

ACQUISITION COMPLETED, RIGHTS ISSUE SUCCESSFUL AND YET ANOTHER SALES RECORD

FOURTH QUARTER OF 2016

- **NET SALES** amounted to MSEK 194.0 (35.9), including MSEK 75,6 from acquisitions.
- **OPERATING PROFIT** totalled MSEK 43.6 (3.7).
- **PROFIT AFTER TAX** amounted to MSEK 36.8 (2.7).
- **PROFIT AFTER TAX PER SHARE** was SEK 3.46 (0.30).
- **CHANGE IN CASH AND CASH EQUIVALENTS** amounted to MSEK -864.5 (0.0). The purchase consideration of MSEK 900 for the acquisition was paid on 3 October.

ACCUMULATED 2016

- **NET SALES** amounted to MSEK 443.5 (215.7), including MSEK 76 from acquisitions.
- **OPERATING PROFIT** totalled MSEK 130.3 (63.1). Operating profit was charged with acquisition costs of MSEK 16.2.
- **PROFIT AFTER TAX** amounted to MSEK 108.6 (49.0).
- **PROFIT AFTER TAX PER SHARE** was SEK 11.43 (5.38).
- **CHANGE IN CASH AND CASH EQUIVALENTS** amounted to MSEK -39.8 (+34.8). Probi paid dividends of MSEK 9.1 (7.7).

SIGNIFICANT EVENTS DURING THE FOURTH QUARTER:

- The acquisition of Nutraceutix was completed on 3 October and the integration is progressing well
- The rights issue was successfully implemented
- Yet another sales record in the quarter, excluding acquisitions and currency effects

CEO COMMENTS ON THE BUSINESS:

"We are building a globally leading probiotics group and the acquisition of Nutraceutix in 2016 was a major step forward. The acquisition was completed in early October and the integration process is working well. The rights issue was successful, and important for funding the acquisition.

The two companies complement each other. Our market position in North America is improving, and opportunities for continued global growth have increased significantly. We have highlighted three of Probi's proprietary probiotic strains that have not yet reached the market, and are using them to broaden our range in the US which has immediately created added value. We believe that the greatest synergy from the acquisition will initially come from the sales growth generated by these new strains.

The acquisition doubled Probi's current sales with pro forma net sales of MSEK 686 for 2016. Total operating profit for the two operations for the full-year 2016 was approximately MSEK 190 on a proforma basis.

During the year, the ordinary operations continued to perform favourably. We set a quarterly sales record for three of the year's four quarters. In the last quarter, we posted net sales of MSEK 118. Organic growth for the full-year was 71%.

Operating profit for the full-year totalled MSEK 130 (63), and was charged with transaction costs of MSEK 16, a partial impairment loss of MSEK 11 and integration costs of MSEK 5, all of which are nonrecurring.

In addition to opportunities in the US, new agreements were also signed with several European markets during the year, and we are looking forward to the future with confidence."

INVITATION TO TELECONFERENCE:

Time: Tuesday, 24 January 2017 at 10.00 a.m. Tel: +46 (0)8 56 64 26 91. Participants from Probi: Peter Nählstedt, CEO and Niklas Brandt, CFO. The presentation is available at www.probi.se and www.financialhearings.com

FOR FURTHER INFORMATION, PLEASE CONTACT:

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This a translation of the Swedish version of the interim report. When in doubt the Swedish wording prevails.

This information is information that Probi AB is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person set out above, at 08.00 CET on 24 January 2017.

ABOUT PROBI

Probi AB is a Swedish publicly traded bioengineering company that develops effective and well-documented probiotics. Through its world-leading research, Probi has created a strong product portfolio in the gastrointestinal health and immune system niches. Probi's products are available to consumers in more than 30 countries worldwide. Probi's customers are leading food, health-product and pharmaceutical companies in the Functional Food and Consumer Healthcare segments. In 2016, Probi generated sales of MSEK 444. Probi's shares are listed on Nasdaq Stockholm, Mid Cap. Probi has about 4,700 shareholders. For more information, please visit www.probi.se.



OPERATIONS

The acquisition of Nutraceutix

The acquisition confirms Probi's position as one of the four largest global, integrated probiotic operators. It creates a solid platform for further acquisitions, which can initially help to strengthen Probi's market presence and growth potential, while continuing to broaden the product offering. The combination of Probi's strong research focus and Nutraceutix' manufacturing experience will enable Probi to develop the combined customer portfolio with both knowledge and a broad product offering. Access to own production creates flexibility and in-depth knowledge of the entire value chain, which will strengthen Probi's competitiveness and cost structure.

Pace of innovation and new product offerings are key drivers of the probiotic supplement market in North America. The acquisition of Nutraceutix and the presence that Probi will gain in the US market will enable the company to act even faster there.

Parts of the Nutraceutix product range have already been identified as suitable for the international market through the Probi sales channels.

Probi paid a cash consideration of MUSD 105 (equivalent to MSEK 900), plus adjustments for working capital and other contractual obligations. Including these adjustments, the purchase consideration was MUSD 106.4, or approximately MSEK 912 at the rate of exchange on the date of closing. The acquisition was financed with proceeds of MSEK 602 from a rights issue, bank loans and own funds.

On a pro forma basis, the new Group's sales amounted to MSEK 686 in 2016, meaning if the acquisition had been completed on 1 January 2016. Total operating profit for the two operations for the full-year 2016 was approximately MSEK 190 on a proforma basis, excluding acquisition cost.

The information required for a complete determination of the purchase price allocation was not available on the publication date of this interim report. A full determination of the purchase price allocation is expected to be provided in the interim report for Q2 2017.

A preliminary acquisition analysis is presented together with the detailed financial information on page 15.

Consumer Healthcare business area

2016 proved yet another strong year for Consumer Healthcare. North America in particular, led by the US, continued to rise sharply. North America is now the business area's largest market. Probi has gained a strong foothold in the US in recent years, during which time the total North American market has grown rapidly.

The business area has also been successful in Asia, among other with partners in South Korea. Asia remains a market with huge potential for Probi.

The expansion of Probi's market and sales organisation in 2016 combined with higher market growth led to a number of new and significant agreements during the year, resulting in a new agreement covering 18 international product launches and a breakthrough in the strategic German market.

During the year, Probi's latest probiotic platforms – Probi FerroSorb[®] and Probi Järn[®] – were successfully launched onto the Swedish market. Probi FerroSorb has been shown to improve the body's absorption of iron in comprehensive clinical trials.

Some of the major contracts presented by Consumer Healthcare in 2016:

- Probi Digestis[®] was launched onto the German market after signing a new agreement. This represents a major step forward in one of the largest markets in Europe.
- Probi Järn was launched successfully in Sweden. Probi Järn is based on the new Probi FerroSorb product platform, established in 2015. Probi FerroSorb was also launched in Austria during the year.
- License and distribution agreements for Probi's digestive health capsules containing the *Lactobacillus plantarum* 299v (LP299V[®]) bacterial strain covering 18 markets, mainly in the EU and several growth markets. The launch is scheduled for the first half of 2017, initially onto the European market and then onto other key markets, including Russia and China, following approval by local regulatory authorities.
- A distribution agreement was signed regarding a launch in Singapore. The launch will comprise Consumer Healthcare products from Probi's Probi Digestis, Probi Immun[®] and Probi FerroSorb platforms.

Functional Food business area

Proviva has maintained its leading position in a large and competitive market. During the fall Danone made a relaunch in the Swedish market.

Sales of GoodBelly, marketed by US company NextFoods, have shown a positive trend in the US market and continue to grow in popularity. New On-the-Go Packaging products, new sales channels and creative marketing activities contributed to this success. The range was broadened with a protein shake in three different flavours. Soya-based foods are growing rapidly in western Europe. In Sweden, the business area entered a partnership with Bo Food during the year, which produces ice cream made from soya beans with Probi's *Lactobacillus plantarum* 299v (LP299V[®]) bacterial strain. Bo Food launched its probiotic ice cream in Europe in 2016, starting with a number of selected stores in Sweden. The ice cream was subsequently launched in Germany and Spain, which are more attractive markets in terms of size. Bo Food's vegan ice cream has successfully demonstrated how Probi's probiotics work well in frozen food products.

During the year, the business area signed an agreement to acquire a license for two probiotic bacterial strains for food applications, primarily dairy products. The agreement strengthens Functional Food's ability to offer these types of applications. The license applies globally, with the exception of the Nordic countries. The agreement also includes the intellectual property rights for two thermostable bacterial strains, enabling Probi to expand its offering to new applications.

SALES AND COSTS

Full-year 2016

During the year, Probi's net sales totalled MSEK 443.5 (215.7). The overall increase was MSEK 227.8, corresponding to 106%. Sales from the acquired operations amounted to MSEK 75.6 and organic growth to MSEK 152.2, or 71% organic growth. Most of Probi's sales are denominated in foreign currencies, mainly USD and EUR. Based on exchange rates from the preceding year, organic growth was MSEK 7.4 lower.

Net sales in Consumer Healthcare rose MSEK 231, or 130%, to MSEK 408 (177.6). The acquired operations accounted for MSEK 75.6 of this increase. Excluding the acquisition, growth was 87%. Net sales in Functional Food amounted to MSEK 35 (38.1). Overall, increased volumes for Functional Food were offset by the lower royalty rate in an agreement.

During the year, operating expenses amounted to MSEK 320.9 (157.6), up 104%. Cost of goods sold amounted to MSEK 172.9 (68.0), up 154%, due to higher sales and additional manufacturing costs in the US operations, where gross margins are lower than in the ordinary operations. Sales costs amounted to MSEK 47.1 (38.3), up 23%, mainly due to additional costs for the US sales organisation and a major advertising campaign in Sweden. Administrative expenses amounted to MSEK 49.8 (18.7), including transaction costs of MSEK 16.2 for the acquisition. Research and development expenditure amounted to MSEK 47.9 (30.6). A partial impairment loss of MSEK 11.1 was recognised for a capitalised clinical trial in the immune system area, due to Probi's assessment that only one of the findings will be commercially useful. Integration costs totalling MSEK 5 are included, allocated between the various functional areas. At the end of the year, the number of employees was 200, of whom 159 were employed in the acquired operations.

In 2016, operating profit for the Consumer Healthcare business area totalled MSEK 135.3 (52.3), representing an operating margin of 33%. Operating loss for the Functional Food business area totalled MSEK -5.0 (10.8). The decline was mainly attributable to investments in major promotional activities, aimed at reversing the sales trend in Sweden.

Consolidated operating profit for the year totalled MSEK 130.3 (63.1). Adjusted for currency effects, operating profit totalled MSEK 124.2. Operating profit was charged with transaction costs of MSEK 16.2, an impairment of MSEK 11.1 and integration costs of MSEK 5.0.

Fourth quarter, October-December 2016

Probi's net sales for the quarter amounted to MSEK 194.0 (35.9). The total increase was MSEK 158.1. Sales from the acquired operations amounted to MSEK 75.6 and organic growth to MSEK 82.5, representing 229%. Most of Probi's sales are denominated in foreign currencies, mainly USD and EUR. Based on exchange rates from the preceding year, organic growth was MSEK 5.1 lower, corresponding to 215%.

Net sales in Consumer Healthcare rose MSEK 160 to MSEK 185 (25.3). The acquired operations accounted for MSEK 75.6 of this increase. Excluding the acquisition, growth exceeded 300%. Net sales in Functional Food totalled MSEK 8.6 (10.6).

In the fourth quarter, operating expenses amounted to MSEK 154.5 (32.9), representing a year-on-year increase of MSEK 121.6. Cost of goods sold rose MSEK 83.7, due to higher sales and additional manufacturing costs in the

US, where gross margins are lower than in the operations excluding the acquisition. Sales costs amounted to MSEK 19.8 (9.9), up 10%, mainly due to additional costs for the US sales organisation and a major advertising campaign in Sweden. Administrative expenses amounted to MSEK 15.4 (5.3). Transaction costs of MSEK 4.5 are included in the fourth quarter. Research and development expenditure amounted to MSEK 24.3 (6.8). A partial impairment loss of MSEK 11.1 was recognised for a capitalised clinical trial in the immune system area, due to Probi's assessment that only one of the findings will be commercially useful. Integration costs totalling MSEK 5 are included, allocated between the various functional areas.

Operating profit for the quarter totalled MSEK 43,6 (3.7). Adjusted for currency effects, operating profit totalled MSEK 40,4.

Financial results

Interest expense of MSEK 2.3 was charged to earnings.

Other financial income and expenses are mainly derived from the revaluation of financial receivables and liabilities, and profit/loss from forward contracts. Profit of MSEK 7.4 arose from the market valuation of a forward contract signed to ensure liquidity for repayment of the bridge loan. The Parent Company has a financial receivable of MUSD 63 on the US subsidiary and a bank loan of MUSD 25. The subsequent currency risk arising is regularly hedged with forward contracts. Exchange gains and losses incurred in connection with the revaluation of the loan, or market valuation and realisation of forward contracts, is recognised gross in other financial income and expenses.

Profit after tax

Profit after tax for the year amounted to MSEK 108.6 (49.0). Tax expense was MSEK 28.5 (14.1).

Earnings per share

Earnings per share for the year amounted to SEK 11.43 (5.38).

Change in cash and cash equivalents

Cash and cash equivalents declined MSEK 39.9 (incr: 34.8) during the year, amounting to MSEK 103.2 (143.0) at the end of the period. The decline in cash and cash equivalents was mainly attributable to partial financing of the purchase consideration with own cash and cash equivalents. Dividends of MSEK 9.1 (7.7) were paid during the year. Cash flow from operating activities was MSEK 60.3 higher year-on-year, mainly due to the improved operating profit but adversely affected by an increase of working capital by MSEK 17.8 caused by the large increase in sales.

Capital expenditure

During the year, investments in intangible assets amounted to MSEK 16.3 (18.3), of which MSEK 1.9 (2.5) pertained to patents, MSEK 12.6 (15.8) to capitalised development expenditure and MSEK 1.8 to a license for bacterial strains acquired from the Swedish company Probac. Capitalised development expenditure was mainly related to clinical trials in immune function and digestive health. Investments in tangible assets amounted to MSEK 2.1 (1.2).

Probi invests in prioritised research and development projects to ensure long-term growth. R&D expenses accounted for 11% (13) of operating revenue.

SEGMENT INFORMATION

General information

Probi's business operations are organised in two business segments, each with its own operational manager: Consumer Healthcare and Functional Food. The Consumer Healthcare segment develops, markets and sells Probi's probiotics in partnership with pharmaceutical companies and other companies specialised in probiotics and personal care products, under Probi's proprietary brands or those of its partners. The acquired operations are included in CHC in their entirety. The Functional Food segment develops food that provides health benefits. Development in this segment is conducted in partnership with leading food companies, with the aim of commercialising and marketing products with high volume potential.

No business transactions are conducted between the two segments.

Operating revenue and profit per segment:

SEK 000s	Q4 2016			Q4 2015		
	CHC	FF	Total	CHC	FF	Total
Sales, goods	182,645	465	183,110	23,247	1,580	24,827
Royalty, licenses, etc.	2,717	8,152	10,869	2,091	9,021	11,112
Net sales	185,362	8,617	193,979	25,338	10,601	35,939
Other revenue	3,976	138	4,114	549	62	611
Operating revenue	189,337	8,756	198,093	25,887	10,663	36,550
Operating expenses	-141,024	-13,462	-154,486	-26,137	-6,730	-32,867
Operating profit/loss	48,313	-4,706	43,607	-250	3,933	3,683

SEK 000s	Full-year 2016			Full-year 2015		
	CHC	FF	Total	CHC	FF	Total
Sales, goods	398,988	1,421	400,409	167,537	2,558	170,095
Royalty, licenses, etc.	9,482	33,584	43,066	10,030	35,586	45,616
Net sales	408,470	35,005	443,475	177,567	38,144	215,711
Other revenue	7,355	377	7,732	4,648	325	4,973
Operating revenue	415,824	35,383	451,207	182,215	38,469	220,684
Operating expenses	-280,477	-40,381	-320,858	-129,949	-27,667	-157,616
Operating profit/loss	135,347	-4,998	130,349	52,266	10,802	63,068

CHC = Consumer Healthcare FF = Functional Food

The negative operating results in the Functional Food segment for both the full-year and the fourth quarter are mainly due to lower royalty rates and major marketing campaigns for the ProViva products. In both the third and fourth quarters, Probi made a nonrecurring investment in a relaunch of ProViva in Sweden, aimed at generating growth in the coming years.

In the fourth quarter, acquisition costs of MSEK 4.5 are included in the segment reporting and entirely reported in the CHC segment. The corresponding figure for the full-year for CHC is MSEK 16.2.

Revenue growth in Consumer Healthcare during the year remained largely attributable to the positive trend in the North American market and the addition of MSEK 75.6 from the acquired operations. In Functional Food, significant investment was made in R&D to support agreements signed during the year in relation to new markets and applications

Operating income distributed by geographic market:

SEK 000s	Q4 2016	Q4 2015	Full-year 2016	Full-year 2015
Sweden	14,472	13,559	56,011	50,670
Rest of Europe	7,559	5,226	23,361	18,640
North America	170,076	14,897	341,859	132,128
Rest of world	5,986	2,868	29,976	19,246
Total	198,093	36,550	451,207	220,684

The increase of almost 160% in North America includes a sale of MSEK 73.0 in the acquired operations. Excluding the acquisition, growth in North America was over 100%. Sweden increased 10% during the year, while growth was 25% in Rest of Europe, and 55% in Rest of World.

In the fourth quarter, North America increased MSEK 155. Excluding the acquisition, growth was MSEK 82. It should be noted that growth in the fourth quarter of 2015 was weak.

RESEARCH AND DEVELOPMENT

In 2016, Probi conducted the most comprehensive clinical programme in the history of the company. During the year, three clinical trials were concluded and four new trials commenced. In addition, the acquisition of Nutraceutix led to the development of three new product platforms based on scientifically documented bacterial strains from Probi's strain library, which had previously been included in both preclinical and clinical research studies, but not offered on the market. The three platforms, positioned toward improved gastrointestinal tract function and strengthened immune function of infants and young children, strengthened immune function of adults, and strengthened gastrointestinal tract and immune function of people with an impaired immune system, will now be commercialised and marketed, initially in the US. The aim of Probi's clinical trials is partly to secure and further develop current value generation by updating and expanding scientific documentation in the existing Probi Digestis®, Probi Defendum® and Probi FerroSorb® product platforms, and partly to build completely new product platforms in new indication areas.

The two major trials conducted during the year with the aim of improving clinical documentation for Probi's digestive health platform (Probi Digestis) and immune health platform (Probi Defendum) are both completed now. The primary objective of the trials was to further strengthen clinical documentation in order to apply for approval of future health claims in both EU and non-EU markets.

In the major trial conducted to expand on the knowledge and documentation of Probi Digestis (Probi Mage®) the results show, when accounting for the major degree of intra-individual variability in the trial, that a significantly higher percentage of the number of research subjects who were given *Lactobacillus plantarum* 299v (LP299V®) experienced an improvement in their IBS symptoms (based on the IBS Symptoms Severity Score, IBS-SSS) compared with those who were given a placebo. For the very first time in a Probi trial, the trial included a comprehensive analysis of the microbiota to determine how they are affected by the intake of LP299V®. Analyses are in progress and it is expected that the complete trial results can be published in 2017. In the same field, a smaller study – or pilot study – was conducted during the year in order to evaluate a methodology that is new for Probi, to demonstrate the efficacy of Probi Digestis on digestive problems. The pilot study showed positive results, which has led to plans for a larger study in 2017. Another new trial aimed at expanding the Probi Digestis target group to lower age groups was launched during the year within the same product platform.

The largest trial ever conducted by Probi, with the objective of expanding on the knowledge and documentation of Probi Defendum (Probi Frisk®), was completed in the second half of 2016. The trial was conducted over three common-cold seasons, and included a total of 900 people. The aim of the trial was to demonstrate the efficacy of Probi Defendum on the occurrence and severity of common cold symptoms. The trial, which is still under analysis, showed that those given Probi Defendum suffered significantly fewer colds than those who were given a placebo. The results showed no significant reduction in the severity of cold symptoms, according to a predefined analysis method. Since this was the primary objective, the trial results are not likely to be used as documentation for a health claim application in Europe. A partial impairment loss was recognised for this trial.

Based on the positive results in previous trials for iron absorption with one of Probi's bacterial strains, which led to a launch of the new Probi FerroSorb® product platform earlier this year, a new trial commenced in 2016 aimed at studying the effects of the product on the development of iron deficiency in pregnant women. The trial was conducted at a number of antenatal clinics in Sweden.

The ongoing trial in a new indication for Probi, and the research collaboration with Professor Michiel Kleerebezem from Host-Microbe Interactomics at Wageningen University in the Netherlands, both aimed at creating new future product platforms, are progressing as planned. The same applies for the two collaborative projects in oral health

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and skincare with Symrise. Based on earlier trials demonstrating that a combination of three of Probi's bacterial strains led to reduced bone loss in mice, a major clinical trial commenced in this area during the year. The trial is progressing as planned and all research subjects have been recruited.

At the end of 2016, an extensive research study on the development of gluten intolerance in children was completed. As part of the study, a combination of Probi's lactobacilli were given to a population of children at increased risk of developing gluten intolerance. Preliminary results show a positive trend for the product on the development of gluten intolerance in children, which will result in a patent application for Probi in a totally new indication area.

During the year, four studies of Probi's bacterial strains were published in scientific journals in the indications of stress, bone marrow transplantation and discomfort caused by diverticulosis. The results of Probi's clinical trials were presented at the following conferences: Vitafoods (Geneva), SupplySide West (Las Vegas) and Microbiome Summit 2016 (London).

EMPLOYEES

At the end of the period, Probi had 200 (37) employees, of whom 87 (24) were women and 113 (13) men. The average number of employees during the year was 77 (32).

RELATED-PARTY TRANSACTIONS

During the reporting period, Symrise AG, Probi's largest owner, was invoiced for SEK 283,000 (29) for laboratory material. Board member Jan Nilsson invoiced fees of SEK 60,000 (60,000) pertaining to Probi's Scientific Advisory Board via Atherioco AB. The purchase and sale of goods and services from and to related parties is conducted on market-based terms. No other related-party transactions occurred during the reporting period.

PROPOSED APPROPRIATION OF PROFIT

The Board and the Chief Executive Officer propose to the 2017 Annual General Meeting that the company pay a total dividend of MSEK 11.6 (9.1) for 2016, corresponding to SEK 1.00 (1.00) per share. The proposal entails that the dividend per share remains unchanged compared with the year-earlier period.

SIGNIFICANT RISKS AND UNCERTAINTIES

The risks and uncertainties to which Probi's operations are exposed are described on pages 51-52 of the printed 2015 Annual Report. At 31 December 2016, no significant changes were considered to have occurred to these risks or uncertainties. Through the acquisition of Nutraceutix and the financing of the operations in dollars the currency risks have increased in the parent company. The currency exposure is hedged continuously by currency forward contracts.

CALENDAR

Interim report Q1, 2017	4 May 2017
Annual General Meeting for 2016	4 May 2017
Interim report Q2, 2017	19 July 2017
Interim report Q3, 2017	25 October 2017
Year-end report, 2017	25 January 2018

ANNUAL GENERAL MEETING

The Annual General Meeting for 2016 will be held in Lund on Thursday, 4 May 2017 at 3:00 p.m. at Elite Hotel, Ideon Gateway, Scheelevägen 27, Lund, Sweden.

Shareholders who wish to have matters considered at the AGM are requested to notify the Chairman of the Board by Friday, 4 March 2017. Such proposals should be e-mailed to sofie.forsman@probi.se, or posted to: Annual General Meeting, Probi AB, Att: Sofie Forsman, Ideon Gamma 1, SE-223 70 Lund, Sweden

The 2016 Annual Report is scheduled for publication on Probi's website www.probi.se on about 31 March 2017.

ACCOUNTING AND MEASUREMENT POLICIES

The Group

The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act, RFR 1 Supplementary Accounting Regulations for Groups – January 2016, the International Financial Reporting Standards (IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union. This interim report has been prepared in accordance with IAS 34 "Interim Reporting" and the Swedish Annual Accounts Act. The condensed financial statements in the interim report encompass pages 8-11. Disclosures according to IAS 34 Interim Financial Reporting are provided both here and elsewhere in the interim report. As of this interim report, EMSA's guidelines on alternative performance measures will be applied.

The accounting policies that were applied when these consolidated financial statements were prepared were consistent for all presented periods, unless otherwise stated. The complete accounting policies can be found on pages 60-63 of the printed 2015 Annual Report.

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

Amounts and figures in parentheses pertain to comparative figures for the year-earlier period. Amounts are stated in Swedish kronor (SEK), thousands of Swedish kronor (KSEK) or millions of Swedish kronor (MSEK) according to that which is stated.

Parent Company

The Parent Company applies the same accounting policies as the Group, with the exceptions and supplements stipulated in RFR 2 Accounting for legal entities – January 2016. This interim report complies with the Swedish Annual Accounts Act.

Presentation format

The company has decided to change the presentation of the income statement from the cost by nature method to the functional method. The new format reflects the operations better following the acquisition of Nutraceutix. Historic comparative figures have been adjusted accordingly.

Financial instruments – Hedge accounting

All derivatives are relating to currency hedging contracts for currency exposure as a result of customer payments in dollars and are initially and subsequently valued at fair value in the balance sheet. When applying hedge accounting, the relationship between the hedging instrument and the hedged item is documented, as well as an assessment of hedge effectiveness, at both the inception of the transaction and on an ongoing basis. Effectiveness refers to the degree to which fair value and cash flow changes in the hedging instrument offset corresponding changes in the hedged item.

If the hedge accounting criteria are met, the effective portion of change in fair value when derivatives held for cash flow hedges are revalued 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. 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.

ASSURANCE BY THE BOARD OF DIRECTORS

The Board of Directors and the Chief Executive Officer provide their assurance that this year-end report gives a fair and accurate view of the Parent Company and the Group's operations, financial position and revenue, and describes the material risks and uncertainties facing the Parent Company and the Group.

Lund, 24 January 2017

Jean-Yves Parisot
Chairman of the Board

Jörn Andreas
Board member

Benedicte Fossum
Board member

Jan Nilsson
Board member

Jonny Olsson
Board member

Eva Redhe
Board member

Peter Nählstedt
CEO

Deloitte.

Auditor's review report of the interim financial information in summary (interim report) prepared in accordance with IAS 34 and Chapter 9 of the Swedish Annual Accounts Act (1995:1554).

To the Board of Directors of Probi AB (publ), Corp. Reg. No. 556417-7540

Introduction

We have conducted a review of the interim report for Probi AB (publ) as of 31 December 2016 and the full year that ended on this date. The Board of Directors and the Chief Executive Officer are responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express an opinion on this interim financial information based on our review.

Focus and scope of the review

We have conducted our review in accordance with the International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and significantly less scope than an audit in accordance with the International Standards on Auditing (ISA), and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Accordingly, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim report has not, in all material respects, been prepared for the Group in accordance with IAS 34 and the Swedish Annual Accounts Act, and for the Parent Company in accordance with the Swedish Annual Accounts Act.

Malmö, 24 January 2017

Deloitte AB

Per-Arne Pettersson

Authorised Public Accountant

Statement of comprehensive income (Group)

	Q4 2016	Q4 2015	Full-year 2016	Full-year 2015
Currency: KSEK				
Operating revenue				
Net sales	193,979	35,939	443,475	215,711
Other revenue	<u>4,114</u>	<u>611</u>	<u>7,732</u>	<u>4,973</u>
Total operating revenue	198,093	36,550	451,207	220,684
Operating expenses				
Cost of goods sold	<u>-93,839</u>	<u>-10,174</u>	<u>-172,873</u>	<u>-68,014</u>
Gross profit	104,254	26,376	278,334	152,670
Marketing and Sales	-19,776	-9,907	-47,131	-38,323
Administration	-15,429	-5,252	-49,832	-18,743
Research and Development	-24,284	-6,844	-47,930	-30,616
Other operating expenses	<u>-1,158</u>	<u>-690</u>	<u>-3,092</u>	<u>-1,920</u>
Operating profit	43,607	3,683	130,349	63,068
Interest incomes	49	2	49	128
Interest expenses	-2,343	-	-2,382	-
Other financial incomes	45,644	93	55,598	3,120
Other financial expenses	<u>-45,300</u>	<u>-190</u>	<u>-46,586</u>	<u>-3,207</u>
Profit before tax	41,656	3,588	137,028	63,090
Tax for the period	<u>-4,816</u>	<u>-861</u>	<u>-28,461</u>	<u>-14,051</u>
Profit for the period	36,840	2,727	108,567	49,039
Other comprehensive income				
Currency translation difference in the group	<u>20,952</u>	<u>-4</u>	<u>21,384</u>	<u>-4</u>
Total comprehensive income for the period	58,091	2,723	130,250	49,035

Number of shares at end of the reporting period	11 394 125	9 115 300	11 394 125	9 115 300
Average no. of shares	10 634 517	9 115 300	9 495 104	9 115 300
Earnings per share before and after dilution	3,46	0,30	11,43	5,38

Net profit and total comprehensive income are attributable in their entirety to the Parent Company's shareholders

Since the company has no outstanding convertible loans or outstanding warrants, no dilution effect arises.

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

Income statement (Parent Company)

	Q4 2016	Q4 2015	Full-year 2016	Full-year 2015
Currency: KSEK				
Operating revenue				
Net sales	118,362	35,939	367,857	215,711
Other revenue	<u>6 346</u>	<u>611</u>	<u>9,965</u>	<u>4,973</u>
Total operating revenue	124,708	36,550	377,822	220,684
Operating expenses				
Cost of goods sold	<u>-38,183</u>	<u>-10,174</u>	<u>-117,326</u>	<u>-68,014</u>
Gross profit	86,525	26,376	260,496	152,670
Marketing and Sales	-16,212	-9,971	-43,567	-38,397
Administration	-5,239	-5,252	-27,909	-18,713
Research and Development	-24,284	-6,852	-47,930	-30,614
Other operating expenses	<u>-1,158</u>	<u>-691</u>	<u>-3,092</u>	<u>-1,951</u>
Operating profit	39,632	3 610	137,998	62,995
Interest incomes	4,503	2	4,503	128
Interest expenses	-2,378	-	-2,417	-19
Other financial incomes	45,643	93	55,598	3,120
Other financial expenses	<u>-45,288</u>	<u>-191</u>	<u>-46,574</u>	<u>-3,403</u>
Appropriations	<u>85</u>	<u>105</u>	<u>85</u>	<u>105</u>
Profit before tax	42,197	3,619	149,193	62,926
Tax for the period	<u>-9,389</u>	<u>-884</u>	<u>-33,035</u>	<u>-14,031</u>
Profit for the period	32,808	2,735	116,158	48,895

Statement of comprehensive income (Parent Company)

Profit for the period	32,808	2,735	116,158	48,895
Hedge derivative	<u>299</u>	<u>-</u>	<u>299</u>	<u>-</u>
Total comprehensive income for the period	33,107	2,735	116,457	48,895

Consolidated statement of financial position (Group)

	31 Dec. 2016	31 Dec. 2015
Assets		
Fixed assets		
Capitalised development expenses	29,692	31,250
Patents and licenses	46,312	9,570
Goodwill	799,740	2,762
Equipment, tools and fixtures	41,490	4,581
Financial assets	<u>4,554</u>	-
Total fixed assets	921,788	48,163
Current assets		
Inventories	72,752	4,468
Current receivables	113,509	32,229
Cash and cash equivalents	<u>103,161</u>	<u>143,024</u>
Total current assets	289,422	179,721
Total assets	1 211,210	227,884
Equity and liabilities		
Equity	898,832	187,239
Deferred tax	111	122
Bank loans	225,717	-
Current liabilities	<u>86,550</u>	<u>40,523</u>
Total equity and liabilities	1 211,210	227,884

Balance sheet (Parent Company)

	31 Dec. 2016	31 Dec. 2015
Assets		
Fixed assets		
Capitalised development expenses	29,692	31,250
Patents and licenses	10,990	9,570
Equipment, tools and fixtures	3,747	4,581
Financial assets	<u>956,264</u>	<u>4,329</u>
Total fixed assets	1 000,693	49,730
Current assets		
Inventories	8,564	4,468
Current receivables	108,761	32,423
Cash and cash equivalents	<u>64,846</u>	<u>142,718</u>
Total current assets	182,171	179,609
Total assets	1 182,864	229,339
Equity and liabilities		
Equity	881,770	183,970
Untaxed reserves	470	555
Long-term liabilities to group companies	4,036	4,036
Bank loans	225,717	-
Current liabilities	<u>70,871</u>	<u>40,778</u>
Total equity and liabilities	1 182,864	229,339

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Changes in equity (Group)

Currency: KSEK

Reporting period, 1 Jan. 2015 - 30 Dec. 2015	Share capital	Other contributions received	Reserves	Result brought forward	Total equity
Opening balance, 1 Jan. 2015	46,827	64,740	-	34,386	145,953
Profit for the year				49,039	49,039
Other comprehensive income			-4		-4
Dividends for 2014				-7,749	-7,749
Equity, 30 Dec. 2015	46,827	64,740	-4	75,676	187,239

Reporting period, 1 Jan. 2016 - 30 Dec. 2016	Share capital	Other contributions received	Reserves	Result brought forward	Total equity
Opening balance, 1 Jan. 2016	46,827	64,740	-4	75,676	187,239
Profit for the year				108,567	108,567
Share issue	11,394	579,065			590,459
Other comprehensive income			21,683		21,683
Dividends for 2015				-9,116	-9,116
Equity, 30 Dec. 2016	58,221	643,805	21,679	175,127	898,832

Statement of cash flows

	Full-year 2016	Full-year 2015
Operating activities		
Profit before tax	137,028	63,090
Depreciation and discarding of fixed assets	22,246	6,176
Capital gains/losses from disposal of tangible fixed assets	27	31
Income tax paid	<u>-23,341</u>	<u>-16,689</u>
Cash flow from operating activities before changes in working capital	135,960	52,608
Change in inventories	-8,200	-907
Change in operating receivables	-32,295	-2,901
Change in operating liabilities	33,381	13,286
Currency differences in working capital	<u>-6,425</u>	-
Cash flow from operating activities	122,421	62,086
Investing activities		
Acquisition of intangible fixed assets	-16,257	-18,256
Acquisition of tangible fixed assets	-2,070	-1,238
Divestment of tangible fixed assets	315	-
Acquisition	<u>-912,067</u>	-
Cash flow from investing activities	-930,079	-19,494
Change in cash and cash equivalents		
New borrowings	213,076	-
Cash effects from currency swaps	-21,719	-
Loan fees	-1,759	-
Rights issue	601,610	-
Costs for rights issue	-14,296	-
Dividend to shareholders	<u>-9,116</u>	<u>-7,749</u>
Cash flow from financing activities	767,796	-7,749
Change in cash and cash equivalents	-39,863	34,843
Cash and cash equivalents at the beginning of the year	143,024	108,181
Exchange rate differences in cash and cash equivalents	-	-
Cash and cash equivalents at the end of the period	103,161	143,024
Interest paid and received		
Interest received	45	128
Interest paid	-3,727	-19

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Currency: KSEK

Key ratios		2016				2015			
		Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	Def.								
Net sales Functional Food, quarterly		8 618	10 759	8 486	9 642	10 600	8 417	9 148	9 979
Net sales Consumer Healthcare, quarterly		185 362	78 449	64 791	77 369	25 339	43 446	49 830	58 952
Total net sales, quarterly		193 979	89 208	73 277	87 011	35 939	51 863	58 978	68 931
Operating profit, quarterly*	1	43 607	30 738	20 663	35 341	3 683	16 347	15 694	27 344
EBITDA, quarterly*	2	60 762	32 517	22 350	36 939	5 290	17 991	17 239	28 724
Growth, accumulated, %*	3	105,6	38,8	25,3	26,2	59,5	88,6	119,5	161,3
R&D expenses as part of operating income, %*	4	11	9	10	8	13	12	11	10
Operating margin, %*	5	22,5	34,5	28,2	40,6	10,2	31,5	26,6	39,7
EBITDA margin, %*	6	31,3	36,5	30,5	42,5	14,7	34,7	29,2	41,7
Net margin, %*	7	21,5	38,2	35,3	39,7	29,2	33,1	33,3	41,7
Average no. of employees		77	37	37	36	32	31	28	26
Total assets		1 217 121	1 111 960	258 786	255 068	227 884	220 060	210 861	213 564
Working capital*	8	202 872	191 149	166 809	161 232	139 198	139 137	127 056	125 454
Liquid ratio, %*	9	250	121	536	482	432	483	409	260
Equity ratio, %*	10	74,3	22,5	85,8	84,0	82,2	83,8	81,3	78,8
Return on total assets, %*	11	18,0	12,9	23,0	14,6	31,3	30,1	22,3	14,1
Return on equity, %*	12	25,1	43,6	27,6	17,2	37,9	36,0	26,9	18,3
Equity per share, SEK*	13	79,40	27,46	24,37	23,50	20,54	20,24	18,80	18,47
Cash flow per share, SEK*	14	-3,50	90,46	2,90	1,10	3,82	3,82	1,47	2,03
Share price, SEK		475,50	350,00	248,00	121,00	141,50	138,50	131,00	108,75
Market cap	15	5 417 906	3 190 355	2 260 594	1 102 951	1 289 815	1 262 469	1 194 104	991 289

* Key ratios not defined according to IFRS.

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

Definitions of key ratios

- Total operating revenue less costs for goods for resale, employee benefit expenses, other external costs, depreciation/amortisation and disposal of assets
- Operating profit before depreciation, impairment, financial incomes and expenses and tax for the period
- Annual change in accumulated net sales
- Annual accumulated R&D expenses as a percentage of operating revenue. R&D expenses as a part of operating income is a key ratio that the Company considers to be relevant for investors who want to assess the Company's ability to develop new products and retain its competitiveness.
- Operating profit as a percentage of net sales, quarterly. Operating margin is a key ratio that the Company considers to be relevant for investors who want to assess the Company's possibilities to reach an industry level profitability.
- EBITDA as a percentage of net sales, quarterly. EBITDA margin is a key ratio that the Company considers to be relevant for investors who want to assess the Company's possibilities to reach an industry level profitability and if the Company's financial target of an EBITDA margin exceeding 20 percent is fulfilled.
- Profit before tax as a percentage of net sales
- Total current assets less current liabilities
- Total current assets excluding inventories as a percentage of current liabilities
- Equity as a percentage of total equity and liabilities. Equity ratio shows the share of the balance sheet total consisting of equity and has been included in order for investors to obtain a view of the Company's capital structure.
- Operating profit plus interest income as a percentage of average total equity and liabilities. Return on total assets is a key ratio that the Company considers to be relevant for investors who want to assess the Company's possibilities to reach reasonable, industry level return on the total capital made disposable by the shareholders and the lenders.
- Profit before tax as a percentage of average equity. Return on total equity is a key ratio that the Company considers to be relevant for investors who want to assess the Company's possibilities to reach an expected industry level return on the equity made disposable by the shareholders.
- Equity in relation to the number of shares outstanding
- Change in cash and cash equivalents in relation to the number of shares outstanding
- Share price at end of the period multiplied with number of shares outstanding.

Reconciliation of key ratios not defined according to IFRS		Q4	Full-year	Q4	Full-year
		2016	2016	2015	2015
1. Operating profit	Total operating revenue	198 093	451 207	36 550	220 684
	Goods for resale	-93 839	-172 873	-10 174	-68 014
	Marketing and Sales	-19 776	-47 131	-9 907	-38 323
	Administration	-12 356	-49 832	-5 252	-18 743
	Research and Development	-24 284	-47 930	-6 844	-30 616
	Other operating expenses	-1 158	-3 092	-690	-1 920
	Operating profit	46 680	130 349	3 683	63 068
2. EBITDA	Operating profit	46 680	130 349	3 683	63 068
	Depreciations	17 155	22 219	1 607	6 176
	EBITDA	63 835	152 568	5 290	69 244
4. Annual accumulated R&D expenses as a percentage of total operating revenue	R&D expenses		47 930		30 616
	Operating profit		451 207		220 684
			11%		14%
11. Return on total capital, %	Interest income		49		128
	Average total capital		722 503		201 888
12. Return on equity, %	Average equity		545 992		166 596

Acquisition analysis, Nutraceutix

On 3 October, Probi acquired the Nutraceutix operations and relevant assets in the form of an asset acquisition. The purchase price was MUS\$ 105 on a debt-free basis, plus adjustments for working capital on the closing date and other contractual adjustments. The price transferred was approximately MSEK 912, including preliminary adjustments, and paid in cash.

The information required for a complete determination of the purchase price allocation was not directly available on the publication date of this interim report. The acquisition analysis presented below is preliminary and a full determination of the allocation will be provided in the interim report for Q2 2017.

The total overvalue has now been reported as goodwill and no amortisations have thus impacted the result. This may change when the final purchase price allocation has been established.

On a pro forma basis, the new Group's sales amounted to MSEK 686 in 2016, meaning if the acquisition had been completed on 1 January 2016. Total operating profit for the two operations for the full-year 2016 was approximately MSEK 190 excluding acquisition costs.

The Group's administrative expenses include acquisition costs of MSEK 16.2.

Preliminary acquisition analysis (KSEK)

Tangible assets	36,896
Intangible assets	34,969
Inventories	56,589
Accounts receivable	43,922
Other current receivables	1,932
Current liabilities	-12,855
Goodwill	750,616
Net identifiable assets and liabilities	912,069
	-
Consideration transferred	912,069