Year-end Report
January – December 2017

Probi achieves major milestone in expansion of Functional Food business area

Highlights and significant events in the fourth quarter

- Major agreement signed with global FMCG leader to launch Functional Food product in North America in 2019
- Important product launches of FerroSorb® and Probi Select™ in North America start to deliver cross-selling synergies in Consumer Healthcare
- Submission of new health claim application to EFSA for iron uptake product FerroSorb® following positive results in supplementary study
- Board of Directors and CEO propose that the 2018 Annual General Meeting resolves that no dividends will be paid for the 2017 financial year

Financial overview

MSEK	**Full-year 2017**	Full-year 2016
Net sales	612.2	443.5
Net sales growth, local currency, %	38.2%	103.2%
Gross margin, %	45.4%	61.0%
EBITDA	157.3	152.6
EBITDA margin, %	25.7%	34.4%
Operating profit (EBIT)	104.1	120.0
Net income	69.1	101.8
Earnings per share before and after dilution, SEK	6.06	10.73
Share price on closing day, SEK	340.00	475.50
Market cap on closing day	3,874.0	5,417.9

See note 5 for definitions of ratios not defined according to IFRS and note 4 for adjustments made to full-year 2016

Invitation to Teleconference

Date: 25 January 2018
Time: 10:00 a.m.
Phone: +46 8 56 64 26 97
Participants from Probi:
Peter Nählstedt, CEO and
Jörn Andreas, CFO

Contacts

Peter Nählstedt, CEO:
Phone: +46 46 286 89 23
E-mail: peter.nahlstedt@probi.com

Jörn Andreas, CFO:
Phone: +46 46 286 89 41
E-mail: jorn.andreas@probi.com

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

About Probi

Probi AB is a Swedish publicly traded bioengineering company. The vision of Probi 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 with four centres of excellence, active in more than 40 markets around the world and holding over 400 patents worldwide. In 2017, Probi had net sales of MSEK 612. The Probi share is listed on Nasdaq Stockholm, Mid Cap. Probi has about 5,000 shareholders.

probi.com

CEO Comments

Soft fourth quarter ends another year of growth

In the fourth quarter, the destocking programme of one of our largest customers continued and had a significant impact on our performance that could not be offset by other accounts. This resulted in a weak final quarter for the 2017 financial year which impacted our organic growth and profitability for the full-year. We expect the impact of this destocking to continue during the first quarter of 2018. Despite the weak end to the year, Probi delivered growth of 38% and a higher EBITDA margin than our long-range target for the full-year, and made further progress in several of our key strategic areas.

Breakthrough within reach for Functional Food

Probi signed a major agreement with a leading global FMCG company regarding the launch of our gastro bacteria in a category-leading brand in North America in 2019. The deal represents a major milestone for Probi and will have a significant impact on sales and profitability in the Functional Food segment. It is also recognition of our high scientific standard and application know-how in probiotic functional foods.

We delivered important synergy deals in the fourth quarter. In the key North American market for consumer healthcare products, a new customer with a top brand is launching Probi's premium iron uptake concept FerroSorb®. Probi manufactures the turnkey product in its acquired operations in the US, and the first orders were delivered in December.

Probi has improved its sales focus further, expanded its sales capacity and pipeline in new geographies and strengthened its presence in Asia.

Probi is making steady progress towards its strategic objectives. We have an industry-leading range of probiotic products and a full value chain, including R&D, manufacturing, sales and marketing, and are looking forward to generating shareholder value in 2018 with confidence.

Peter Nählstedt, CEO

Probi's customer offering

Probi offers dedicated probiotic expertise and partnership all the way from R&D to finished products for companies in 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 for the Group

In the fourth quarter of 2017, Probi signed a major agreement with a global FMCG company (fast-moving consumer goods) regarding the launch of a functional food product containing Probi's bacteria for gut health in North America and potentially other territories. A launch in the North American market is planned for the second half of 2019 under a leading brand in the product category. The agreement is expected to have a significant impact on future sales and earnings in Probi's Functional Food business area. In 2017, net sales in the Functional Food business area amounted to MSEK 34.2, corresponding to 6% of total net sales.

The Functional Food business area also made further strategic progress in the Asia-Pacific region. A probiotic yoghurt containing Probi's LP299V® was launched in South Korea by Asian food and beverage company Lotte. In Australia, a probiotic sparkling drink filled with Probi® Plantarum 6595 for improved digestive function and a strengthened microbiota was launched under the Kréol brand. Probiotic beverages are a growing product category in the global market. A distributor network has been established in the strategic Chinese market and potential business opportunities are currently being explored. To further strengthen our focus on this expanding region, a new Head of APAC (Asia-Pacific) joined Probi in November, and will be based in Singapore.

The acquired business Probi USA delivered a record quarter with net sales of MSEK 85.3. In addition, important new product launches were secured for the North American market. A new customer with a top brand in the dietary supplement area is launching Probi FerroSorb® for improved iron absorption. This is the first launch of FerroSorb® in the North American market, and the first orders were delivered in December. Probiotic products for women is a high-growth category and Probi received its first purchase order for a new female product to be launched by a major retail brand. These turnkey products are manufactured in the acquired operations in the US. Probi also secured its first purchase orders for the Probi Select™ product range in the US, marking delivery on its promise of cross-selling synergies. Probi Select™, targeting the mid-tier customer segment, comprises three of Probi's patent-protected and clinically documented probiotic platforms supporting immune and digestive health.

Business development activities continued in the EMEA region, aimed at broadening and strengthening the customer base. Agreements with some key existing customers were extended and expanded, and the pipeline of potential new customers is growing.

In October, the US Food and Drug Administration (FDA) issued a GRAS (Generally Recognized As Safe) No Objection Letter for Probi's flagship bacteria LP299V® which is the highest food safety status possible for a probiotic in the USA. LP299V® forms the basis for Probi's unique Probi Digestis® and Probi FerroSorb® platforms and is backed by more than 50 clinical trials and 270 granted patents worldwide. The GRAS status includes use of the strain in multiple product categories such as fruit, plant-based and dairy-based drinks, and dry products such as cereals and bars. This will present new business opportunities in additional food & beverage categories.

In the fourth quarter, Probi submitted a new health claim application for its iron uptake product FerroSorb® to the European Food Safety Authority (EFSA). To address the negative EFSA opinion on Probi's previous application for increased iron absorption, an additional study was conducted and its positive results were included in the application.

Sales Development

Current Quarter

Probi's net sales for the fourth quarter amounted to MSEK 119.4 (194.0), representing a decline of MSEK 74.6 or 38% compared with the fourth quarter of 2016. Based on exchange rates from the preceding year, net sales for the fourth quarter were MSEK 6.4 higher, representing a year-on-year decline of 35%. In the fourth quarter, sales from the acquired operations contributed MSEK 85.3 to the Group.

Year-to-Date

Probi's net sales for the full-year amounted to MSEK 612.2 (443.5). The overall increase was MSEK 168.7, or 38%, year-on-year. At constant exchange rates, net sales for the full-year were MSEK 0.8 higher. For the full-year, sales from the acquired operations amounted to MSEK 309.2. Organic growth for the Group, i.e. net sales growth excluding currency effects and portfolio changes from the acquisition, was a negative MSEK 48.7, down 11% compared with the preceding year.

Net sales by Segment

Probi's business operations are organised in two business segments, each with its own operational management: Consumer Healthcare (CHC) and Functional Food (FF). The Consumer Healthcare segment develops, manufactures and markets Probi's probiotics to pharmaceutical companies and other companies specialised in probiotics and self-care products. Revenue is derived from the sale of goods in bulk and consumer packaging. The acquired operations are included in their entirety in CHC. The Functional Food segment develops food containing Probi's probiotics in partnership with leading food companies. Revenue mainly comprises royalties from partner-generated sales. No business transactions are conducted between the two segments.

KSEK	**FY 2017**			FY 2016		
	CHC	FF	**Total**	CHC	FF	**Total**
Net sales	578,011	34,233	**612,244**	408,470	35,005	**443,475**
Operating expenses	-484,775	-23,382	**-508,157**	-283,507	-40,003	**-323,510**
Operating profit (EBIT)	**93,236**	**10,851**	**104,087**	**124,963**	**-4,998**	**119,965**
Financial net	–	–	**-11,762**	–	–	6,718
Earnings before income taxes	–	–	**92,325**	**–**	**–**	**126,683**

Net sales in Consumer Healthcare for full-year 2017 rose MSEK 169.5 to MSEK 578.0 (408.5). The acquired operations accounted for MSEK 233.6 of this increase. During the year, sales growth in Consumer Healthcare continued to be driven by the North American and European markets, by both new and existing customers.

In 2017, net sales in Functional Food totalled MSEK 34.2 (35.0). During the year, a lower royalty rate in one agreement offset the favourable underlying volume trend across all regions, particularly in Sweden, where ProViva showed continued volume growth during the fourth quarter.

Net Sales by Region

KSEK	FY 2017	FY 2016
Sweden	53,818	54,905
Rest of Europe	35,598	22,505
North America	477,057	337,059
Rest of World	45,771	29,006
Total	**612,244**	**443,475**

The favourable sales growth trend in Rest of Europe continued and rose 58% in 2017 compared with the year-earlier period. This was primarily driven by a new agreement signed in the preceding year and favourable underlying volume growth with existing customers. Sales in North America included a contribution of MSEK 306.5 from acquired operations. Excluding the acquisition, sales in North America declined MSEK 90.9, down 35% year-on-year, due to destocking by one of Probi's largest customers. The 58% increase in Rest of World was driven by sales campaigns in the Asian market and new business wins. Net sales in Sweden declined 2% year-on-year, mainly due to lower royalty rates in one agreement with a Functional Food customer.

Earnings

Operating Profit

During the year, operating expenses amounted to MSEK 508.2 (323.5), up 57%, due to consolidation of the acquired operations in the US and additional amortisation charges of MSEK 34.9 related to the purchase price allocation (PPA) for full-year 2017. Cost of goods sold was MSEK 334.3 (173.0), driven by higher overall sales for the Probi Group and a higher sales contribution of turnkey consumer-packed solutions from the US operations, in which gross margins are structurally lower than under Probi's former business model. Sales and marketing expenses amounted to MSEK 79.9 (54.8), up 46%, mainly due to additional costs for the US sales organisation. In addition, some of the incremental PPA-related amortisation was charged to sales and marketing. Administrative expenses amounted to MSEK 58.6 (49.8). Research and development expenditure amounted to MSEK 36.6 (46.1), in which the year-on-year figures included an impairment loss of MSEK 11.1 on a capitalised development project.

Full-year EBIT for the Consumer Healthcare business totalled MSEK 93.2 (125.0), down 25%, representing an EBIT margin of 16% (31). The lower EBIT margin compared with the preceding year was due to the acquisition of Nutraceutix, which was consolidated for a full-year for the first time, and to higher overhead allocation reflecting the consolidation of the acquired operations.

EBIT for the Functional Food business area totalled MSEK 10.9 (loss: 5.0), representing an EBIT margin of 32% (neg: 14). The year-on-year increase in EBIT was mainly attributable to lower overhead allocation and reduced co-marketing contribution.

Consolidated EBIT for the year totalled MSEK 104.1 (120.0). The integration process was successfully completed in 2017 and integration costs of MSEK 1.4 (5.0) were included in operating expenses, allocated between the various functional areas.

Financial results

The interest result for the 2017 financial year was a loss of MSEK 5.7 (loss: 2.3) due to increased interest expenses relating to borrowings in connection with the acquisition of Nutraceutix in 2016.

Exchange gains and losses incurred in connection with the revaluation of the loan, cash holdings in foreign currency or market valuation and realisation of forward contracts, are recognised in the exchange result from financing activities. A loss of MSEK 6.0 (gain: 9.1) arose during 2017, mainly due to depreciation of the USD against the SEK. The exchange gain from financing activities in the preceding year included MSEK 7.4 from the market valuation of a currency forward contract which was entered into to finance the acquisition of Nutraceutix.

Profit after tax

Profit after tax for the year amounted to MSEK 69.1 (101.8). Tax expense was MSEK 23.2 (24.8). Due to the recent enactment of the US Tax Cuts and Jobs Act (TCJA), Probi recognised a non-cash tax charge of MSEK 2.5 in the tax result for the fourth quarter of 2017 from a valuation adjustment to its deferred tax assets.

Earnings per share

Earnings per share for the year amounted to SEK 6.06 (10.73).

Cash Flow and Financial Position

Capital Expenditure

During the year, investments in intangible assets amounted to MSEK 18.1 (16.3), of which MSEK 2.7 (3.7) pertained to patents and MSEK 15.4 (12.6) to capitalised development expenditure. In the fourth quarter, capitalised development expenditure was related to clinical trials in immune function, digestive health and nutrient absorption. Investments in tangible assets amounted to MSEK 8.2 (2.1).

Change in cash and cash equivalents

Cash and cash equivalents rose MSEK 52.4 (neg: 39.9) during the year, amounting to MSEK 155.5 (103.1) at the end of the reporting period.

In 2017, cash flow from operating activities rose MSEK 55.9 year-on-year, mainly due to the large increase in sales and improved working capital, but was adversely impacted by an increase of MSEK 8.6 in income taxes paid.

Research and Development

Comprehensive clinical research programme

In 2017, Probi once again conducted the most comprehensive clinical programme in the history of the company. Five clinical trials were completed during the year, one in a completely new indication area, and all with satisfactory results. For four additional studies, the clinical phase was completed during the fourth quarter of 2017 and the findings are now being processed. Another three clinical trials commenced in new indication areas, and a major research collaboration was launched during the year. In addition, a study on iron absorption in pregnant women, a study on an undisclosed medical indication, the research collaboration with Michiel Kleerebezem, and the two collaboration projects with Symrise in oral health and skin care continued according to plan.

Successful outcome of completed studies and new EFSA application

In a study of 200 subjects with irritable bowel syndrome, Probi Digestis® was shown to significantly reduce the symptom score compared with placebo treatment, and novel data from the microbiome analyses in the study led to a new patent application.

A pilot study of a new way of measuring the effect of ProbiMage® (LP299V®) on gastrointestinal health produced positive results, leading to the start of a full-size study using the same technique. This study has now left the clinical stage and is being summed up.

In a study of almost 900 subjects, Probi Defendum® was shown to protect against recurring colds and reduce the number of cold episodes by 30% compared with placebo treatment.

A study on children genetically predisposed to develop gluten intolerance showed that Probi's probiotics support the immune system of these children in a way that can delay and possibly completely inhibit the development of gluten intolerance.

A study was conducted to address the negative opinion on Probi’s application for a health claim in Europe related to increased absorption of iron. The motivation for the negative opinion was that the design used in some of the studies could result in a systematic bias. The study showed that no systematic bias in favour of Probi’s studies can be expected from the design used. As a result, Probi has now submitted a new application to the European Food Safety Authority (EFSA).

More exciting results to come

Studies in which the clinical phase was completed in 2017 include two studies on children, one focusing on immune support and the other on gastric health, and a study to investigate whether a probiotic combination can decrease bone loss in post-menopausal women. The results of these studies are now being processed.

Long-term academic collaborations

A research collaboration with Dr Karen Scott from the Rowett Institute at the University of Aberdeen that was launched in the second quarter has now proceeded into an active phase. The focus of the collaboration includes isolation and identification of novel bacterial strains suitable for the development of next-generation probiotics. It is part of the Probi Discovery platform, which aims to identify and carry out long-term research programmes with leading academic scientists.

The research collaboration with Prof Michiel Kleerebezem from the Host Microbe Interactomics Group at Wageningen University in the Netherlands is proceeding according to plan. The focus of this collaboration is to create a scientific basis for future product platforms. The collaboration now includes Prof Henk Schols, with extended expertise in analytical chemistry and prebiotics, and entered the second phase of a four-year PhD programme during the year.

These types of collaborations are enabling investments in projects that will lead to novel products over a longer time frame.

Employees

At the end of the period, Probi had 168 (200) employees, of whom 77 (87) were women and 91 (113) men. The average number of employees during the year was 182 (74).

Related-party Transactions

During the reporting period, Probi's largest owner, Symrise AG, was invoiced KSEK 32.0 (283.0) and Probi received invoices of KSEK 15.4 (16.0) from Symrise AG related to laboratory material. Board member Jan Nilsson invoiced fees of KSEK 30.0 (60.0) pertaining to Probi's Scientific Advisory Board via Atherioco AB. Board member Scott Bush invoiced fees of KSEK 165.1 (—) pertaining to project-related consulting services via Probiotic Consulting LLC. The purchase and sale of goods and services to and from related parties is conducted on market-based terms. No other related-party transactions occurred during the reporting period.

Proposed Appropriation of Profit

Based on an assessment of Probi's course of business and strategic investment decisions in 2017, the Board and the CEO propose that the 2018 Annual General Meeting resolves that no dividends will be paid for the 2017 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 2016 Annual Report. At 31 December 2017, no significant changes were considered to have occurred in these risks or uncertainties.

Parent Company

Parent Company operating revenue declined to MSEK 305.2 (377.8). Income for the year was MSEK 71.1 (116.2). During the year, Parent Company investments in tangible and intangible assets amounted to MSEK 20.2 (17.2). In all other aspects, please refer to information for the Group.

Financial Calendar

Interim report Q1, 2018	2 May 2018
Annual General Meeting for 2017	2 May 2018
Interim report Q2, 2018	13 August 2018
Interim report Q3, 2018	6 November 2018
Year-end report, 2018	13 February 2019

Annual General Meeting

The Annual General Meeting for the 2017 financial year will be held in Lund on Wednesday, 2 May 2018, at 3:00 p.m. The venue will be announced. Shareholders who wish to have matters considered at the AGM are requested to notify the Chairman of the Board by Friday, 3 March 2018. Such proposals should be e-mailed to bolagsstamma@probi.com or posted to: Annual General Meeting, Probi AB, Att: Sofie Forsman, Ideon Gamma 1, SE-223 70 Lund, Sweden.

The 2017 Annual Report is scheduled for publication on Probi's website www.probi.com on March 30, 2018.

Assurance by the Board of Directors

The Board of Directors and the CEO provide their assurance that this interim report gives a true and fair view of the Parent Company's and the Group's operations, financial position and revenue, and describes the risks and uncertainties facing the Parent Company and the Group.

Lund, 25 January 2018

Jean-Yves Parisot
Chairman of the Board

Anna Malm Bernsten
Board member

Scott Bush
Board member

Charlotte Hansson
Board member

Jan Nilsson
Board member

Jonny Olsson
Board member

Peter Nählstedt
CEO

The year-end report was the subject of audit review procedures by an auditor.

Review Report

Introduction
We have reviewed the interim report for Probi AB (publ) for the period January 1 - December 31, 2017. The Board of Directors and the President are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review
We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, *Review of Interim Financial 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 is substantially less in scope than an audit conducted in accordance with 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. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

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

Lund, January 25, 2018

Deloitte AB

Maria Ekelund
Authorized Public Accountant

Consolidated Statement of Comprehensive Income

KSEK	Notes	**Q4 2017**	Q4 2016	**FY 2017**	FY 2016
Net sales		**119,356**	**193,979**	**612,244**	**443,475**
Cost of goods sold	2	-70,363	-95,383	-334,321	-172,990
Gross profit		**48,993**	**98,596**	**277,923**	**270,485**
Sales and marketing expenses		-19,376	-27,548	-79,899	-54,773
Research and development expenses		-8,932	-24,285	-36,606	-47,930
Administration expenses		-13,063	-13,611	-58,554	-48,036
Other operating income		21	71	1,223	219
Other operating expenses		–	–	–	–
Operating Profit/EBIT		**7,643**	**33,223**	**104,087**	**119,965**
Financial income		400	44	612	49
Financial expenses		-1,495	-2,338	-6,341	-2,382
Exchange result financing activities	3	-171	383	-6,033	9,051
Financial result		**-1,266**	**-1,911**	**-11,762**	**6,718**
Earnings before income taxes		**6,377**	**31,312**	**92,325**	**126,683**
Income taxes		-5,415	-1,191	-23,233	-24,836
Net income		**962**	**30,121**	**69,092**	**101,847**
Other comprehensive income					
Components to be reclassified to net income					
Exchange rate differences resulting from the translation of foreign operations		10,525	20,959	-64,460	21,342
Cash flow hedge (currency hedges)					
Gains/losses recorded during the fiscal year		-517	245	3,400	245
Reclassification to the consolidated income statement		-478		-4,046	
Income taxes payable on these components		219	54	76	54
Sum of other comprehensive income		**9,749**	**21,258**	**-65,030**	**21,641**
Total comprehensive income		**10,711**	**51,379**	**4,062**	**123,488**
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	10,634,517	11,394,125	9,495,104
Earnings per share before and after dilution		0.08	2.83	6.06	10.73

Net income 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 arose.

In 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.

See Note 4 for adjustments made to full-year 2016.

Condensed Consolidated Statement of Financial Position

KSEK	**31 December 2017**	31 December 2016
Capitalised Development Cost	41,045	29,692
Customer base	307,946	365,048
Technology and other intangible assets	138,993	164,618
Goodwill	279,706	308,802
Property, plant and equipment	34,389	41,490
Deferred tax assets	4,621	8,478
Non-current assets	**806,700**	**918,128**
Inventories	69,140	72,752
Trade receivables	59,344	78,903
Other assets and receivables	20,003	37,036
Cash and cash equivalents	155,547	103,136
Current assets	**304,034**	**291,827**
Total assets	**1,110,734**	**1,209,955**
Total equity	**884,736**	**892,067**
Other non-current liabilities	5,781	5,796
Non-current liabilities	**5,781**	**5,796**
Borrowings	175,913	225,762
Trade payables	27,042	45,570
Other current liabilities	17,262	40,760
Current liabilities	**220,217**	**312,092**
Total liabilities	**225,998**	**317,888**
Liabilities and equity	**1,110,734**	**1,209,955**

See Note 4 for adjustments made to full-year 2016.

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Consolidated Changes in Equity

KSEK	Share capital	Other contributions received	Cumulative translation differences	Other reserves	Accumulated profit	**Total equity**
Opening balance, 1 January 2016	46,827	21,140	46	–	119,224	**187,237**
Net income	–	–	–	–	108,567	108,567
Other comprehensive income	–	–	21,384	299	–	21,683
Total Comprehensive Income	–	–	**21,384**	**299**	**108,567**	**130,250**
Share issue	11,394	579,065	–	–	–	590,459
Dividends	–	–	–	–	-9,116	-9,116
Total transactions with shareholders	**11,394**	**579,065**	–	–	**-9,116**	**581,343**
Closing balance, published 31 December 2016	**58,221**	**600,205**	**21,430**	**299**	**218,675**	**898,829**
PPA adjustment	–	–	-42	–	-6,719	**-6,761**
Closing balance, adjusted 1 January 2017	**58,221**	**600,205**	**21,387**	**299**	**211,955**	**892,067**

KSEK	Share capital	Other contributions received	Cumulative translation differences	Other reserves	Accumulated profit	**Total equity**
Opening balance, adjusted 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**

See Note 4 for adjustments made to full-year 2016.

Consolidated Statement of Cash Flows

KSEK	FY 2017	FY 2016
Net income	**69,092**	**101,847**
Adjustments to reconcile net income to cash provided from operating activities		
Income taxes	23,233	24,836
Interest result	5,175	3,750
Amortisation, depreciation and impairment of non-current assets	53,231	32,629
Other non-cash expenses and income	30,901	-28,267
Cash flow before working capital changes	**181,632**	**134,795**
Change in trade receivables and other current assets	27,373	-37,856
Change in inventories	-2,730	-11,695
Change in trade payables and other current liabilities	-31,655	24,866
Income taxes paid	-28,932	-20,325
Cash flow from operating activities	**145,688**	**89,785**
Payments for investing in intangible assets	-18,135	-16,257
Payments for investing in property, plant and equipment	-8,171	-2,070
Aquisition	–	-912,067
Divestments of tangible assets	43	342
Cash flow from investing activities	**-26,263**	**-930,052**
Interest paid	-5,200	-3,727
Interest received	612	45
Proceeds from bank borrowings	–	227,428
Fees for raising loans	–	-1,759
Redemption of bank borrowings	-32,063	–
New issue	–	601,610
Costs for issue of new shares	–	-14,296
Dividends paid	-11,394	-9,116
Cash flow from financing activities	**-48,045**	**800,185**
Net change in cash and cash equivalents	71,380	-40,082
Effects of changes in exchange rates	-18,969	194
Total changes	**52,411**	**-39,888**
Cash and cash equivalents as of 1 January	**103,136**	**143,024**
Cash and cash equivalents as of 31 December	**155,547**	**103,136**

See Note 4 for adjustments made to full-year 2016.

Summary Parent Company Financial Statements

KSEK	Q4 2017	Q4 2016	FY 2017	FY 2016
Operating revenue	**34,261**	**128,179**	**305,241**	**377,822**
Cost of goods sold	-12,233	-39,720	-102,613	-117,326
Gross profit	22,028	88,459	202,628	260,496
Operating profit/EBIT	**-3,046**	**39,632**	**93,650**	**137,998**
Result from financial income and expenses	153	2,481	-2,679	11,110
Income before tax	-2,421	42,198	91,442	149,193
Income for the year	**-1,976**	**32,808**	**71,148**	**116,158**
Other comprehensive income	-775	299	-569	299
Total comprehensive income for the year	**-2,751**	**33,107**	**70,579**	**116,457**

KSEK	FY 2017	FY 2016
Fixed assets	1,011,899	1,000,693
Current assets	140,015	182,171
Total assets	**1,151,914**	**1,182,864**
Equity	940,955	881,770
Untaxed reserves	–	470
Total long-term liabilities	4,036	4,036
Current liabilities	206,923	296,588
Total equity and liabilities	**1,151,914**	**1,182,864**

Notes

1. 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 2017", 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 Financial Reporting and the Swedish Annual Accounts Act. The condensed financial statements in the interim report encompass pages 8-15. Disclosures according to IAS 34 – Interim Financial Reporting are provided both here and elsewhere in the interim report. ESMA Guidelines on Alternative Performance Measures are applied.

The accounting policies 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 58-61 of the printed 2016 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 2017. This interim report complies with the Swedish Annual Accounts Act.

Presentation of foreign currency translation

The company has decided to change the presentation of currency effects from transactions that are designated in foreign currencies. Any currency translations resulting from operating activities are recognised as cost of goods sold. In previous reports, currency translation gains from operating activities were recognised as other revenue, and currency translation losses from operating activities as other operating expenses. The change in presentation does not affect operating profit. Historic comparative figures have been adjusted accordingly. The impact arising from currency translation from financing activities remain unchanged and is recorded in the financial result.

Financial Instruments – Hedge Accounting

All derivatives relate to currency hedging contracts for currency exposure as a result of customer 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, 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 remeasured is recognised in other comprehensive income and accumulated in the hedging reserve in equity. The cumulative hedging gain or loss recognised in the hedging reserve is reversed to profit or loss in the same period that the hedged cash flow affects profit or loss. Any ineffective portion of the change in value is recognised immediately in 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 (trade payables or receivables in foreign currency). After reclassification, hedging gains and losses will be balanced out with 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 financial activities.

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.

New and revised standards

Two new IFRS standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, are to be applied for annual reporting periods beginning on or after January 1, 2018. IFRS 9 was reviewed and no material differences were identified in comparison with the reporting for 2017. As preparation for the implementation of IFRS 15, all relevant customer agreements were examined and modified, if necessary, to adjust the revenue recognition to the new standard. The new standard is not expected to materially affect Probi's financial position or operating profit, or earnings per share.

2. Currency translation from operating activities

The following table shows the exchange result from operating activities that has been recognised as cost of goods sold:

KSEK	**Q4 2017**	Q4 2016	**FY 2017**	FY 2016
Exchange gains operating activities	3,848	4,077	15,731	7,532
Exchange losses operating activities	-3,335	-1,158	-17,465	-3,092
Exchange result operating activities	**513**	**2,919**	**-1,734**	**4,440**

3. Currency translation from financing activities

The following table shows the exchange result from financing activities that has been recognised as exchange result from financing activities:

KSEK	**Q4 2017**	Q4 2016	**FY 2017**	FY 2016
Exchange gains financing activities	8,508	45,683	83,682	55,637
Exchange losses financing activities	-8,679	-45,300	-89,715	-46,586
Exchange result financing activities	**-171**	**383**	**-6,033**	**9,051**

4. Purchase Price Allocation Nutraceutix

On 3 October 2016, Probi acquired the Nutraceutix operations and relevant assets in the form of an asset acquisition. As a result of the acquisition, Probi is expected to become a globally leading probiotics group and significantly strengthen its position in the North American market. The transaction was described in the previous annual consolidated financial statements in the notes under note 5 (Acquisitions).

The following table reproduces the final results of the purchase price allocation as previously presented in the Q2 2017 interim report with regards to the consideration paid for Nutraceutix and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date:

KUSD	Recognised amounts of identifiable assets acquired and liabilities assumed
Trade receivables	5,079
Inventories	6,605
Intangible assets	58,362
Property, plant and equipment	4,306
Other assets	228
Other liabilities	1,748
Total identifiable net assets	**72,831**
Total consideration transferred	106,473
Goodwill	**33,642**

The fair value of the acquired identifiable intangible assets is KUSD 58,362 and consists of the customer base (KUSD 40,808), technologies (KUSD 10,558) and other intangible assets (KUSD 6,996).

Goodwill of KUSD 33,642 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of Probi and Nutraceutix. The goodwill recognised is expected to be deductible for local income tax purposes but will be neutral on the Group's net income.

With the completion of the purchase price allocation in accordance with IFRS 3, adjustments were recognised in the current and preceding full-year reporting period that relate to the business combination that occurred on 3 October 2016.

The following tables provide information about the effects on the items in the statement of comprehensive income, the statement of financial position and the statement of cash flows from the preceding full-year 2016 to evaluate the adjustments resulting from the business combination.

Since the business combination occurred on 3 October 2016, the adjustments for full-year 2016 are identical to the adjustments for the preceding reporting period of the fourth quarter of 2016.

Consolidated Statement of Comprehensive Income at 31 December 2016

KSEK	Published	Change	**Adjusted**
Cost of goods sold	-172,873	-4,538	-177,411
Sales and marketing expenses	-47,131	-7,642	-54,773
Administration expenses	-52,924	1,796	-51,128
Operating Profit/EBIT	**130,349**	**-10,383**	**119,966**
Income taxes	-28,461	3,625	-24,836
Net income	**108,567**	**-6,720**	**101,847**
Other comprehensive income			
Components to be reclassified to net income			
Exchange rate differences resulting from the translation of foreign operations	21,384	-42	21,342
Total comprehensive income	**130,250**	**-6,761**	**123,488**
Earnings per share before and after dilution	11.43	-0.71	10.73

Consolidated Statement of Financial Position at 31 December 2016

KSEK	Published	Change	**Adjusted**
Customer base	–	365,048	365,048
Technology and other intangible assets	46,312	118,306	164,618
Goodwill	799,740	-490,938	308,802
Deferred tax assets	4,554	3,924	8,478
Trade receivables	78,039	864	78,903
Other assets and receivables	35,470	1,566	37,036
Total assets	**1.211,210**	**-1,255**	**1.209,955**
Total equity	**898,832**	**-6,765**	**892,067**
Other non-current liabilities	–	5,796	5,796
Other current liabilities	40,527	233	40,760
Liabilities and equity	**1.211,210**	**-1,255**	**1.209,955**

Consolidated Statement of Cash Flows at 31 December 2016

KSEK	Published	Change	Adjusted
Net income	**108,567**	**-6,720**	**101,847**
Adjustments to reconcile net income to cash provided from operating activities			
Income taxes	28,461	-3,625	24,836
Amortisation, depreciation and impairment of non-current assets	22,246	10,383	32,629
Other non-cash expenses and income	-30,139	1,872	-28,267
Cash flow before working capital changes	**132,885**	**1,910**	**134,795**
Change in trade receivables and other current assets	-35,426	-2,430	-37,856
Change in trade payables and other current liabilities	24,633	233	24,866
Cash flow from operating activities	**90,072**	**-287**	**89,785**
Net change in cash and cash equivalents	-39,795	-287	-40,082
Effects of changes in exchange rates	-93	287	194
Total changes	**-39,888**	**–**	**-39,888**
Cash and cash equivalents as of 1 January	**143,024**	**–**	**143,024**
Cash and cash equivalents as of 31 December	**103,136**	**–**	**103,136**

5. Definition of Alternative Performance Measures

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

The following 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 2017	Q4 2016	FY 2017	FY 2016
Net income	962	30,121	69,093	101,847
Income taxes	5,415	1,191	23,232	24,836
Financial result	1,266	1,911	11,762	-6,718
Operating Profit / EBIT	**7,643**	**33,223**	**104,087**	**119,965**

EBITDA

EBITDA is defined as Operating Profit/EBIT before depreciation, amortisation and impairment.

KSEK	Q4 2017	Q4 2016	FY 2017	FY 2016
Operating Profit / EBIT	7,643	33,223	104,087	119,965
Depreciation and amortisation	13,160	16,488	53,231	21,552
Impairment	–	11,051	–	11,051
EBITDA	**20,803**	**60,762**	**157,318**	**152,568**

EBIT margin

The EBIT margin is defined as Operating Profit/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 at closing day

Market capitalisation at closing day 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 defined as the sum of cost of goods sold, sales and marketing expenses, research and development expenses, administration expenses, other operating income and other operating expenses.