

BioGaia AB Year-end report 2015 (18 pages)

(Figures in brackets refer to the same period of last year.)



Managing Director's comments:

"We cannot but feel happy and satisfied with the past year. Thanks to sales growth of 16% after exchange rate adjustments, we are now approaching sales of one half billion. According to our data, the total market for probiotic dietary supplements is expanding by around 8% annually, which means that we are winning market shares. Our operating profit reached SEK 152 million, resulting in an operating margin of over 31%. And this was achieved despite expenses of SEK 20.6 million for our subsidiary IBT. Without these expenses our operating margin would have been a full 36%," says Peter Rothschild, Managing Director BioGaia.

Full year 2015

Net sales amounted to SEK 483.2 million (386.4)¹⁾, an increase of SEK 96.8 million (25%) (excluding foreign exchange effects, 16%).

Net sales in the Paediatrics business area reached SEK 389.6 million (301.2)¹⁾²⁾, an increase of SEK 88.4 million (29%) (excluding foreign exchange effects, 19%).

Net sales in the Adult Health business area amounted to SEK 74.7 million (69.4), an increase of SEK 5.3 million (8%) (excluding foreign exchange effects, 2%).

Operating profit was SEK 152.2 million (101.5)¹⁾, an increase of SEK 50.7 million (50%) (excluding foreign exchange effects, 24%). Excluding expenses in the subsidiary Infant Bacterial Therapeutics (IBT), operating profit was SEK 172.8 (108.1)¹⁾ million, an increase of SEK 64.7 million (60%).

Profit after tax was SEK 121.3 million (73.6)¹⁾, an increase of SEK 47.7 million (65%).

Earnings per share totalled SEK 7.01 (4.23)¹⁾.

The period's cash flow was SEK 15.1 million (-25.0). Cash and cash equivalents at 31 December 2015 amounted to SEK 226.9 million (210.7).

The Board proposes that the upcoming Annual General Meeting on 10 May 2016 approve an ordinary dividend of SEK 3.03 per share and an extraordinary dividend of SEK 1.97 per share, for a total dividend of SEK 5.00 per share.

The Board also proposes that the Extraordinary General Meeting on 18 March 2016 approve the distribution of the company's shares in the subsidiary IBT to the shareholders in BioGaia in connection with application for listing of the shares on First North, corresponding to SEK 4.72 per share.

Fourth quarter 2015

Net sales amounted to SEK 104.4 million (121.4), a decrease of SEK 17.0 million (-14%) (excluding foreign exchange effects, -16%).

Net sales in the Paediatrics business area reached SEK 76.6 million (93.6)²⁾, a decrease of SEK 17.0 million (-18%) (excluding foreign exchange effects, -21%).

Net sales in the Adult Health business area amounted to SEK 20.0 million (23.0)²⁾, a decrease of SEK 3.0 million (-13%) (excluding foreign exchange effects, -15%).

Operating profit was SEK 27.5 million (30.6), a decrease of SEK 3.1 million (-10%) (excluding foreign exchange effects, -15%). Excluding expenses in the subsidiary IBT, operating profit was SEK 32.0 (32.9) million, a decrease of SEK 0.9 million (-3%).

Profit after tax was SEK 21.7 million (19.1), an increase of SEK 2.6 million (14%).

Earnings per share totalled SEK 1.26 (1.04).

The period's cash flow was SEK 7.1 million (-13.9).

Key events in the fourth quarter of 2015

Study shows that BioGaia Protectis promotes growth of children and prevents recurrent diarrhoea.

BioGaia appoints new Managing Director.

BioGaia makes further investment in MetaboGen.

Key events after the end of 2015

BioGaia's subsidiary IBT has US IND open and Swedish CTA approved for clinical study.

New meta-analysis confirms effectiveness of BioGaia Protectis for infant colic.

1) Excluding license revenue from Nestlé. Including license revenue from Nestlé, net sales for the period from 2014 amounted to SEK 481.8 million, net sales in the Paediatrics business area to SEK 396.6 million, operating profit to SEK 196.9 million, profit after tax to SEK 148.0 million and earnings per share to SEK 8.53.

2) A minor reallocation between segments was made in the previous year's sales in order to achieve better comparability with the year's figures.

Teleconference: You are welcome to take part in a teleconference on the interim report that will be held today at 9:30 a.m. by Managing Director Peter Rothschild. To participate in the teleconference Please see www.biogaia.com/agenda.
Link to presentation: <http://financialhearings.nu/160212/biogaia/>

BioGaia has published this information in accordance with the Swedish Securities Act. The information was issued for publication on 12 February 2016, 8.00 a.m. This is a translation of the Swedish version of the interim report. When in doubt, the Swedish wording shall prevail.

BioGaia AB (publ.)

Year-end report 2015

Figures in brackets refer to the same period of last year. The comparative figures in the balance sheet refer to 31 December 2014.

The Board of Directors and Managing Director of BioGaia AB hereby present the year-end report for 2015. A description of the company's operations is provided on page 18.

MANAGING DIRECTOR'S COMMENTS

We cannot but feel happy and satisfied with the past year even if the three first quarters promised an improved growth compared to the full year growth. Thanks to sales growth of 16% after exchange rate adjustments, we are now approaching sales of one half billion. According to our data, the total market for probiotic dietary supplements is expanding by around 8% annually, which means that we are winning market shares.

Our operating profit reached SEK 152 million, resulting in an operating margin of over 31%. And this was achieved despite expenses of SEK 20.6 million for our subsidiary IBT. Without these expenses our operating margin would have been a full 36%.

Brazil has emerged as an important market for us, and is now one of our largest. Development during the year was uneven, which gave us additional sales at the beginning of the year but markedly lower sales in the fourth quarter. After a highly successful launch and sales in the second quarter of 2015, our distributor Aché saw a need to increase its buffer stock. But its optimistic forecasts failed to materialize and Aché ended up with excess inventory, which meant that our sales to them in the fourth quarter were very limited compared to the same period of 2014. This will also impact our sales in 2016 until inventory levels have normalized. Sales from pharmacies remain high and are expected to show double-digit growth in 2016.

The other markets in South America are showing excellent development and the region has grown in importance to us. Europe, our foremost market, is also showing very strong development despite the fact that we already have large market shares in certain countries already.

Nestlé purchased significantly less cultures from us for infant formula, since they are increasingly manufacturing the culture in-house. This has affected sales but not profit, since the margin on this product is low following the license agreement that was signed with Nestlé in 2012. However, our royalty agreement with Nestlé regarding Growing Up Milk for children older than one year is starting to generate sizeable revenue. The revenue stream from this agreement will increase year by year.

In the markets that use direct-to-consumer marketing, such as Finland and South Africa, we saw a decrease in sales in the fourth quarter. These markets tend to fluctuate more sharply as an effect of advertising campaigns from competitors and the general economic climate.

Operating expenses for the fourth quarter were lower than anticipated due to delays in a few clinical trials. Our selling expenses were also lower owing to lower costs for marketing activities, which were high at the end of 2014 in connection with major launches. In view of the fact that IBT will be listed separately and the company is no longer consolidated in the BioGaia Group, BioGaia's operating expenses are expected to increase very moderately during 2016.

At the beginning of 2016, a meta-analysis of 17 studies regarding different treatments of infant colic showed that BioGaia's drops are the only probiotic that is effective against colic. According to the review and also many doctors we have spoken to, the main competitor, an active ingredient called simethicone, is not effective. These are naturally positive findings that will be used by our distribution partners.

We are seeing fantastic advances on the research front in our area, and today there is widespread consensus that the microbiome, i.e. the collective genetic material contained in the human intestinal tract, has a powerful impact on many of the body's functions through the nervous system, the endocrine system, the immune system, etc. The big potential from microbiome research is the background for BioGaia's investment in the research company MetaboGen in Gothenburg, Sweden, where we are collaborating with some of the top researchers in this area. In the first year the company worked on prioritizing the various projects and is now up and running with those that have been deemed most important.

Our subsidiary IBT, that is developing a drug to prevent the disease NEC, which affects premature infants, has made considerable progress during the year. The FDA has authorized a so-called IND (Investigational New Drug) for our first clinical study in the USA and we have also received approval from the Swedish Medical Products Agency to start a study in Sweden. BioGaia's Board of Directors has today decided to distribute its shares in IBT to BioGaia's shareholders and list the company on the First North marketplace. IBT will then carry out a new share issue to raise approximately SEK 100 million for the first clinical study. The advantage of the separate listing is that BioGaia will not be burdened with IBT's heavy development expenses at the same time that IBT will have direct access to the capital market. Parallel to this, IBT is in discussions with possible license partners who, if an agreement is signed, will contribute capital to the project. It is impressive to see how much IBT has achieved in a short span of time, thanks to its focused working methods and its highly qualified and experienced employees.

In 2015 BioGaia's Board of Directors appointed Axel Sjöblad as the new Managing Director as of 1 March 2016, after which I will devote myself to BioGaia's strategic long-term development issues and its subsidiaries, which have demanded more and more of my time in the past few years. I am convinced that this is a change that will greatly benefit BioGaia's shareholders.

FINANCIAL PERFORMANCE IN 2015

Net sales 2015

Net sales amounted to SEK 483.2 million (386.4)¹⁾, which is an increase of SEK 96.8 million (25%) compared to the previous year.

Most of the company's sales are denominated in foreign currency, primarily EUR but also USD, CHF and JPY. With unchanged exchange rates compared to last year, net sales would have been SEK 35.6 million lower. Excluding foreign exchange effects, net sales thus rose by 16%¹⁾ compared to the previous year.

License revenue from Nestlé in 2014

In the first quarter of 2014 BioGaia received license revenue from Nestlé in the amount of SEK 95.4 million. Including the license revenue from Nestlé, net sales for 2014 amounted to SEK 481.8 million. For more information see the annual report for 2014.

Since the license revenue in 2014 is regarded as non-recurring and has a significant impact on the key ratios, it is stated on a separate line in the statement of comprehensive income, and the key ratios have been calculated both including and excluding license revenue from Nestlé. The license revenue is included in the Paediatrics business area and the European market. In the comparative figures in the text below, license revenue is excluded. For comparative figures including license revenue, see Note 1 on page 8.

Sales by segment in 2015

PAEDIATRICS BUSINESS AREA 2015

Sales in BioGaia's core area, Paediatrics, amounted to SEK 389.6 million (301.2)¹⁾²⁾, an increase of SEK 88.4 million (29%). Excluding foreign exchange effects, the increase was 19%.

The increase is primarily attributable to sales of drops, which showed growth in all regions.

In "Rest of world", sales of drops were up primarily in Brazil, where the launch took place in October 2014, as well as Chile, Peru and Mexico. In Europe, sales of drops increased in several countries but above all in Italy, Turkey, Germany, Spain and Sweden, while they declined mainly in Finland but also in Poland, the Czech Republic and Ukraine. The downturn in Ukraine is due to the current instability in the country and in Finland to aggressive price competition in this market, which is dominated by direct-to-consumer marketing.

In North America, sales of the drops were up in both the USA and Canada.

In Asia, the sales growth was attributable to several countries but primarily Indonesia and South Korea.

Sales of digestive health tablets in the Paediatrics business area rose in all regions but North America, where they declined in both the USA and Canada. The increase in "Rest of World" is mainly attributable to Brazil, where the tablets were launched in September 2014, as well as South Africa. In Europe, sales of the digestive health tablets were up in several countries, most notably Bulgaria and Spain, but fell in Ukraine. The increase in Asia was attributable to Taiwan and Singapore.

Sales of cultures for infant formula declined by SEK 5.7 million compared to the previous year. This affects sales but not profit, since the margin on this product is low following the license agreement that was signed with Nestlé in 2012.

Royalty revenue from Nestlé for the use of BioGaia Protectis in Growing Up Milk for children older than one year were up compared to the previous year.

Royalty revenue from the collaboration agreement that was signed with Nestlé in March 2014 amounted to SEK 5.3 million (10.5)² in the Paediatrics business area. For more information, see below under "New Business Business Area".

During the year the Paediatrics business area was focused on preparing for the start of a number of clinical studies in BioGaia's core areas and worked on technical and commercial development of new packaging solutions. The past year saw the publication of several interesting findings from the use of BioGaia ProTectis in independent clinical studies. These included a randomized, controlled pilot study on 76 children with acute diarrhoea from Bangladesh, where the results showed that rapid diagnostic testing in combination with *Lactobacillus reuteri* Protectis supplementation for 60 days led to a significant increase in standardized height and reduction in recurrent diarrhoea compared to standard care and placebo. The fifth clinical study with positive effects on infant colic and the first independent study from China were published in 2015. Furthermore, a new meta-analysis from a research team in Australia was published in December. This meta-analysis reviewed several different treatments for infant colic and the results showed that ProTectis was the only effective probiotic and that Simethicone, a drug often prescribed for colic, had no effect.

ADULT HEALTH BUSINESS AREA 2015

Net sales in the Adult Health business area amounted to SEK 74.7 million (69.4), an increase of SEK 5.3 million (8%) (excluding foreign exchange effects, 2%) compared to the previous year.

The increase is due mainly to higher sales of oral health tablets, as well as digestive health tablets.

Sales of oral health products grew all regions but primarily in Asia (Japan) and Europe (Italy). The first sales in "Rest of World" to our partner Silanes ahead of the launch in Mexico were made in the third quarter of 2015. The launch will take place in the first quarter of 2016.

The increase in sales of digestive health tablets in the Adult Health business area was mainly attributable to Europe (primarily Finland,

Italy and Belgium), but sales were also up in Asia (Japan and Hong Kong). In "Rest of world", sales decreased (Australia and South Africa). In North America, no digestive health tablets are sold in the Adult Health business area.

The sales of yoghurt in Japan decreased as the company discontinued sales in September 2014 because the margin did not meet expectations.

The Adult Health business area is working in various ways to support expansion of the distribution network for its existing products. Parallel to this, the focus has been on starting clinical studies, both to enhance the existing products and to create new indication areas, especially in the key areas of gastroenterology and oral health. At the beginning of December the company exhibited at the APDW gastroenterology congress in Taipei. The well visited stand functioned as a platform and meeting place for discussion with regional gastroenterologists with a special focus on research relating to *Helicobacter pylori*.

NEW BUSINESS BUSINESS AREA 2015

Other sales amounted to SEK 19.0 million (15.7)², an increase of SEK 3.3 million. The "New Business" business area is included in "Other sales" in the segment reporting.

The New Business business area includes royalty revenue of SEK 12.1 million (12.5)² arising from the collaboration agreement that was signed with Nestlé in March 2014. Royalty revenue amounting to a total of SEK 92.0 million for the period 2014-2017 has been previously reported in the Paediatrics business area (SEK 22.9 million for the full year 2014) but will be allocated between the Paediatrics and New Business business areas in the future. In order to achieve comparability between years, the previous year's amount has been adjusted. Under the agreement, BioGaia has undertaken to carry out clinical studies in the paediatric area and develop new products in new areas. BioGaia will recognize the royalty revenue in pace with completion of the projects.

SALES BY GEOGRAPHIC MARKET 2015

Sales in Europe were up by SEK 26.9 million (10%)¹ to SEK 284.7 million.

Sales in the USA and Canada rose by SEK 4.9 million (16%) to SEK 35.2 million.

Sales in Asia increased by SEK 13.3 million (34%) to SEK 52.1 million.

Sales in "Rest of world" grew by SEK 51.6 million (87%) to SEK 111.2 million.

THE BIOGAIA BRAND

Of total finished consumer products, (drops, digestive health tablets, oral health tablets, oral rehydration solution, etc.) 60% (52%) were sold under the BioGaia brand, including co-branding, during 2015.

Gross profit 2015

Gross profit amounted to SEK 336.6 million (255.1)¹, which is an increase of SEK 81.5 million (32%) compared to the previous year. The total gross margin rose from 66%¹ to 70%.

Gross margin for the Paediatric business area strengthened from 65% to 68%. This is mainly because the figures for the previous year included extra costs for the stability problems that arose for certain products.

Gross margin for the Adult Health business area increased from 64% to 70%. This is mainly due to the discontinuation of yoghurt sales with very low margins, but also to increased sales of other products in Japan, where the margin is higher.

Operating expenses 2015

Total operating expenses rose by 15% compared to the previous year and amounted to SEK 186.1 million. Operating expenses include expenses for the subsidiary IBT totalling SEK 20.6 million (6.6). Without these, the increase in operating expenses would have been 7%.

Selling expenses increased by SEK 6.6 million compared to the previous year (7%) and amounted to SEK 96.3 million (89.8), which is equal to 20% (23)¹⁾ of net sales. It was primarily personnel and agency expenses that were up compared to the previous year. In contrast, expenses for marketing activities decreased, mainly with regard to product samples, which were a considerable expense in the previous year in connection with major launches. Selling expenses also include expenses of SEK 2.6 million for IBT. Excluding the expenses for IBT, selling expenses were up by 4%.

Administrative expenses amounted to SEK 18.5 million (17.7), which is equal to 4% (5)¹⁾ of net sales. The increase of SEK 0.8 million (5%) is mainly explained by higher personnel and consulting expenses.

R&D expenses are reported at SEK 71.3 million (53.9), which is equal to 15% (14) of net sales. The increase of SEK 17.4 million (32%) is due mainly to costs for the subsidiary IBT, which rose by SEK 11.4 million (see below). Furthermore, both patent expenses and costs for development projects increased, primarily as a result of the collaboration agreement with Nestlé. Excluding expenses for IBT, R&D expenses were up by 13%. In the fourth quarter a provision of SEK 3.9 million was reversed, which had a positive impact on profit. Without this reversal, the increase in R&D expenses would have been SEK 21.3 million.

Other operating income/expenses refer to foreign exchange gains/losses on operating receivables and liabilities.

Share in result of associated company

In December BioGaia made a further investment in MetaboGen AB (see below). Following this investment, the holding amounts to 27% and MetaboGen is thus reported as an associated company to BioGaia. The share in MetaboGen's profit is recognized according to the equity method over the consolidated income statement.

Operating profit 2015

Operating profit was SEK 152.2 million (101.5)¹⁾, an increase of SEK 50.7 million (50%) (excluding foreign exchange effects, 24%) and operating margin was 31% (26)¹⁾. Excluding the subsidiary IBT, operating profit was SEK 172.8 million (108.1) and operating margin was 36% (28%).

Financial items and profit before tax 2015

Profit before tax was SEK 157.4 million (97.1)¹⁾, an increase of SEK 60.3 million (62%) compared to the previous year. Net financial items include a foreign exchange gain of SEK 5.1 million on forward exchange contracts in EUR and USD. The figures for the previous year included a foreign exchange loss of SEK -6.6 million. At 31 December 2015 the company had outstanding forward exchange contracts for EUR 11.8 million at an average exchange rate of SEK 9.31 and USD 1.0 million at an average exchange rate of SEK 8.50. Forward exchange contracts amounting to EUR 8.3 million and USD 1.0 million will mature for payment in 2016 and EUR 3.5 million in 2017. The actual exchange gain/loss depends on the exchange rate on the maturity date of the contracts.

Profit after tax 2015

Profit after tax was SEK 121.3 million (73.6)¹⁾, an increase of SEK 47.7 million (65%). The tax rate for the Group was 23% (23). The company pays tax in the Swedish companies, where the tax rate is 22%. BioGaia has had

a tax matter related to a write-down of receivables from the Japanese subsidiary. At the end of 2015, the Administrative Courts ruled against BioGaia AB. The Parent Company was not allowed a deduction for the write-down of receivables from the Japanese subsidiary. BioGaia therefore recognized the expense of SEK 3.1 million in the fourth quarter of 2015. In the first quarter of 2015, the Parent Company received SEK 1.5 million in refunded tax from previous fiscal years that was recognized in income in the first half of 2015. As a result, profit for the year was charged with a total of SEK 1.6 million in tax expenses attributable to prior years.

Tax loss carryforwards in the Japanese subsidiary amounted to SEK 31.3 million at 31 December 2015. The deferred tax asset for these has not been recognized, since a sustainable profit level has not yet been shown in the Japanese subsidiary.

Earnings per share 2015

Earnings per share were SEK 7.01 (4.23)¹⁾.

Cash flow 2015

Cash flow for the year amounted to SEK 15.1 million (-25.0). Cash flow included dividends of SEK -86.4 million (-120.9) and SEK 15.8 million arising from the issue of new shares through the warrant programme (0.0). Cash flow for the previous year included payment of SEK 95.4 million in license revenue from Nestlé.

The Group's cash and cash equivalents at 31 December 2015 amounted to SEK 226.9 million (210.7).

Equity at 31 December 2015

Consolidated equity at 31 December 2015 totalled SEK 395.8 million (344.6). The Group's equity/assets ratio was 84% (83).

The warrant programme for the employees that was resolved on by the Annual General Meeting on 8 May 2012 expired on 1 June 2015. A total of 65,500 warrants were redeemed and the share capital now amounts to SEK 17,336,462. The number of class B shares now amounts to 16,595,794 and the number of class A shares is unchanged at 740,668. The subscription price for the share was SEK 241.90 and the company was thus provided with proceeds of SEK 15.8 million in the second quarter. The reserve of SEK 1.1 million intended for a subsidy of SEK 10 per share to those who had subscribed for subscription warrants but had not exercised the right to buy shares was only partially utilized (SEK 0.2 million). The remaining reserve of SEK 0.9 million was dissolved in the second quarter and had a positive impact on operating expenses.

Investments in property, plant and equipment 2015

Investments in property, plant and equipment totalled SEK 17.8 million (18.4), of which SEK 17.6 million (17.3) refers to the subsidiary TwoPac AB, where expansion of the production plant was started during the period.

Investments in capitalized development expenditure amounted to SEK 10.1 million (6.1) and refer to development of a product for the NEC project in the subsidiary IBT AB.

Subsidiary in Japan 2015

Net sales in the wholly owned subsidiary in Japan reached SEK 21.1 million (17.1). Operating profit/loss in the Japanese subsidiary was SEK -2.8 million (-6.1). Efforts to launch the drops are continuing and the company has initiated a cost-cutting programme that will significantly contribute to improved earnings in the Japanese company.

Subsidiary TwoPac AB (incl. subsidiary) 2015

Net sales in the wholly owned subsidiary TwoPac, of which 100% consists of sales to the Parent Company, amounted to SEK 52.6 million

(44.7). Operating profit was SEK 9.9 million (7.7). Profit after tax was SEK 7.2 million (5.5). Operating expenses in the company increased, which is due to higher personnel expenses resulting mainly from more stringent quality criteria. The higher quality criteria are internally driven but are also explained by the fact that TwoPac obtained approval of the facility for pharmaceutical production from the Swedish Medical Products Agency in the third quarter of 2015.

Subsidiary CapAble AB 2015

CapAble, which is owned 90.1% by BioGaia AB and 9.9% by the company's Managing Director, was started in November 2008 to manufacture and sell the patented LifeTop Cap. Net sales in CapAble totalled SEK 1.6 million (0.5). Operating profit amounted to SEK -3.5 million (-2.9). In 2014 and the first quarter of 2015 the company experienced quality problems, which meant that sales have not gained momentum as anticipated. The company's assessment is that the problems have now been solved and that sales will pick up speed during 2016. CapAble has now also commenced marketing of the company's LifeTop Straw with probiotics. During the year CapAble signed two new agreements for LifeTop Straw, one with Ganeden, USA and one with Alimentary Health, Ireland.

Subsidiary IBT AB 2015

In November 2013, the Board of BioGaia made a decision to invest in a first phase of a long-term project aimed at developing a drug with rigorous hygiene, analysis and documentation requirements, to treat the highly fatal disease necrotizing enterocolitis (NEC), which affects premature infants. At that time BioGaia decided to invest up to SEK 42 million in the project. In 2015 the Board of BioGaia decided to invest a further SEK 40.0 million in IBT. IBT therefore carried out a new issue. BioGaia's total investment in IBT after the new share issue amounts to approximately SEK 82 million and its holding to 94.5%. The remaining 5.5% is owned by IBT's Managing Director, Staffan Strömberg (2.5%), and its Head of Research and Development, Eamonn Connolly (2.5%), as well as Board member Anders Ekblom (0.5%), former Global Head of R&D Science & Technology Integration at AstraZeneca AB and CEO of AstraZeneca AB).

In February IBT was granted orphan drug designation for the prevention of NEC in Europe, following a similar decision by the FDA in August 2013.

At the beginning of 2016 IBT announced that they had US IND open and Swedish Clinical Trial Application approved for clinical study. The so-called IND (Investigation New Drug) for the prevention of NEC was accepted by the FDA. Furthermore, the Swedish Medical Products Agency gave IBT approval to conduct its clinical trial in Sweden.

To finance the first clinical study, IBT will require estimated additional capital of approximately SEK 100 million. In order to enable BioGaia's shareholders to invest directly in this project, the Board in 2015 instructed the executive management to evaluate the possibilities for a separate listing of IBT. The Board of BioGaia has today passed a decision to distribute the shares in IBT to the company's shareholders in connection with IBT's application for a separate listing on the First North marketplace.

Operating profit in IBT amounted to SEK -20.6 million (-6.7) in 2015. The company made investments in capitalized development expenditure of SEK 10.1 million (6.1) during the year. The company does not yet have any revenue.

Parent Company 2015

Net sales in the Parent Company reached SEK 470.6 million (368.8)¹⁾ and profit before tax was SEK 165.6 million (97.2)¹⁾. Cash flow in the Parent Company totalled SEK -30.0 million (-27.6).

FINANCIAL PERFORMANCE IN THE FOURTH QUARTER OF 2015

Net sales, fourth quarter

Net sales for the fourth quarter amounted to SEK 104.4 million (121.4), an decrease of SEK 17.0 million (-14%) compared to the same period of last year. Excluding foreign exchange effects, the decrease was 16%.

Compared to the third quarter sales decreased by SEK -1.6 million, which is mainly due to lower sales to Brazil. Sales of drops and tablets were launched in Brazil and the end of 2014 and have been highly successful. After a very successful launch and sales in the second quarter of 2015, our distributor Ache saw a need to increase its buffer stock. However its optimistic forecasts failed to materialize and Ache ended up with excess inventory, which meant that the sales to them in the fourth quarter were very limited compared to the same period of 2014 and the preceding quarter. This will also impact sales in 2016. Sales from pharmacies remain high and are expected to show double-digit growth in 2016.

PAEDIATRICS, FOURTH QUARTER

Sales in the Paediatrics business area amounted to SEK 76.6 million (93.6)²⁾, a decrease of SEK 17.0 million (-18%) compared to the same period of last year. Excluding foreign exchange effects, the decrease was -21%.

The decrease is mainly attributable to sales of drops and tablets in Brazil (for more information, see above). Sales of drops were also down in Finland and South Africa. The latter two are important markets for BioGaia but particularly volatile, since they use direct-to-consumer marketing, which is not the case in BioGaia's other markets.

Sales of cultures for infant formula declined by SEK 3.9 million compared to the same period of last year, since Nestlé is increasingly manufacturing the cultures in-house. However, these sales have no effect on profit since they are made at a price with very low margins.

Royalty revenue from Nestlé for the use of *L. reuteri* in Growing Up Milk for children older than one year increased compared to the same period of last year.

Royalty revenue from the collaboration with Nestlé amounted to SEK 0.6 million (3.5)²⁾ in the Paediatrics business area, a decrease of SEK 2.9 million.

Compared to the previous quarter, sales in the Paediatrics business fell by SEK 12.3 million, which is attributable to Brazil (see above). In the other markets, sales were up compared to the third quarter, which is due to lower sales in the third quarter in connection with the summer holiday period.

ADULT HEALTH, FOURTH QUARTER

Sales in the Adult Health business area amounted to SEK 20.0 million (23.0), a decrease of SEK 3.0 million (-13%). Excluding foreign exchange effects, the decrease was -15%.

Sales of digestive health tablets in the Adult Health business area were down compared to the same period of last year. The decrease was mainly attributable to Asia (Japan) and "Rest of World" (South Africa and Australia).

Sales of oral health products and Gastrus digestive health tablets rose compared to the same period of last year.

Compared to the previous quarter, sales in the Adult Health business area were up by SEK 7.4 million, which is due to lower sales in the third quarter in connection with the summer holiday period.

NEW BUSINESS BUSINESS AREA, FOURTH QUARTER

Other sales amounted to SEK 7.7 million (4.7)²⁾, an increase of SEK 3.0 million. The New Business business area is included in "Other sales" in the segment reporting.

The New Business business area includes royalty revenue of SEK 3.5 million (4.2)²⁾ from the collaboration agreement that was signed with Nestlé in March 2014. (For more information see above under sales in 2015).

Gross profit, fourth quarter

Gross profit was SEK 73.4 million (76.2), a decrease of SEK -2.8 million (-4%) compared to the same period of last year. Gross margin was 70%, compared to 63% in the same period of last year.

For the Paediatrics business area, gross margin strengthened from 60% to 69%. This is due to the fact that the fourth quarter of the preceding year was charged with extra costs for stability problems in the products. Furthermore, there were lower sales of bacteria cultures for infant formula, where the gross margin is very low.

For the Adult Health business area, the margin fell from 68% to 66%. This is mainly explained by the launches of Gastrus digestive health tablets, where the margin is lower due to small volumes.

Operating expenses in the fourth quarter

Total operating expenses decreased by 10% compared to the same quarter of last year. Excluding expenses for the subsidiary IBT, total operating expenses were down by 15%. This is partly due to the reversal of provisions of SEK 3.9 million during the quarter (see below about R&D expenses).

Compared to the previous quarter, operating expenses were up by SEK 0.4 million (excluding IBT, operating expenses increased by SEK 2.4 million compared to the previous quarter).

Selling expenses declined compared to the same quarter of last year, from SEK 26.2 million to SEK 23.5 million (-10%). The decrease is due to lower costs for marketing activities, mainly costs for product samples, which were high at the end of 2014 in connection with major launches. On the other hand, personnel expenses increased compared to the same period of last year.

Administrative expenses fell by SEK 0.3 million (-6%) compared to the same period of last year and amounted to SEK 4.9 million. This was mainly attributable to lower costs in the subsidiary TwoPac, which had high costs in the fourth quarter of last year.

R&D expenses amounted to SEK 16.1 million (17.8), which is a decrease of SEK 1.7 million (-10%) compared to the same period of last year. These expenses include an amount of SEK 4.5 million (2.2) for IBT. Excluding expenses for the subsidiary IBT, R&D expenses were down by SEK 4.1 million (25%). The decrease is mainly due to the fact that a provision of SEK 3.9 million for the collaboration agreement with Nestlé was made in the fourth quarter of 2014. In the fourth quarter of 2015 the provision was reversed in a corresponding amount, since the company has changed revenue recognition of the agreement. As of 2015 royalty revenue from collaboration agreement is recognized in pace with completion of the projects. Other R&D expenses rose by SEK 3.8 million, which is explained by higher costs for clinical studies and increased personnel expenses.

Operating profit, fourth quarter

Operating profit was SEK 27.5 million (30.6), which is a decrease of SEK 3.1 million (-10%) compared to the same period of last year (excluding foreign exchange effects, -15%). Operating profit includes IBT's result of SEK -4.5 million (-2.4). Excluding IBT, the decrease was -3%.

Profit before tax, fourth quarter

Profit before tax was SEK 31.0 million (26.9), which is an increase of SEK 4.1 million (15%) compared to the same period of last year. Net financial items include a foreign exchange gain on forward exchange contracts in EUR and USD of SEK 3.5 million (for more information, see above). The figure for the year-earlier quarter included a foreign exchange loss of SEK -3.9 million.

Profit after tax, fourth quarter

Profit after tax was SEK 21.7 million (19.1), which is an increase of SEK 2.6 million (14%) compared to the same period of last year.

KEY EVENTS AFTER THE END OF THE FOURTH QUARTER OF 2015

Launches in the fourth quarter of 2015

Distributor/licensee	Country	Product
Biovagen	Vietnam	Protectis digestive health tablets
Delta Medical	Russia	Oral rehydration solution
Everidis	USA	Gastrus digestive health tablets
Noos	Italy	Gastrus digestive health tablets

BioGaia's probiotic promotes growth of children and prevents recurrent diarrhoea

The results of a randomized, controlled pilot study of 76 children with acute diarrhoea showed that rapid diagnostic testing in combination with *Lactobacillus reuteri* Protectis supplementation for 60 days was associated with a significant increase in height and significantly less recurrent diarrhoea compared to standard care and placebo treatment. The study was conducted in Botswana and the preliminary results were presented at Infectious Disease Week in San Diego, USA, on 10 October 2015.

BioGaia appoints new Managing Director

In October BioGaia's Board of Directors decided to appoint Axel Sjöblad as the new Managing Director of BioGaia AB. Peter Rothschild has been appointed as Group President.

Axel Sjöblad was previously Managing Director of Getinge Sverige AB and VP North and Central Europe, and prior to this Regional VP Northern European Markets at Gambro Lundia AB. He will take up duties as Managing Director of BioGaia AB on 1 March 2016. His extensive experience in marketing and sales makes him ideally suited to take over management of the company's operations.

In the capacity of Group President, Peter Rothschild will retain overall responsibility for the BioGaia Group's research and development activities and will serve as working Chairman of the group companies TwoPac, IBT and CapAble. He will also support the development of BioGaia Japan. Furthermore, Peter Rothschild will continue as Chairman of MetaboGen.

Agreement for the sale of BioGaia's products in Sri Lanka

In October BioGaia signed an agreement with Axero Associated for the right to sell drops, digestive health tablets, oral health tablets and Gastrus digestive health tablets in Sri Lanka.

Additional investment in MetaboGen

In December 2014 BioGaia reported its decision to invest SEK 12 million in MetaboGen AB in Gothenburg, Sweden. The investment was to be made over a two-year period. The first investment of SEK 4 million took place in December 2014 and, as MetaboGen had reached the agreed milestones, the second investment of SEK 4 million was made in December 2015. BioGaia's holding in MetaboGen thereafter amounts to 27%, and if further milestones are reached, the final investment of SEK 4 million will be made at the end of 2016. The holding will then amount to 35%.

MetaboGen is a research company that was founded in 2011 in Gothenburg by Professor Fredrik Bäckhed at the University of Gothenburg and Professor Jens B. Nielsen at Chalmers University of Technology, together with GU Holding, which commercializes research results and develops companies linked to the University of Gothenburg. MetaboGen conducts research on metagenomics. The aim is to develop new treatments and products for different metabolic and other microbial associated diseases by influencing large parts of the microbiota.

KEY EVENTS AFTER THE END OF 2015

BioGaia's subsidiary IBT has US IND open and Swedish CTA approved for clinical study

For more information, see under "Subsidiary IBT 2015" above.

New meta-analysis confirms effectiveness of Protectis for colic

The analysis evaluated 17 studies on treatments for colic, of which *L. reuteri* Protectis was the only probiotic. Only one other product was found to be effective. Simethicone, a drug often prescribed for colic, was shown to have no effect.

The systematic review and meta-analysis was published online by researchers Tracey Harb and colleagues at the University of Queensland, Australia, in Journal of Pediatric Gastroenterology and Nutrition on 14 December 2015.

KEY EVENTS EARLIER IN 2015

Launches in January - September, 2015

Distributor/licensee	Country	Product
Abbot/Recalcine	Panama	Drops and digestive health tablets
BG Distribution	Hungary	Oral rehydration solution
Biovagen	Vietnam	Drops
Dexcel	Israel	Oral health tablets
Ivodent	South Africa	Oral health tablets and oral health drops
Nestlé	Pakistan and Middle East	Growing Up Milk with <i>Lactobacillus reuteri</i> Protectis
Noos	Italy	Oral health tablets and oral health drops
Pharma Ace	Malaysia	Relaunch of drops
Pharmabest	Israel	Relaunch of drops
PT Interbat	Indonesia	Relaunch of Protectis digestive health tablets
Streuli Pharma	Switzerland	Oral health tablets
Sunstar	Austria	Oral health tablets

Publication of study showing that Prodentis reduces candida in the elderly

A double-blind, randomized, placebo-controlled study on 215 elderly nursing home residents showed that *Lactobacillus reuteri* Prodentis reduced the prevalence of oral Candida by 53% compared to placebo. The study was published in Journal of Dental Research on 22 July 2015.

Agreement for the sale of drops in Vietnam

In January 2015 BioGaia signed an exclusive agreement with VietPhap International Co Ltd for the right to sell BioGaia ProTectis drops in Vietnam.

Nestlé launches new product with BioGaia's probiotic

For several years BioGaia and Nestlé have been engaged in a fruitful cooperation to develop products with probiotics. A new agreement that was signed on 30 May 2013 gave Nestlé the exclusive rights to use BioGaia's patented probiotic strain *Lactobacillus reuteri* Protectis in Growing Up Milk for children over the age of one year. At the end of 2014 Nestlé started the launch of these products, which will be sold mainly in emerging markets.

Publication of study showing that *Lactobacillus reuteri* Prodentis is effective in patients with dental implants

Inflammation and other complications from dental implants are common. The results from a double-blind, randomized controlled study on 34 patients with implants show that 30 days of supplementation with *Lactobacillus reuteri* Prodentis significantly reduced inflammation related to implants. The study was published in Journal of Periodontal Research on 25 February 2015.

Agreement for the sale of oral health products in Mexico

In March BioGaia signed an exclusive agreement with Silanes for the rights to sell BioGaia's oral health lozenges in Mexico. The launch is planned for the beginning of 2016.

Publication of Chinese study showing the effect of BioGaia's drops in infants with colic

A Chinese study on infants with colic showed that babies given *Lactobacillus reuteri* Protectis cried significantly less compared to babies given placebo.

The study is the fifth positive colic study with *Lactobacillus reuteri* Protectis and the results confirm the positive findings from earlier studies. The study was published in the medical journal *Antonie van Leeuwenhoek* on 16 April 2015.

EMPLOYEES

The number of employees in the Group at 31 December 2015 was 105 (95).

Incentive scheme for the employees

See above under Equity at 31 December 2015.

SIGNIFICANT RISKS AND UNCERTAINTIES; GROUP AND PARENT COMPANY

The Japanese subsidiary has operated at a loss since the start in 2006. On the balance sheet date, assets in the Japanese subsidiary were reported at SEK 15.6 million in the Group. BioGaia's assessment is that there is no indication of impairment of these assets. In the Parent Company, the loan to the Japanese subsidiary and participations in the company have been written down to zero.

CapAble, which is 90.1% owned by BioGaia AB, was started in November 2008 to manufacture and sell the patented LifeTop Cap. The shares in the subsidiary CapAble amount to a total of SEK 6.9 million in the Parent Company. CapAble has operated at a loss since the start in 2008. BioGaia made total conditional shareholder contributions of SEK 6 million to CapAble in 2009 and 2010. BioGaia AB made total group contributions of SEK 12.7 million during the period from 2010 to 2015. Profit before tax and group contributions for 2015 amounted to SEK -3.5 million (-2.6). On the balance sheet date, assets in CapAble were reported at SEK 3.1 million. BioGaia's

assessment is that CapAble will show profitability in coming years, for which reason there was no indication of impairment on the balance sheet date.

Infant Bacteria Therapeutics AB (IBT), which is 94.5% owned by BioGaia, was established in November 2013. For more information see above. BioGaia's total investment in IBT amounts to SEK 81.8 million. On the balance sheet date, assets in IBT were reported at SEK 62.1 million in the Group. BioGaia's assessment is that IBT and the research and development projects currently underway in the company will show profitability in the future, for which reason there was no indication of impairment on the balance sheet date.

Since 1 December 2015, BioGaia owns 27% of MetaboGen AB. The remaining shares are held by the researchers who founded the company. So far, MetaboGen has shown a loss. On the balance sheet date, assets in MetaboGen were reported at SEK 7.9 million in the Group. BioGaia's assessment is that MetaboGen will show profitability in the future, for which reason there was no indication of impairment on the balance sheet date.

For further information see the administration report and Notes 27 and 28 of the annual report for 2014.

ACCOUNTING POLICIES

This interim report has been prepared for the Group in accordance with IAS 34, Interim Financial Reporting, and the Annual Accounts Act, and for the Parent Company in accordance with the Annual Accounts Act.

The consolidated financial statements are presented in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations published by the IFRS Interpretations Committee (IFRIC) that have been endorsed by the European Commission for application in the EU. Unless otherwise stated below, the accounting standards applied for the Group and the Parent Company are consistent with those used in preparation of the most recent annual report.

The Parent Company presents its financial statements in accordance with RFR 2, Accounting for Legal Entities, and the Annual Accounts Act, and applies the same accounting and valuation policies as in the most recent annual report.

New accounting policies

The applied accounting policies correspond to those described in the annual report for 2014. A number of standards and interpretations have been published but have not yet gone into effect. These are not assessed to have any significant impact on the profit or financial position of the Group or the Parent Company aside from increased disclosures.

FUTURE OUTLOOK

BioGaia's goal is to create strong value growth and a good return for the shareholders. This will be achieved through a greater emphasis on the BioGaia brand, increased sales to both existing and new customers and a controlled cost level.

The financial target is a sustainable operating margin (operating profit in relation to sales) of at least 30% with continued strong growth and increased investments in research, product development and brand building.

BioGaia's dividend policy is to pay a shareholder dividend equal to 40% of profit after tax.

In view of the Company's strong portfolio consisting of an increased number of innovative products that are sold under the BioGaia brand to a growing extent, successful clinical trials and an expanding distribution network that covers a large share of the key markets, BioGaia's future outlook is bright.

1) Excluding SEK 95.4 million in license revenue from Nestlé. Including license revenue from Nestlé, net sales for 2014 amounted to SEK 481.8 million, net sales in the Paediatrics business area to SEK 396.6 million, net sales in Europe to SEK 353.2 million, gross profit to SEK 350.5 million, operating profit to SEK 196.9 million, profit before tax to SEK 192.5 million, profit after tax to SEK 148.0 million and earnings per share to SEK 8.53. Operating margin was 41%. Net sales for the Parent Company including license revenue amounted to SEK 464.2 million and profit before tax was SEK 192.6 million.

2) A minor reallocation of last year's sales between segments has been made in order to achieve better comparability with the year's figures.

Statements of comprehensive income – Group

(Amounts in SEK 000s)

	Jan-Dec 2015	Jan-Dec 2014	Oct-Dec 2015	Oct-Dec 2014
Net sales	483,241	386,405	104,391	121,374
License revenue	-	95,397	-	-
Cost of goods sold	-146,657	-131,338	-31,028	-45,173
<i>Gross profit</i>	336,584	350,464	73,363	76,201
Selling expenses	-96,335	-89,759	-23,533	-26,192
Administrative expenses	-18,475	-17,666	-4,941	-5,281
Research and development expenses	-71,257	-53,867	-16,060	-17,807
Shares in profit of associates	-65	-	-65	-
Other operating income/expenses	1,732	7,711	-1,242	3,639
<i>Operating profit</i>	152,184	196,883	27,522	30,560
Interest income	331	2,382	49	246
Foreign exchange gain/loss, forward contracts	5,107	-6,592	3,529	-3,891
Financial expenses	-269	-148	-67	-19
<i>Profit before tax</i>	157,353	192,525	31,033	26,896
Tax	-36,062	-44,536	-9,332	-7,829
PROFIT FOR THE PERIOD	121,291	147,989	21,701	19,067
<u>Items that will be reclassified to profit or loss</u>				
Gains/losses arising on translation of the financial statements of foreign operations	462	642	-94	-55
Comprehensive income for the period	121,753	148,631	21,607	19,012
<u>Profit for the period attributable to:</u>				
Owners of the Parent Company	121,408	147,406	21,816	17,889
Non-controlling interests	-117	583	-115	1,178
	121,291	147,989	21,701	19,067
<u>Comprehensive income for the period attributable to:</u>				
Owners of the Parent Company	121,870	148,048	21,722	17,834
Non-controlling interests	-117	583	-115	1,178
	121,753	148,631	21,607	19,012
<u>Earnings per share</u>				
Basic earnings per share (average number of shares), SEK	7.01	8.53	1.26	1.04
Diluted earnings per share, SEK	7.01	8.53	1.26	1.04
Number of shares, thousands	17,336	17,271	17,336	17,271
Average number of shares, thousands	17,309	17,271	17,336	17,271
Number of outstanding warrants, thousands	-	87	-	87
Number of outstanding warrants with a dilutive effect, thousands	-	-	-	-
Number of shares after dilution, thousands	17,309	17,271	17,336	17,271

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 Dec 2015	31 Dec 2014
(Amounts in SEK 000s)		
ASSETS		
Intangible assets	16,225	6,075
Property, plant and equipment	83,934	72,752
Shares in associates	7,936	4,000
Other non-current receivables	22	20
<i>Total non-current assets</i>	<i>108,117</i>	<i>82,847</i>
Current assets excl. cash and cash equivalents	138,179	122,095
Cash and cash equivalents	226,882	210,666
<i>Total current assets</i>	<i>365,061</i>	<i>332,761</i>
TOTAL ASSETS	473,178	415,608

EQUITY AND LIABILITIES

Equity attributable to owners of the Parent Company	395,851	344,492
Non-controlling interests	-18	99
Total equity	395,833	344,591
Provision for deferred tax	351	192
Other provisions	-	3,900
Interest-free current liabilities	76,994	66,925
TOTAL EQUITY AND LIABILITIES	473,178	415,608
Pledged assets	2,690	2,000

Current assets includes forward exchange contracts at fair value of SEK 2.2 million. They all refer to level 2 Fair value.

CONSOLIDATED CASH FLOW STATEMENTS

	Jan-Dec 2015	Jan-Dec 2014	Oct-Dec 2015	Oct-Dec 2014
(Amounts in SEK 000s)				
<i>Operating activities</i>				
Operating profit	152,184	196,883	27,522	30,560
Depreciation/amortization	6,548	5,652	2,599	1,680
Other non-cash items	-813	-853	170	-86
	157,919	201,682	30,291	32,154
Gains/losses on realized forward exchange contracts	2,203	-1,186	552	-597
Paid tax	-50,124	-66,829	-14,857	-15,591
Interest received and paid	63	2,214	-16	212
Cash flow from operating activities before changes in working capital	110,061	135,881	15,970	16,178
Changes in working capital	7,440	-11,498	-1,344	-19,495
Cash flow from operating activities	117,501	124,383	14,626	-3,317
Acquisition of intangible assets	-10,150	-6,075	-1,113	-2,385
Acquisition of property, plant and equipment	-17,780	-18,406	-2,407	-4,234
Acquisition of financial assets	-4,000	-4,000	-4,000	-4,000
Cash flow from investing activities	-31,930	-28,481	-7,520	-10,619
Dividends	-86,355	-120,897	-	-
Disposal of financial assets	-	5	-	5
New share issue, warrant programme	15,844	-	-	-
Cash flow from financing activities	-70,511	-120,892	-	5
Cash flow for the period	15,060	-24,990	7,106	-13,931
Cash and cash equivalents at beginning of period	210,666	234,271	219,803	224,125
Exchange difference in cash and cash equivalents	1,156	1,385	-27	472
Cash and cash equivalents at end of period	226,882	210,666	226,882	210,666

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in SEK 000s)

	Jan-Dec	Jan-Dec
	2015	2014
At beginning of period	344,591	316,857
Dividends	-86,355	-120,897
New share issue, warrant programme	15,844	-
Comprehensive income for the period	121,753	148,631
At end of period	395,833	344,591

REPORTING BY SEGMENT – GROUP

(Amounts in SEK 000s)

	Jan-Dec	Jan-Dec	Oct-Dec	Oct-Dec
	2015	2014	2015	2014
Income by segment – business area				
Paediatrics	389,561	301,248	76,604	93,639
License revenue (Paediatrics)	-	95,397	-	-
Adult Health	74,667	69,446	20,041	22,998
Other	19,013	15,711	7,746	4,737
Total	483,241	481,802	104,391	121,374

	Jan-Dec	Jan-Dec	Oct-Dec	Oct-Dec
	2015	2014	2015	2014
Gross profit by segment – business area				
Paediatrics	266,391	195,978	52,605	56,098
License revenue (Paediatrics)	-	95,397	-	-
Adult Health	51,907	44,229	13,229	15,578
Other	18,286	14,860	7,529	4,525
Total	336,584	350,464	73,363	76,201

	Jan-Dec	Jan-Dec	Oct-Dec	Oct-Dec
	2015	2014	2015	2014
Revenue by geographical market				
Europe	284,729	257,808	71,143	73,416
License revenue (Europe) 1)	-	95,397	-	0
USA and Canada	35,231	30,273	10,861	12,769
Asia	52,130	38,778	13,883	12,015
Rest of world	111,151	59,546	8,504	23,174
Total	483,241	481,802	104,391	121,374

Profit from discontinued operations (distribution)

(Amounts in SEK 000s)

	Jan-Dec 2015	Oct-Dec 2015
Net sales	-	-
Selling expenses	-2,600	-
Research and development expenses	-17,974	-4,472
Other operating income/expense	-41	17
<i>Operating profit/loss</i>	-20,615	-4,455
Financial expenses	-9	-1
<i>Profit/loss for the period</i>	-20,624	-4,456

Assets attributable to discontinued operations

(Amounts in SEK 000s)

	31 Dec 2015
Intangible assets	16,225
Current asset excl. cash and cash equivalents	1,488
Cash and cash equivalents	44,411
Total assets	62,124
Liabilities attributable to discontinued operations	
Trade payables	518
Accrued expenses	7,079
Other current liabilities	138
Total liabilities	7,735

Cash flow from discontinued operations:

(Amounts in SEK 000s)

	2015
Operating activities	-30,895
Investing activities	-10,150
Total cash flow	-41,045

CONSOLIDATED KEY RATIOS ¹⁾

	Jan-Dec 2015	Jan-Dec 2014	Jan-Dec 2014 ²⁾
Net sales, SEK 000s	483,241	481,802	386,405
Operating profit, SEK 000s	152,184	196,883	101,486
Profit after tax, SEK 000s	121,291	147,989	73,579
Return on			
- average equity	33%	45%	25%
- average capital employed	42%	60%	35%
Capital employed, SEK 000s	396,184	348,683	270,373
Number of shares, thousands	17,336	17,271	17,271
Average number of shares, thousands	17,309	17,271	17,271
Number of outstanding warrants, thousands	-	87	87
Average number of outstanding warrants with a dilutive effect, thousands	-	-	-
Average number of shares after dilution, thousands	17,309	17,271	17,271
Basic earnings per share, SEK	7.01	8.53	4.23
Diluted earnings per share, SEK	7.01	8.53	4.23
Basic equity per share, SEK	22.87	19.95	15.64
Diluted equity per share, SEK	22.87	19.95	15.64
Equity/assets ratio	84%	83%	85%
Operating margin	31%	41%	26%
Profit margin	33%	40%	25%
Average number of employees	102	90	90

1) The definitions of key ratios correspond to those in the annual report.

2) Excluding license revenue of SEK 95.4 from Nestlé.

PARENT COMPANY INCOME STATEMENTS

(Amounts in SEK 000s)

	Jan-Dec 2015	Jan-Dec 2014
Net sales	470,612	368,809
License revenue	-	95,397
Cost of goods sold	-157,364	-139,971
<i>Gross profit</i>	313,248	324,235
Selling expenses	-78,480	-68,720
Administrative expenses	-16,360	-15,075
Research and development expenses	-54,072	-46,346
Other operating income	1,789	7,851
<i>Operating profit</i>	166,125	201,945
Impairment loss on receivable from subsidiary	-8,233	-2,835
Anticipated dividends from subsidiaries	20,600	-
Impairment loss on shares in subsidiary	-22,974	-2,874
Net financial items	10,109	-3,611
Profit before tax	165,627	192,625
Tax expense	-34,847	-43,035
PROFIT FOR THE PERIOD	130,780	149,590

PARENT COMPANY BALANCE SHEETS

	31 Dec 2015	31 Dec 2014
ASSETS		
Intangible assets	-	-
Property, plant and equipment	860	1,360
Shares in group companies	132,938	69,129
Shares in associates	8,000	4,000
Non-current receivables from subsidiaries	55,835	41,013
<i>Total non-current assets</i>	197,633	115,502
Current assets excl. cash and cash equivalents	119,300	111,084
Cash and cash equivalents	173,077	201,988
<i>Total current assets</i>	292,377	313,072
TOTAL ASSETS	490,010	428,574
EQUITY AND LIABILITIES		
Equity	410,569	350,300
Provisions	-	3,900
Interest-free current liabilities	79,441	74,374
TOTAL EQUITY AND LIABILITIES	490,010	428,574
Pledged assets	2,000	2,000

<u>PARENT COMPANY CASH FLOW STATEMENTS</u>	Jan-Dec	Jan-Dec
	2015	2014
<u>Operating activities</u>		
Operating profit	166,125	201,945
Depreciation/amortization	560	867
Other non-cash items	-947	-1,160
Gain/losses on realized foreign exchange contracts	2,203	-1,186
Paid tax	-47,296	-64,828
Interest received and paid	821	2,961
Cash flow from operating activities before changes in working capital	121,466	138,599
Changes in working capital	5,920	-16,827
Cash flow from operating activities	127,386	121,772
Acquisition of property, plant and equipment	-60	-169
Acquisition of financial assets	-67,800	-14,000
Disposal of financial assets	-	5
Payment of loan to subsidiary	-18,873	-14,335
Cash flow from investing activities	-86,733	-28,499
Dividends	-86,355	-120,897
New share issue, warrant programme	15,844	-
Cash flow from financing activities	-70,511	-120,897
Cash flow for the period	-29,858	-27,624
Cash and cash equivalents at beginning of period	201,988	228,456
Exchange difference in cash and cash equivalents	947	1,156
Cash and cash equivalents at end of period	173,077	201,988

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

(Amounts in SEK 000s)

	Jan-Dec	Jan-Dec
	2015	2014
At beginning of year	350,300	321,607
Dividends	-86,355	-120,897
Issue of warrants	15,844	-
Profit for the period	130,780	149,590
At end of period	410,569	350,300

RELATED PARTY TRANSACTIONS

The Parent Company holds 100% of the shares in BioGaia Biologics Inc. USA, BioGaia Japan Inc, TwoPac AB and Tripac AB. The Parent Company holds 90.1 % of the shares in CapAble AB and 94.5% of the shares in Infant Bacterial Therapeutics (IBT) AB.

Annwall & Rothschild Investment AB holds 740,668 class A shares and 759,332 class B shares, which is equal to 8.7% of the share capital and 34.1% of the votes in BioGaia AB. Annwall & Rothschild Investment AB is owned by Peter Rothschild, Managing Director of BioGaia, and Jan Annwall, a member of the Board of BioGaia AB. The only transaction that took place during the period was the payment of a dividend of SEK 5 per share.

Bo Möllstam is Technical Director and a member of BioGaia's executive management. He is not employed by the company but is contracted as a consultant and invoices his fees through a company. Bo Möllstam is a partner in Synergon AB, which invoiced an amount of SEK 10.2 million to BioGaia AB during the period. Of this total, SEK 5.5 million refers to forwarded patent expenses and the remainder consists of consulting fees.

Helen Olsson is HR Director and a member of BioGaia's executive management. Helen Olsson has been employed by the company since 1 June 2015. During the period from January to May 2015, Helen Olsson was contracted as a consultant and invoiced her fees via her partly owned company Spirean AB, which invoiced an amount of SEK 0.6 million to BioGaia AB during the period.

Related party transactions – Parent Company (Amounts in SEK 000s)

The following transactions have taken place with BioGaia Japan

	Jan-Dec 2015	Jan-Dec 2014
Interest income	942	1,323
Loan provided	-4,052	-2,835
Sale of goods	11,455	6,145
Marketing contributions rendered	-10,727	7,468

The following transactions have taken place with TwoPac AB (incl. subsidiary)

	Jan-Dec 2015	Jan-Dec 2014
Interest income	683	696
Loan provided	-15,844	-11,500
Purchase of services	-1,601	-
Purchase of goods	-50,561	-44,689

The closing balance at the end of the period was as follows:

	31 Dec 2015	31 Dec 2014
Non-current receivables from TwoPac AB (incl. subsidiary)	55,835	39,991

Current transactions with related parties

Current receivables from TwoPac AB	178	172
Current liabilities to TwoPac AB	-8,481	-4,319
	-8,303	-4,147

The following transactions have taken place with IBT AB (incl. subsidiary)

	Jan-Dec 2015	Jan-Dec 2014
Conditional shareholder contributions rendered	-11,000	-10,000
Group contributions rendered	-20,601	-6,730
New issue of shares	52,800	-
Sale of services	481	-
Purchase of services	-220	-408

No significant transactions have taken place with other related companies.

FINANCIAL CALENDAR

12 February 2016	9:30 am Teleconference on the year-end report for 2015 with Peter Rothschild, Managing Director of BioGaia
18 March 2016	2:00 pm Extra General Meeting at Lundqvist & Lindqvist konferens, Klarabergsviadukten 90 in Stockholm.
10 May 2016	Interim management statement 1 January – 30 March 2016
10 May 2016	4:00 pm Annual General Meeting at Lundqvist & Lindqvist konferens on Klarabergsviadukten 90 in Stockholm. Shareholders who wish to have a matter dealt with at the AGM must submit a request by 20 March 2016 to the Board Chairman, David Dangoor, BioGaia AB, Box 3242, SE-103 64 STOCKHOLM, or by e-mail to the company's Chief Legal Counsel PerErik Andersson at pea@biogaia.se
17 August 2016	Interim report 1 January – 30 June 2016
25 October 2016	Interim management statement 1 January – 30 September 2016
10 February 2017	Year-end report 2016

The 2015 Annual Report is scheduled for publication on BioGaia's website www.biogaia.com during the last week of March 2016.

The Board of Directors and the Managing Director hereby give their assurance that the year-end report provides a true and fair picture of the business activities, financial position and results of operations of the Parent Company and the Group, and describes the significant risks and uncertainties to which the Parent Company and the Group companies are exposed.

Stockholm, 12 February 2016

David Dangoor
Board Chairman

Jan Annwall
Board member

Ewa Björling
Board member

Stefan Elving
Board member

Inger Holmström
Board member

Anthon Jahreskog
Board member

Brit Stakston
Board member

Paula Zeilon
Board member

Peter Rothschild
Managing Director

Auditor's report on the review of the interim financial information (year-end report)

Introduction

We have reviewed the accompanying condensed interim financial statements of BioGaia AB (publ) at 31 December 2015 and for the twelve-month period then ended. The Board of Directors and Managing Director 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 a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with the Standard on Review Engagements ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information

consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISA (International Standards on Auditing) 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 based on an audit.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information does not, in all material aspects, give a true and fair view of the financial position of the Group in accordance with IAS 34 and the Swedish Annual Accounts Act and of the Parent Company in accordance with the Swedish Annual Accounts Act.

Stockholm, 12 February 2016

Deloitte AB

Birgitta Löf
Authorized Public Accountant

BioGaia AB

The company

BioGaia is a healthcare company that develops, markets and sells probiotic products with documented health benefits. The products are primarily based on different strains of the lactic acid bacterium *Lactobacillus reuteri* (Reuteri) in combination with unique packaging solutions that make it possible to create probiotic products with a long shelf life.

The class B share of the Parent Company BioGaia AB is quoted on the Mid Cap list of Nasdaq OMX Nordic Exchange Stockholm.

BioGaia has 105 employees, of whom 37 are based in Stockholm, 28 in Lund, 29 in Eslöv, three in Raleigh, USA, six in Hiroshima, Japan, and two in Shanghai, China.

Business model

BioGaia's revenue comes mainly from the sale of drops, digestive health tablets, oral rehydration solution (ORS) and oral health products to distributors, but also of revenue from the sale of bacteria cultures to be used in licensee products (such as infant formula and dairy products), as well as royalty revenue for the use of *Lactobacillus reuteri* in licensee products and sales of delivery systems such as straws and caps.

The products are sold through nutrition and pharmaceutical companies in 90 countries worldwide.

BioGaia holds patents for the use of *Lactobacillus reuteri* and certain packaging solutions in all major markets.

The BioGaia brand

At the beginning of 2006 BioGaia launched its own consumer brand and today there are a number of distribution partners that sell finished products under the BioGaia brand in a large number of markets. One central part of BioGaia's strategy is to increase the share of sales consisting of BioGaia-branded products.

Some of BioGaia's distributors sell finished consumer products under their own brand names. For these products, the BioGaia brand is shown on the consumer package since BioGaia is both the manufacturer and licensor.

BioGaia's licensees add Reuteri culture to their products and sell these under their own brand names. On these products, the BioGaia brand is most often shown on the package as the licensor/patent holder.

Research and clinical studies

BioGaia's strains of *Lactobacillus reuteri* are some of the world's most well researched probiotics, especially in young children. To date, 137 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on around 11,700 individuals of all ages. The results have been published in 108 articles in scientific journals.

Studies have been performed on:

- Infantile colic and digestive health in children
- Antibiotic-associated diarrhoea (AAD)
- Acute diarrhoea
- Gingivitis (inflammation of the gums)
- Periodontal disease
- General health
- *Helicobacter pylori* (the gastric ulcer bacterium)
- Necrotizing enterocolitis (NEC)

REPORTING OF CLINICAL STUDIES

Publication of clinical trial results is a key success factor for BioGaia. The International Committee of Medical Journal Editors has initiated a policy requiring clinical investigators to deposit information about trial design into an accepted clinical trials registry before the onset of patient enrolment, and this has now become a prerequisite for publication of trial outcomes in major medical journals. ClinicalTrials.gov is a registry of clinical trials provided by the U.S. National Institutes of Health and BioGaia encourages all clinicians working with BioGaia products to register their trials on this site. Many of the trials are registered at an early stage, which means that some of the registered trials will not be performed as planned. Consequently, BioGaia takes no responsibility for ensuring that the registered trials reach completion or are successfully reported in the register or the scientific literature. When clinical trial results of significance for the company's operations do become available, BioGaia will report these through press releases.

Latest press releases from BioGaia:

2016-02-12 Proposal for distribution and separate listing of BioGaia's subsidiary Infant Bacterial Therapeutics
2016-01-11 New meta-analysis confirms effectiveness of BioGaia's probiotic for infant colic
2016-01-08 BioGaia's subsidiary IBT has US IND open and Swedish CTA approved for clinical study in the USA and Sweden

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Margareta Hagman, Executive Vice President, BioGaia AB, telephone +46 8-555 293 04