

Year-end report

January-December 2018



Growth in fourth quarter closes the year

Significant events in the fourth quarter

- Fourth-quarter net sales rose to MSEK 163, up 36%, or MSEK 43 compared with the year-on-year period, due to continued recovery from a customer-specific destocking programme
- First commercial order after the introduction of Probi's product to improve bone health in postmenopausal women – Probi® Osteo
- Promising initial results from clinical trials to evaluate the effects of Probi's strains on physical performance and acute stress
- Tom Rönnlund appointed new CEO as of January 1, 2019 and Henrik Lundkvist new CFO as of January 7, 2019
- Board of Directors propose that the 2019 Annual General Meeting resolves that no dividends will be paid for the 2018 financial year

Financial overview

MSEK	Full-year 2018	Full-year 2017
Net sales	604.1	612.2
Net sales growth, constant currency, %	-2.2%	38.2%
Gross margin, %	46.0%	45.4%
EBITDA	154.9	157.3
EBITDA margin, %	25.6%	25.7%
Operating profit (EBIT)	101.1	104.1
Net income	76.3	69.1
Earnings per share before and after dilution, SEK	6.69	6.06
Share price on closing day, SEK	360.00	340.00
Market cap on closing day	4,101.9	3,874.0

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

Invitation to teleconference

Date: 13 February 2019

Time: 10:00 a.m.

Phone: +46 8 56 64 27 07

Participants from Probi:

Tom Rönnlund, CEO:

Henrik Lundkvist, CFO

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

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About Probi

Probi AB is a Swedish publicly traded bioengineering company. Probi's vision is to help people live healthier lives by delivering effective and well-documented probiotics, with proven health benefits based on scientific research.

Founded by scientists in Sweden in 1991, Probi is a multinational company, active in more than 40 markets around the world and holding over 400 patents worldwide. In 2018, Probi had net sales of MSEK 604. The Probi share is listed on Nasdaq Stockholm, Mid Cap. Probi had about 4,000 shareholders on December 31, 2018.

probi.com

This information is information that Probi AB is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person set out above, on 13 February 2019 at 8:00 a.m. CET. This is a translation of the Swedish version of the interim report. When in doubt, the Swedish wording prevails.



CEO comments

Sales growth of 36% in the fourth quarter was driven by recovery from a customer's destocking programme

In line with expectations, Probi ended the year on a high note with profitable year-on-year growth in the fourth quarter. During the quarter, the company generated net sales of MSEK 163, up 36% (31% adjusted for currency effects) year-on-year, and EBITDA of 27%. 2018 was a year of transition for Probi, but we are confident that the expansion of our global sales organisation, new product launches and promising research findings have made us well-positioned for the future. Our goal is to position Probi as a growth company and to grow faster than the global probiotics market. The company's profitability remains favourable and the full-year EBITDA margin of 26% is in line with the year-on-year period, and well above our long-term objective.

New management with a focus on profitable growth and Probi's position as a research-driven innovation leader

Probi is well-positioned in its market segment in the probiotics industry with an innovative and well-documented product portfolio, global market coverage and a strong financial position. The company is equipped for continued expansion – through both organic growth and strategic partnerships and acquisitions – in the growing global probiotics market. Based on our product portfolio built on innovative research and a continued focus on our customers' needs, we intend to review our strategy for the future. Trends in the global probiotics market will determine the activities and plans that are introduced to further strengthen Probi's ability to continue delivering in keeping with our leading slogan: First in Probiotics.

I am convinced that the combination of our employees and our research is the key to realising Probi's potential as a global leader in the probiotics market.

Tom Rönnlund, CEO

Probi's customers

Probi offers probiotic expertise and partnership including research & development, manufacturing, product concepts and supply of finished products for customers within the consumer healthcare and food industry.

Probi's manufacturing is GMP-certified and produces proven and effective probiotics in custom-made formats with value-adding delivery technologies.

Key developments in the Group

The US probiotics market remains focused on launches of new innovative and improved products, combined with expansion outside the traditionally dominant area of digestive health. Probi continues to see rising demand for bulk and concentrate products, with a growing number of customers who want to expand their product portfolios. Probi's recently launched and innovative product concept Probi® Osteo received a very positive response from one of the largest industry trade shows in the US, SupplySide West, in Las Vegas last November. Probi® Osteo is Probi's concept for the prevention of bone loss and osteoporosis in postmenopausal women to meet the growing demand for women's healthcare products in the global market.

In the fourth quarter, a large number of new products were launched in various sales channels across the US, including products based on Probi FerroSorb® for increased iron uptake and Probi® Osteo. This was the first commercial order after the launch of Probi® Osteo. All of the new products launched in the fourth quarter contained bacterial strains from our product lines of either Probi Select™ or Probi Premium™, driven by a market trend towards the use of more well-documented probiotic products.

To capitalise on Probi's position in the North American market and the growing demand from our customers for innovative products, Probi expanded its sales organisation in the US. We see an opportunity to strengthen our geographic reach and position ourselves more clearly in various sales channels by establishing a sales team with greater geographic spread throughout the region.

The fast-growing Chinese and South-east Asian markets are a key strategic focus area for Probi. In 2018, the company's sales in this region rose 43% year-on-year. In the fourth quarter of 2018, Probi strengthened its sales organisation with additional employees in China and Singapore to increase the company's local presence and capture new business opportunities across the region.

In the fourth quarter, new products based on Probi Defendum® and Probi Select™ were launched in China by a leading Chinese company specialised in products for mothers and children under a recently established Scandinavian brand. Probi is a strategic partner and scientific adviser to the company. The collaboration is one example of the growing number of major Chinese companies that are establishing local offices in Europe with the aim of identifying European trends, technologies and partners with commercial potential for the Chinese and other Asian markets.

Business development activities aimed at expanding and diversifying the customer base in the EMEA region led to several new agreements in key markets. The market launch of Probi's products in digestive health and immune function was initiated in Turkey by a leading local pharmaceutical company in the fourth quarter. Probi also concluded a new agreement with a German distributor for the marketing of Probi Select™ and Probi LiveBac® to consumer product companies in key European markets. In 2018, the EMEA region grew 9% year-on-year.

In November, Probi participated in Food Matters Live in the UK, a cross-sector conference focused on the future of food, drink and sustainable nutrition. Love Your Inner Self, a probiotic yoghurt containing Probi's LP299V® was presented at the event. The product will be tested in selected regions across the UK in early 2019.

Research and development

Probi's ambitious research programme continues to generate promising results, which have 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.

Two clinical trials were completed in the fourth quarter. Both led to promising 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.

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.

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 to assess whether a gluten-free diet, or intake of probiotics, early in life can prevent celiac disease has now commenced in newborns at increased risk of developing the disease.

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 National Science and Engineering Research Council (NSERC) to study the effects of polyphenol 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.

Sales development

Current quarter

In the fourth quarter of 2018, Probi's net sales totalled MSEK 162.9 (119.4), up MSEK 43.5 or 36% year-on-year, mainly attributable to the conclusion of a customer-specific destocking programme by one of Probi's major customers in 2017. Adjusted for changes in exchange rates in 2018, net sales for the fourth quarter were MSEK 37.0 higher year-on-year, corresponding to net sales of 31%.

Full-year

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, a destocking programme by one of Probi's largest customers in North America had a negative impact of MSEK 15.4 on net sales.

Net sales by segment

Probi's business operations are organised in two business segments: Consumer Healthcare (CHC) and Functional Food (FF). Consumer Healthcare develops, manufactures and markets Probi's probiotics to pharmaceutical and healthcare companies and customers specialised in probiotics and self-care products. Revenue is derived from sales of goods ranging from raw materials in bulk to finished products in consumer packaging. 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.

KSEK	FY 2018			FY 2017		
	CHC	FF	Total	CHC	FF	Total
Net sales	566,797	37,320	604,117	578,011	34,233	612,244
Operating expenses	-479,276	-23,725	-503,001	-484,775	-23,382	-508,157
Operating profit (EBIT)	87,521	13,595	101,116	93,236	10,851	104,087
Financial net	—	—	-2,556	—	—	-11,762
Earnings before income taxes	—	—	98,560	—	—	92,325

For the full-year, net sales for Consumer Healthcare declined MSEK 11.2 (-2%). The decline for full-year 2018 was partly due to the customer-specific destocking programme that began in 2017, which was not fully offset by growth in other areas during the year. Net sales in Functional Food rose MSEK 3.1 (9%). Sales in this segment mainly benefited from new initiatives in the APAC region and increased royalty revenue from existing customers.

Net sales by region

KSEK	FY 2018	FY 2017
Sweden	58,551	53,818
EMEA, excluding Sweden	41,800	37,961
Americas	444,315	478,979
APAC	59,451	41,486
Total	604,117	612,244

The Americas region (North and South America) accounted for 74% of Probi's total net sales. Annual sales in this region declined MSEK 34.7 (-7%), mainly due to a customer-specific destocking programme by one of Probi's largest customers and lower overall market growth for probiotics in the US. The APAC region accounted for Probi's strongest sales growth with a 43% increase in 2018, or MSEK 18.0 year-on-year. This was driven by the strong growth of new and existing customers in China, Australia and India. In 2018, sales in EMEA (excl. Sweden) rose 10% year-on-year to MSEK 41.8. The 9% increase in Sweden in 2018 was due to growth for Probi's key customers in both the Consumer Healthcare and Functional Food segments.

Earnings

Operating profit (EBIT)

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).

EBIT for the Consumer Healthcare segment totalled MSEK 87.5 (93.2) for the full-year, corresponding to an operating margin of 15% (16). EBIT for the Functional Food segment totalled MSEK 13.6 (10.9), corresponding to an operating margin of 36% (32). The decline in EBIT for Consumer Healthcare was mainly due to the previously announced customer-specific destocking programme.

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

Financial results

The Group's financial results for the year amounted to MSEK -2.6 (-11.8). Interest expense of MSEK -4.5 (-5.2) was charged to earnings. 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. A gain of MSEK 2.2 (loss: 6.0) arose during the reporting period.

Profit after tax

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

Earnings per share

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

Cash flow and financial position

Investments

During the year, 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 costs. During the year, capitalised development costs were mainly related to clinical trials in immune health and nutrient absorption. Investments in tangible assets amounted to MSEK 3.8 (8.2).

Change in cash and cash equivalents

During the year, cash and cash equivalents rose MSEK 43.8 to MSEK 199.3. This included a repayment of MSEK 70.2 (32.1) on bank loans, which is recognised in cash flow from financing activities. Cash flow from operating activities declined MSEK 17.8 year-on-year, partly attributable to a positive realisation of MSEK 30.9 on forward contracts related to currency risk in 2017.

Employees

At the end of the period, Probi had 167 (168) employees, of whom 47% (46) were women. The average number of employees for full-year 2018 was 163 (182).

Related-party transactions

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.

Proposed appropriation of profit

Based on an assessment of Probi's course of business and strategic investment decisions in 2018, the Board propose that the 2019 Annual General Meeting resolves that no dividends will be paid for the 2018 financial year.

Significant risks and uncertainties

The risks and uncertainties to which Probi's operations are exposed are described on pages 47-48 of the printed 2017 Annual Report. At 31 December 2018, no significant changes were considered to have occurred to these risks or uncertainties.

Parent Company

In 2018, the Parent Company's net sales declined to MSEK 302.8 (305.2). Profit after tax was MSEK 65.2 (71.1). Investments in tangible and intangible assets amounted to MSEK 10.8 (20.2). Otherwise, please refer to the information for the Group.

Financial calendar

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

Annual General Meeting

The 2018 Annual General Meeting will be held in Lund on Thursday, 7 May 2019 at 3:00 p.m. The venue will be announced later. Shareholders who wish to have a matter addressed at the AGM are requested to notify the Chairman of the Board by Friday, 19 March 2019. Such proposals should be e-mailed to bolagsstamma@probi.com, or posted to: Probi AB, General Meeting, Ideon Gamma 1, SE-223 70 Lund, Sweden.

The 2018 Annual Report is scheduled for publication on Probi's website www.probi.se on 12 April 2019.

Assurance by the Board of Directors

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

Lund, 13 February 2019

Jean-Yves Parisot
Chairman of the Board

Scott Bush
Board member

Irène Corthésy Malnoë
Board member

Jonny Olsson
Board member

Anna Malm Bernsten
Board member

Charlotte Hansson
Board member

Jan Nilsson
Board member

Tom Rönnlund
CEO

This report has not been audited.

Consolidated statement of comprehensive income

KSEK	Notes	Q4 2018	Q4 2017	FY 2018	FY 2017
Net sales	2	162,850	119,356	604,117	612,244
Cost of goods sold	3	-87,107	-70,363	-326,087	-334,321
Gross profit		75,743	48,993	278,030	277,923
Sales and marketing expenses		-28,307	-19,376	-91,854	-79,899
Research and development expenses		-6,643	-8,932	-32,728	-36,606
Administration expenses		-11,283	-13,063	-54,700	-58,554
Other operating income		1,063	21	2,368	1,223
Operating Profit/EBIT		30,573	7,643	101,116	104,087
Financial income		603	400	1,565	612
Financial expenses		-711	-1,495	-6,275	-6,341
Exchange result financing activities	4	420	-171	2,154	-6,033
Financial result		312	-1,266	-2,556	-11,762
Earnings before income taxes		30,885	6,377	98,560	92,325
Income taxes		-7,000	-5,415	-22,310	-23,233
Net income		23,885	962	76,250	69,092
Other comprehensive income					
Components to be reclassified to net income					
Exchange rate differences resulting from the translation of foreign operations		11,644	10,525	67,003	-64,460
Cash flow hedge (currency hedges)		751	-995	526	-646
Income taxes payable on these components		-165	219	-116	76
Sum of other comprehensive income		12,230	9,749	67,413	-65,030
Total comprehensive income		36,115	10,711	143,663	4,062
Number of outstanding shares at end of the reporting period		11,394,125	11,394,125	11,394,125	11,394,125
Average number of shares		11,394,125	11,394,125	11,394,125	11,394,125
Earnings per share before and after dilution		2.10	0.08	6.69	6.06

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

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

Condensed consolidated statement of financial position

KSEK	31 December 2018	31 December 2017
Capitalised Development Cost	44,294	41,045
Customer base	311,177	307,946
Technology and other intangible assets	138,424	138,993
Goodwill	304,561	279,706
Property, plant and equipment	29,162	34,389
Deferred tax assets	1,530	4,620
Non-current assets	829,148	806,699
Inventories	68,676	69,140
Trade receivables	106,188	59,344
Other assets and receivables	6,119	20,003
Cash and cash equivalents	199,299	155,547
Current assets	380,282	304,034
Total assets	1,209,430	1,110,733
Total equity	1,028,398	884,735
Other non-current liabilities	6,772	5,781
Non-current liabilities	6,772	5,781
Borrowings	118,481	175,913
Trade payables	31,459	27,042
Other current liabilities	24,320	17,262
Current liabilities	174,260	220,217
Total liabilities	181,032	225,998
Liabilities and equity	1,209,430	1,110,733

Consolidated changes in equity

KSEK	Share capital	Other contributions received	Cumulative translation differences	Other reserves	Accumulated profit	Total equity
Opening balance, 1 January 2017	58,221	600,205	21,387	299	211,955	892,067
Net income	—	—	—	—	69,092	69,092
Other comprehensive income	—	—	-64,460	-570	—	-65,030
Total Comprehensive Income	—	—	-64,460	-570	69,092	4,062
Dividends	—	—	—	—	-11,394	-11,394
Total transactions with shareholders	—	—	—	—	-11,394	-11,394
Closing balance, 31 December 2017	58,221	600,205	-43,073	-271	269,653	884,735
KSEK	Share capital	Other contributions received	Cumulative translation differences	Other reserves	Accumulated profit	Total equity
Opening balance, 1 January 2018	58,221	600,205	-43,073	-271	269,653	884,735
Net income	—	—	—	—	76,250	76,250
Other comprehensive income	—	—	67,003	410	—	67,413
Total Comprehensive Income	—	—	67,003	410	76,250	143,663
Closing balance, 31 December 2018	58,221	600,205	23,930	139	345,903	1,028,398

Consolidated statement of cash flows

KSEK	FY 2018	FY 2017
Net income	76,250	69,092
Adjustments to reconcile net income to cash provided from operating activities		
Income taxes	22,310	23,233
Interest result	4,473	5,175
Amortisation, depreciation and impairment of non-current assets	53,821	53,231
Other non-cash expenses and income	2,995	30,901
Cash flow before working capital changes	159,849	181,632
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
Cash flow from operating activities	127,866	145,688
Payments for investing in intangible assets	-10,237	-18,135
Payments for investing in property, plant and equipment	-3,802	-8,171
Divestments of tangible assets	–	43
Cash flow from investing activities	-14,039	-26,263
Interest paid	-5,478	-5,200
Interest received	1,565	612
Redemption of bank borrowings	-70,200	-32,063
Dividends paid	–	-11,394
Cash flow from financing activities	-74,113	-48,045
Net change in cash and cash equivalents	39,714	71,380
Effects of changes in exchange rates	4,038	-18,969
Total changes	43,752	52,411
Cash and cash equivalents at opening balance	155,547	103,136
Cash and cash equivalents at closing balance	199,299	155,547

Condensed Parent Company financial statements

KSEK	Q4 2018	Q4 2017	FY 2018	FY 2017
Operating revenue	90,832	34,261	302,846	305,241
Operating costs	-31,783	-12,233	-101,167	-102,613
Gross profit	59,049	22,028	201,679	202,628
Operating profit/EBIT	27,650	-3,046	81,992	93,650
Result from financial income and expenses	54	153	2,139	-2,679
Income before tax	27,704	-2,421	84,131	91,442
Net income	21,403	-1,976	65,172	71,148
Other comprehensive income				
Other comprehensive income	586	-775	410	-569
Sum of other comprehensive income	586	-775	410	-569
Total comprehensive income	21,989	-2,751	65,582	70,579
KSEK	31 December 2018	31 December 2017		
Fixed assets	968,122	1,011,899		
Current assets	205,806	140,015		
Total assets	1,173,928	1,151,914		
Equity	1,006,539	940,955		
Untaxed reserves	—	—		
Total long-term liabilities	4,076	4,036		
Current liabilities	163,313	206,923		
Total equity and liabilities	1,173,928	1,151,914		

Notes

1. Accounting and measurement policies

Group

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. The condensed financial statements in the interim report encompass pages 9-16. Disclosures according to IAS 34 Interim Financial Reporting are provided both here and elsewhere in the interim report. ESMA's guidelines apply to alternative performance measures.

The accounting policies applied in the preparation of these consolidated financial statements have been applied consistently for all presented periods, unless otherwise stated. The complete accounting policies can be found on pages 61-64 of the printed 2017 Annual Report.

IFRS 15 and IFRS 9, which are effective for reporting periods starting on or after 1 January 2018, have no material impact on the presentations of the Group's results or on the financial instruments. For more information, refer to the 2017 Annual Report, page 61.

IFRS 16 Leases superseded IAS 17 on 1 January 2019. Operating leases will be recognised in the same way that finance leases are recognised at present. Probi has begun to prepare for implementation of the new standard but only identified a limited number of leases affected by the new standard. These leases are mainly related to rental fees for premises and company cars, but also for equipment. Probi has decided to apply the simplified approach for transition to IFRS 16 and the estimated annual impact on EBITDA is MSEK +14 related to existing leases, while the impact on net profit is expected to be very limited. This will be presented in more detail in the 2018 Annual Report.

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

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

Parent Company

The Parent Company applies the same accounting policies as the Group, with the exceptions and supplements stipulated in RFR 2 Accounting for legal entities – January 2018. The interim report complies with the Swedish Annual Accounts Act.

2. Net sales from contracts with customers

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

KSEK	FY 2018			FY 2017		
	CHC	FF	Total	CHC	FF	Total
Type of goods or service						
Goods	561,763	3,918	565,681	565,995	1,956	567,951
Royalty, licences, etc.	5,034	33,402	38,436	12,016	32,277	44,293
Total net sales from contracts with customers	566,797	37,320	604,117	578,011	34,233	612,244
Geographical markets						
Sweden	30,370	28,181	58,551	26,627	27,191	53,818
EMEA, excluding Sweden	41,782	18	41,800	37,961	–	37,961
Americas	437,426	6,889	444,315	472,711	6,268	478,979
APAC	57,219	2,232	59,451	40,712	774	41,486
Total net sales from contracts with customers	566,797	37,320	604,117	578,011	34,233	612,244

3. Currency translation from operating activities

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

KSEK	Q4 2018	Q4 2017	FY 2018	FY 2017
Exchange gains operating activities	1,790	3,848	8,167	15,731
Exchange losses operating activities	-1,394	-3,335	-5,362	-17,465
Exchange result operating activities	396	513	2,805	-1,734

4. Currency translation from financing activities

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

KSEK	Q4 2018	Q4 2017	FY 2018	FY 2017
Exchange gains financing activities	1,051	8,508	17,411	83,682
Exchange losses financing activities	-631	-8,679	-15,257	-89,715
Exchange result financing activities	420	-171	2,154	-6,033

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

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

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

Operating profit/EBIT

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

KSEK	Q4 2018	Q4 2017	FY 2018	FY 2017
Net income	23,885	961	76,250	69,092
Income taxes	7,000	5,416	22,310	23,233
Financial result	-312	1,266	2,556	11,762
Operating Profit / EBIT	30,573	7,643	101,116	104,087

EBITDA

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

KSEK	Q4 2018	Q4 2017	FY 2018	FY 2017
Operating Profit / EBIT	30,573	7,643	101,116	104,087
Depreciation and amortisation	13,609	13,160	53,821	53,231
EBITDA	44,182	20,803	154,937	157,318

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, constant currency

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

Operating expenses

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