He was with Danisco/DuPont for 16 years and has held a number of management positions within sales, product development and product management.

**Shares in the company:** –



## Steve Prescott

Vice President Marketing, born 1970.

**Education:** Bachelor Business Administration, B.Sc. Biochemistry, M.Sc. Organic Chemistry, MBA Integrated Management.

**History:** Steve Prescott joined Probi in 2017 as Marketing Director, Americas. Prior to joining Probi he worked for DuPont as Global Product Manager for probiotics. Steve Prescott has held various positions in the pharmaceutical industry including product specialist with Pfizer and US product manager with Johnson Matthey Pharmaceutical and Global Sales Director at Pennakem.

**Shares in the company:** –



## Titti Niskanen

Lead R&D, born 1965.

**Education:** B.Sc. Chemistry and Microbiology, Stockholm University; PhD Neuroscience, Karolinska Institute, Stockholm.

**History:** Titti Niskanen joined Probi in 2015 as Clinical Project Director, responsible for project management and clinical operations. Titti has extensive experience of pharmaceutical development within several therapeutic areas, both from pharmaceutical and biotech companies. Prior to joining Probi Titti has held positions within R&D and project management at Astra Zeneca, Biolvent International AB and Camurus AB.

**Shares in the company:** 25 shares.



## Niklas Larsson

Lead Scientific Affairs, born 1970.

**Education:** PhD Analytical Chemistry, Lund University.

**History:** Niklas Larsson joined Probi in 2008 as Research Director. Prior to joining Probi, he worked within research for Novo Nordisk and as R&D Director for a venture capital funded medical devices company in Denmark.

**Shares in the company:** –



## Andy McShea

Vice President Operations, born 1970.

**Education:** B.Sc. Cell Biology and Immunology, PhD Bioengineering.

**History:** Andy McShea joined Probi as Vice President Operations in 2018. Prior to joining Probi, Andy worked for a Houston-based Private Equity fund managing the operations of portfolio businesses in food, regenerative medicine and medical devices. Before that he served as Vice President of Biology and Chemistry at CombiMatrix Corp and Chief Operating Officer at Theo Chocolate. Andy began his career as a scientist working for companies such as Novartis and Bristol Myers Squibb.

**Shares in the company:** –

# EXPLANATION OF KPIs

## Definition of performance measures not defined in IFRS

The company presents certain financial key ratios in the annual report that are not defined according to IFRS. The company believes that these measures provide valuable supplementary information to investors and company management and more comparative information for reporting periods. Since not all companies calculate financial measures in the same way, they are not always comparable with the measures used by other companies. Accordingly, these financial key ratios are not to be considered to replace key ratios as defined according to IFRS.

*The following measures are recognised in the annual accounts:*

### Operating profit/EBIT

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

### Operating profit/EBIT adjusted for currency effects

Operating profit/EBIT adjusted for currency effects is defined as net profit before financial income and expenses and tax for the period translated at the preceding period's exchange rates.

### EBITDA

EBITDA is defined as operating profit/EBIT before depreciation, amortisation and impairment.

### Operating margin

The operating margin is defined as EBIT divided by net sales.

### EBITDA margin

The EBITDA margin is defined as EBITDA divided by net sales.

### Gross margin

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

### Market capitalisation on the closing date

Market capitalisation on the closing date is defined as the share price at the end of the period multiplied by the number of shares outstanding.

### Net sales growth, local currency

Net sales growth, local currency, is defined as net sales for the year translated at the preceding year's exchange rates divided by the preceding year's net sales.

### Operating expenses

Operating expenses are the sum of costs of goods sold, sales and marketing costs, research and development costs, administration expenses, other operating income and other operating expenses.

DEFINITIONS OF KEY RATIOS					
Operating profit/EBIT	2018	2017	2016	2015	2014
Net income	76,250	69,092	101,847	49,039	21,765
Income taxes	22,310	23,233	24,836	14,051	6,325
Financial result	2,556	11,762	-6,718	-22	-1,041
<b>Operating profit/EBIT</b>	<b>101,116</b>	<b>104,087</b>	<b>119,965</b>	<b>63,068</b>	<b>27,049</b>
<b>EBITDA</b>					
Operating profit/EBIT	101,116	104,087	119,965	63,068	27,049
Depreciation and amortisation	53,821	53,231	21,552	6,070	5,419
Discarding and Impairment	-	-	11,051	106	3,740
<b>EBITDA</b>	<b>154,937</b>	<b>157,318</b>	<b>152,568</b>	<b>69,244</b>	<b>36,208</b>

# ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Tuesday 7 May 2019 at 3:00 p.m. at Elite Hotel, Ideon Gateway, Scheelevägen 27, Lund.

## Right to participate

To be entitled to participate in the Annual General Meeting, shareholders must be registered in the shareholders' register maintained by Euroclear Sweden AB as of Tuesday 30 April 2019 and shall have notified the company of their intention to participate no later than Tuesday 30 April 2019.

Shareholders whose shares are registered with a trustee must temporarily re-register their shares in their own name with Euroclear Sweden AB in order to participate in the Meeting. Such registration must be completed no later than Tuesday 30 April 2019. This

means that shareholders must notify the trustee of their intention to temporarily re-register these shares in ample time before this date.

## Notification of participation:

Notification of participation in the Meeting can be made:

- in writing under address Annual General Meeting, Probi AB, Ideon Gamma 1, SE-223 70 Lund
- by e-mail to: [bolagsstamma@probi.com](mailto:bolagsstamma@probi.com)
- by calling +46 (0)46 286 89 20

The notification should include the following:

- name
- civic registration number or corporate registration number
- number of shares
- daytime telephone number
- where applicable, the number of advisors (max. two) intending to participate in the Meeting.

If shareholders intend to be represented by proxy, a power of attorney and other authorisation documents must be included with the application. The name of the proxy must be provided. A power of attorney form is available upon request.

# FINANCIAL CALENDAR FOR 2019

Interim report Q1 2019 .....	29 April 2019
Annual General Meeting pertaining to 2018 .....	7 May 2019
Interim report Q2 2019 .....	19 July 2019
Interim report Q3, 2019 .....	25 October 2019
Year-end report 2019 .....	11 February 2020

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## 2018 ANNUAL REPORT

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