

BioGaia AB Interim report 1 January – 30 June 2014 (17 pages)

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



CEO's comments:

"We have achieved strong profitability for the first half of the year with an operating margin of 29 % excluding license revenue from Nestlé. Including license revenue from Nestlé, operating margin was 53 %. Sales for the rolling 12-month period amount to 12% (excluding foreign exchange effects)," says Peter Rothschild, CEO of BioGaia AB.

Period from 1 January to 30 June 2014

Net sales amounted to SEK 281.0 million (163.5), an increase of SEK 117.5 million (72%). Net sales include license revenue of SEK 95.4 million from Nestlé. Excluding license revenue from Nestlé, net sales totalled SEK 185.6 million, an increase of 14% (excluding foreign exchange effects, 10%).

Net sales in the Paediatrics business area reached SEK 148.4¹⁾ million (127.8), up by SEK 20.6 million (16%).

Net sales in the Adult Health business area amounted to SEK 35.1 million (35.6), a decrease of SEK 0.5 million (-1%).

Operating profit was SEK 148.7 million (44.1), an increase of SEK 104.6 million (237%). Excluding license revenue from Nestlé, operating profit was SEK 53.3 million, an increase of 21% (excluding foreign exchange effects and operating expenses for the subsidiary IBT, 18%).

Profit after tax was SEK 114.5 million (34.5), up by SEK 80.0 million (232%). Excluding license revenue from Nestlé, profit after tax was SEK 40.1 million, an increase of 16%.

Earnings per share totalled SEK 6.66 (1.85). Excluding license revenue from Nestlé, earnings per share were SEK 2.35.

The period's cash flow was SEK 4.3 million (-125.5). Cash and cash equivalents at 30 June 2014 amounted to SEK 239.1 million (249.6).

Second quarter of 2014

Net sales reached SEK 92.4 million (85.3), an increase of SEK 7.1 million (8%) (excluding foreign exchange effects, 5%).

Net sales in the Paediatrics business area totalled SEK 71.7 million (66.6), an improvement of SEK 5.1 million (8%).

Net sales in the Adult Health business area amounted to SEK 20.1 million (18.7), an increase of SEK 1.4 million (7%).

Operating profit was SEK 24.9 million (26.3), a decrease of SEK 1.4 million (-5%) (excluding foreign exchange effects and operating expenses for the subsidiary IBT, -8%).

Profit after tax was SEK 17.5 million (16.9), an improvement of SEK 0.6 million (4%).

Earnings per share totalled SEK 1.03 (0.89).

Key events in the second quarter of 2014

Agreement for the sale of drops in India.

Agreement for the sale of drops in the UK.

Decision to expand the production facilities at the subsidiary TwoPac in Eslöv.

1) Excluding license revenue from Nestlé. Including license revenue from Nestlé, net sales in the Paediatrics business area amounted to SEK 243.8 million.

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 CEO Peter Rothschild. To participate in the teleconference please see www.biogaia.com/agenda.

BioGaia has published this information in accordance with the Swedish Securities Act. The information was issued for publication on 20 August 2014, 8.00 a.m. CET.

This is a translation of the Swedish version of the interim report. When in doubt, the Swedish wording shall prevail.

BioGaia AB (publ.)

Interim report 1 January – 30 June 2014

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

We hereby present BioGaia AB's interim report for the period from 1 January to 30 June 2014. A description of the company's operations is provided on page 17.

CEO'S COMMENTS

We have achieved strong profitability for the first half of the year with an operating margin of 29% excluding license revenue from Nestlé. Including license revenue from Nestlé, operating margin was 53%. Sales for the rolling 12-month period amount to 12% (excluding foreign exchange effects).

The six-month figures show an increase of around 10% in sales adjusted for foreign exchange effects and excluding the substantial license revenue of SEK 95.4 million from Nestlé. This is below our historical average, but can be explained by a number of factors that affected us negatively in the second quarter.

As mentioned in the year's first quarterly report, our Ukrainian distribution partner reduced its inventories and purchased no products from BioGaia during the second quarter as a result of the highly unstable situation in the country and depreciation of the local currency. Since Ukraine is an important market for us, this had a significant impact on our total sales. Sales by our partner (Delta Medical) have also declined, but to a lesser extent, and we therefore hope that Delta Medical will soon resume its purchasing again.

We have also been affected by problems at our subcontractors of cultures. This has caused problems with our deliveries to the USA. Now that these have been addressed, our distribution partner there should be able to intensify its marketing efforts. Unfortunately, we have also had difficulties in maintaining sufficient deliveries of cultures to Nestlé. Furthermore, gross profit for the period was negatively affected by SEK 2.5 million due to quality problems. The problems consisted of lower culture quality, which led to shorter shelf lives for products. Certain products that were already in customer inventories have therefore been replaced. The quality problems have now been solved.

On the bright side, we have signed new contracts in two major markets, namely India and the UK. We have been working to find good solutions in these markets for many years and feel that we have now found suitable partners. In the UK our products will be marketed by a subsidiary to Nestlé and in India this will be handled by a small but specialised company. The launch in both countries will take place in the beginning of 2015 and at least in the case of the UK, will affect sales already this year. It is also satisfying to note that sales in Italy are once again rising in spite of the ongoing economic crisis in the country.

Aché is now launching our products on the Brazilian market. The products will be sold under the BioGaia brand with elements of Aché's brand. They have received the first deliveries and has planned a highly ambitious launch programme. It will be exciting to follow the results of their very large-scale marketing campaign.

During the period we also made a decision to start planning the expansion of TwoPac's production facilities in Eslöv. The reason we have started this process only two years after construction of the existing plant is the large number of development projects we are currently working on. The existing plant will be used to house new machinery that is needed for manufacturing. We estimate the investments to SEK 16.0 million over a period of two to three years.

FINANCIAL PERFORMANCE IN THE FIRST HALF OF 2014

Sales

Consolidated net sales amounted to SEK 281.0 million (163.5), which is an increase of SEK 117.5 million (72%). Net sales include license revenue from Nestlé of SEK 95.4 million.

License revenue from Nestlé

In February 2012 BioGaia signed several new agreements with Nestlé including the acquisition of a perpetual license to use BioGaia's probiotic strains in infant formula during the remaining term of the patent. The purchase price was EUR 50.8 million, of which EUR 40.0 million (SEK 356 million) was received and recognised in the first quarter of 2012. The additional payments of EUR 10.8 million were to be received during the period 2014-2017 on the achievement of predefined milestones. In March 2014 BioGaia and Nestlé signed a supplementary agreement to the original, which means among other things that BioGaia has received the remaining EUR 10.8 million (SEK 95.4 million).

In connection with this, Nestlé and BioGaia further broadened and strengthened the cooperation and entered into a supplementary agreement to the original. The agreement will provide BioGaia with royalties of around SEK 92 million (EUR 10.4 million) over a three-year period, starting in the second quarter of 2014.

Following the sale of the license, culture sales to Nestlé have fallen since the third quarter of 2012.

Net sales excluding license revenue

Excluding license revenue from Nestlé, net sales amounted to SEK 185.6 million, an increase of 14% compared to the same period of last year. Most of the company's sales are denominated in foreign currency, primarily EUR but also USD and JPY. With unchanged exchange rates compared to the same period of last year, net sales (excluding license revenue) would have been SEK 5.2 million lower. Excluding foreign exchange effects, net sales (excluding license revenue) thus rose by 10%. Exchange rate fluctuations affect both revenue and expenses. Operating profit would also have been SEK 4.4 million lower in the event of unchanged exchange rates, which means an increase (excluding license revenue from Nestlé) of 11% compared to the previous year.

For the past 12-month period, total net sales increased by 13%¹⁾ (excluding foreign exchange effects, 12%).

Sales by segment

Since the autumn of 2013 the company is divided into three business areas, Paediatrics, Adult Health and New Business. Support functions have been retained at the central level, but the business areas are responsible for product development and sales to their respective target groups. This will result in a better focus and more effective decision-making. Starting in the first quarter of 2014, the company reports sales and gross profit for these business areas. To facilitate comparison, sales and gross profit for the earlier segments, finished consumer products and component products, will also be reported during 2014.

PAEDIATRIC BUSINESS AREA

Sales in BioGaia's core area, Paediatrics, amounted to SEK 243.8 million (127.8), an increase of SEK 116 million (91%). Excluding license revenue from Nestlé, sales of paediatric products reached SEK 148.4 million (127.8), representing growth of 16% (excluding foreign exchange effects, 13%). The increase is primarily attributable to sales of drops. Due to problems at one of the company's subcontractors, BioGaia was forced to postpone deliveries of cultures to Nestlé.

The Paediatrics business area also includes royalties of SEK 7.6 million from the new collaboration agreement with Nestlé (see below).

For the past 12-month period, sales in the Paediatrics business area rose by 12%.

Efforts in the business area are currently focused on clarifying the positioning of BioGaia's products and developing new packaging solutions. Since BioGaia's clinical trials have shown that the company's products are effective against colic, as well as both constipation and infections, it is natural that the company's products are used not only during the first six months of an infant's life but also throughout the childhood years. In addition, the products can be used for preventative purposes. The business area is therefore working very actively to broaden and deepen use of the company's products, which indicates major future potential.

ADULT HEALTH BUSINESS AREA

Net sales in the Adult Health business area amounted to SEK 35.1 million (35.6), a decrease of SEK 0.5 million (-1%) (excluding foreign exchange effects, -4%). The decrease is due to lower sales of digestive health tablets, above all in Finland where BioGaia's partner built up inventories in preparation for a campaign at the beginning of 2013 and has been exposed to aggressive price competition. Sales of oral health tablets grew in the first half of the year compared to the same period of last year.

For the past 12-month period, sales in the Adult Health business area increased by 11%.

Efforts in the business area are currently focused on clarifying the positioning of the new product Gastrus and reducing costs for this product and the ORS product.

FINISHED CONSUMER PRODUCTS

Sales of finished consumer products rose over the same period of last year by SEK 18.0 million (13%) to SEK 152.6 million. Excluding foreign exchange effects, the increase was 10%.

Sales of finished consumer products were up in all regions with the exception of North America.

Sales in Europe improved primarily in Turkey, Bulgaria, Germany and Italy, but fell in Finland, Ukraine and France. For the decrease in Finland – please see above. Sales in Ukraine have declined. As a result of the current instability in Ukraine and depreciation of the local currency, the company's distributor Delta Medical has reduced its inventory levels. Since Ukraine is one of BioGaia's ten largest markets and Delta Medical places orders every quarter, the loss of a quarterly order has a noticeable impact. Consumer sales in Ukraine were down by 20% during the period. The decrease in France is explained by variations in deliveries between quarters. Consumer sales in France show continued growth.

Sales in Asia improved in Japan, South Korea and Hong Kong but declined in Indonesia.

In North America, sales rose in Canada but fell in the USA. The decrease in the USA is due to technical problems that arose in connection with distribution of the drops, especially to the southern states. These problems have been solved and sales in the US market should now recover.

The increase in "Rest of world" is mainly attributable to sales to Brazil in preparation for the launch.

For the past 12-month period, sales of finished consumer products improved by 10% (excluding foreign exchange effects, 8%).

COMPONENT PRODUCTS

Sales of component products grew by SEK 99.5 million to SEK 127.4 million (356%) compared to the same period of last year. These sales include license revenue from Nestlé of SEK 95.4 million (see above for more information). Excluding license revenue from Nestlé, sales of component products amounted to SEK 32.0 million (27.9), an increase of 15% (excluding foreign exchange effects, 12%).

In Europe, the sales of component product increased. The sales included royalties of SEK 7.6 million from the new agreement with Nestlé (see below). The sale of culture for infant formula declined during the second quarter and BioGaia recognised no revenue under the agreement with Nestlé from 2013 (regarding a product that is still classified as secret). Sales of this product are expected to start in the second half of 2014.

The agreement regarding infant formula now in force with Nestlé gives them the right to manufacture *L. reuteri* for use in infant nutrition, which would result in lower sales of cultures. BioGaia currently has no information about when, and in such case, to what extent Nestlé will exercise this right.

Sales were down in Asia, which mainly was attributable to decreased sales of cultures to a dairy in South Korea.

The sales were largely unchanged in the other markets.

For the past 12-month period, sales of component products have increased by 33%¹⁾ (excluding foreign exchange effects, 30%).

Sales by geographical market

Sales in Europe grew by SEK 13.5 million (11%)¹⁾. Both sales of finished consumer products and component products improved (see above). For the past 12-month period, sales in Europe rose by 7%¹⁾.

Sales in North America fell by SEK 0.9 million (11%). Sales were up in Canada but declined in the USA (see above). For the past 12-month period, sales in North America increased by 7%.

Sales in Asia rose by SEK 2.6 million (13%). Sales of finished consumer products increased while sales of component products decreased (see above). For the past 12-month period, sales in Asia improved by 28%.

Sales in "Rest of world" were up by SEK 6.9 million (45%), which is due to higher sales of finished consumer products (see above). For the past 12-month period, sales in "Rest of world" increased by 47%.

The BioGaia brand

Of total finished consumer products, 59% (55) were sold under the BioGaia brand, including co-branding.

Gross profit

Gross profit was SEK 126.8¹⁾ million (111.8), which is an increase of SEK 15.0 million (13%) compared to the same period of last year. The total gross margin was unchanged at 68%¹⁾.

The gross margin for the Paediatrics business area was unchanged at 70%¹⁾. The margin decreased somewhat during the period as a result of quality problems (please see above under CEOs comments), but has been compensated by royalties from Nestlé with a margin of 100%.

The gross margin for the Adult Health business area fell from 64% to 60%. This is mainly due to a lower margin on yoghurt products that were launched in the second half of last year.

Operating expenses

Total operating expenses increased by 10% to SEK 76.0 million during the six-month period. For the past 12-month period, the operating expenses increased by 7%.

Selling expenses rose by SEK 3.4 million (9%) and amounted to SEK 42.8 million (39.4), which is equal to 23% (24) of net sales¹⁾. It was primarily expenses for samples and conferences, as well as personnel expenses, that increased compared to the same period of last year. For the past 12-month period, selling expenses were up by 6%.

Administrative expenses amounted to SEK 8.8 million (7.8), which is equal to 5% (5) of net sales¹⁾. The increase of SEK 1.0 million (13%) is mainly due to higher personnel expenses. For the past 12-month period, administrative expenses rose by 6%.

R&D expenses are reported at SEK 24.4 million (21.9), which is equal to 13% (13) of net sales. The increase of SEK 2.5 million (12%) is mainly due to higher patent expenses and costs for the subsidiary IBT (see below). Excluding the costs for IBT, R&D expenses decreased by 3%. For the past 12-month period, R&D expenses were up by 9%.

The amortisation component of R&D expenses was SEK 0.1 million (0.2). Investments in capitalised development expenses totalled SEK 1.8 million (0) and are attributable to the NEC project in the subsidiary IBT AB.

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

Operating profit

Operating profit was SEK 148.7 million (44.1), an increase of SEK 104.6 million (237%). Excluding license revenue from Nestlé, operating profit was SEK 53.3 million (44.1), an improvement of 21% (excluding foreign exchange effects and operating expenses for the subsidiary, IBT, 18%). For the past 12-month period, the operating profit were up by 29 %¹⁾.

Financial items and profit before tax

Profit before tax was SEK 51.7¹⁾ million (45.4), an increase of SEK 6.3 million (14%) compared to the same period of last year.

Net financial items include a foreign exchange loss of SEK -3.2 million (-1.5) on forward exchange contracts in EUR. At 30 June 2014 the company had outstanding forward exchange contracts for EUR 14.3 million at an average exchange rate of SEK 8.90. Forward exchange contracts amounting to EUR 4.9 million will mature for payment in 2014, EUR 7.6 million in 2015 and the remaining EUR 1.8 million in 2016. The actual exchange gain/loss depends on the exchange rate on the maturity date of the contracts. If the EUR rate on the maturity date is lower/higher than that at 30 June 2014 (9.18), an exchange gain/loss will be recognised in the future.

Profit after tax

Profit after tax was SEK 114.5 million (34.5), an increase of SEK 80.0 million (232%). Excluding license revenue from Nestlé, profit after tax was SEK 40.1 million (34.5), which is SEK 5.6 million (16%) better than in the same period of last year.

The tax rate for the Group was 22% (24). The Group pays tax on profits in the Swedish companies. The loss in Japan is not deductible against the Swedish profits. Loss carryforwards in the Japanese subsidiary at 30 June 2014 amounted to SEK 53.3 million. The deferred tax asset for these has not been recognised, since a sustainable profit level has not yet been shown in the Japanese subsidiary.

The company has a tax matter related to a write-down of receivables from the Japanese subsidiary. In the event of a negative outcome, this could result in additional tax expenses of SEK 3.8 million. If the outcome is positive, there is opportunity to request additional cost deductions from previous years.

Earnings per share

Earnings per share were SEK 6.66 (1.85). Excluding license revenue from Nestlé, earnings per share amounted to SEK 2.35.

Cash flow

The Group's cash and cash equivalents at 30 June 2014 totalled SEK 239.1 million (249.6). Cash flow for the period amounted to SEK 4.3 million (-125.5). Cash flow for the period included license revenue from Nestlé of SEK 95.4 million (0), dividends of SEK 120.9 million (172.7) and tax payments of SEK 35.8 million (1.1).

Equity

Consolidated equity at 30 June 2014 amounted to SEK 311.1 million (318.1). The Group's equity/assets ratio was 79% (79).

In June 2012 BioGaia carried out the warrant programme that was resolved on by the Annual General Meeting the same year. A total of 87,000 warrants were subscribed for, of which the management subscribed for 41,000. The warrants were issued at a market price of SEK 14.27 each following valuation according to the Black & Scholes formula, which provided the Parent Company with proceeds of SEK 1.3 million. Each warrant entitles the holder to subscribe for one class B share for SEK 241.90 on 1 June 2015. Volatility was estimated at 40%. If all of the subscription warrants are exercised, the company's equity will be increased by SEK 21.0 million. This represents a dilutive effect of approximately 0.5% on the share capital and 0.4% on the total number of votes upon the full exercise of warrants.

In order to achieve a high level of participation, the 2012 AGM decided to pay a subsidy of SEK 10 per warrant (after 1 June 2015) to the employees who have subscribed for subscription warrants but have not exercised the right to buy shares. A provision of SEK 1.1 million for this obligation was made in the second quarter, since at the current share price there is a risk that the subsidy must be paid.

Investments in property, plant and equipment

Investments in property, plant and equipment amounted to SEK 9.5 million (5.2), of which SEK 9.3 million (4.1) refers to TwoPac AB.

Investments in capitalised development expenses amounted to SEK 1.8 million (0) and are attributable to the NEC project.

Subsidiary in Japan

Net sales in the Japanese subsidiary reached SEK 9.7 million (4.8). Operating profit in the Japanese business was SEK -1.3 million (-3.6). This growth in sales is primarily attributable to yoghurt and dental products. It is BioGaia's assessment that profitability will be attained in 2014.

Subsidiary TwoPac AB

Net sales in TwoPac amounted to SEK 21.6 million (21.0). Operating profit was SEK 4.6 million (7.3). Profit after tax was SEK 3.3 million (5.4). The drop in profit is mainly explained by higher personnel expenses as a result of more stringent quality requirements and the company's development of machinery for a number of new products. TwoPac manufactures and develops products on behalf of BioGaia.

Subsidiary CapAble AB

CapAble, which is owned 90.1% by BioGaia AB and 9.9% by the company's president, was started in November 2008 to manufacture and sell the patented LifeTop Cap. Net sales in CapAble totalled SEK 0.3 million (0.0). Operating profit amounted to SEK -1.5 million (-1.4).

Subsidiary IBT AB

In November 2013, the Board of BioGaia made a decision to invest in the 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 Necrotising Enterocolitis (NEC), which affects premature infants. BioGaia will invest up to SEK 42 million in the project over a two-year period. The project is run by BioGaia's subsidiary Infant Bacterial Therapeutics (IBT), of which 9% is owned by the company's President, Staffan Strömberg, and its Research Director, Eamonn Connolly, and 0.9% by Board member Anders Ekblom, former Global Head of R&D Science & Technology Integration at AstraZeneca AB and CEO of AstraZeneca AB. The remaining 90.1% is owned by BioGaia.

It is the company's assessment that approximately SEK 26 million of the SEK 42 million will be capitalised in IBT as development expenses, which will result in a cost burden of around SEK 8 million per year in 2014 and 2015.

Operating profit in IBT during the period amounted to SEK -3.1 million. The company has made investments in capitalised development expenses of SEK 1.8 million (0). The company does not yet have any revenue.

Parent Company

Net sales in the Parent Company reached SEK 273.3 million (160.4) and profit before tax was SEK 146.5 million (37.6).

Since it is uncertain whether the receivable from BioGaia Japan will be recovered in the foreseeable future, a provision has been made for the amount in question. This has resulted in an impairment loss of SEK 4.3 million (6.5), which has had a negative impact on profit.

Profit after tax amounted to SEK 114.9 million (28.4).

Cash flow in the Parent Company totalled SEK 1.5 million (-126.0).

FINANCIAL PERFORMANCE IN THE SECOND QUARTER OF 2014

Second quarter sales

Net sales for the second quarter amounted to SEK 92.4 million (85.3), up by SEK 7.1 million (8%) compared to the same period of last year. Excluding foreign exchange effects, the increase was 5%.

Compared to the previous quarter, net sales decreased by SEK 0.8 million.

Sales in the Paediatrics business area amounted to SEK 71.7 million (66.6), an improvement of SEK 5.1 million (8%). Excluding foreign exchange effects, the increase was 4%. These sales include royalties of SEK 7.6 million from Nestlé. Excluding royalties, net sales declined by SEK 2.5 million, which is wholly attributable to sales of culture for infant formula to Nestlé and the fact that no revenue for the new product that is scheduled for launch in the second half of 2014 was recognised during the quarter. Due to problems at one subcontractor, BioGaia was forced to postpone deliveries of cultures. Sales of drops were largely unchanged, while sales of tablets increased. Compared to the previous quarter, sales declined by SEK 5.0 million.

Sales in the Adult Health business area amounted to SEK 20.1 million (18.7), an increase of SEK 1.4 million (7%). Excluding foreign exchange effects, sales were up by 4%. The increase is

mainly attributable to higher sales of tablets and sales of yogurt in Japan (launched in the second half of 2013). Compared to the previous quarter, sales rose by SEK 5.1 million.

Sales of finished consumer products reached SEK 76.8 million (69.0), an increase of SEK 7.8 million (11%) compared to the same period of last year. Excluding foreign exchange effects, sales improved by 7%. Sales of finished consumer products were up primarily in "Rest of world", particularly Brazil. Sales also grew in Asia and Europe but decreased in North America. Compared to the previous quarter, sales of finished consumer products rose by SEK 1.0 million.

Sales of component products amounted to SEK 15.3 million (16.0), a decrease of SEK 0.7 million (4%) compared to the same period of last year. Excluding foreign exchange effects, sales fell by 6%. The sales include royalties of SEK 7.6 million from Nestlé. The sales of culture for infant formula to Nestlé decreased during the quarter. Furthermore no revenue for the new product that is scheduled for launch in the second half of 2014 was recognised during the quarter. Compared to the previous quarter, sales of component products declined by SEK 1.5 million.

Gross profit for the second quarter

Gross profit amounted to SEK 65.3 million (59.9), an increase of SEK 5.4 million (9%) compared to the same period of last year. The gross margin was 71%, compared to 70% in the same period of last year. Excluding royalties from Nestlé (please see below) in the second quarter, the gross margin was 68%. The lower margin is attributable to quality problems, (see above under CEOs comment) which led to higher costs during the quarter.

Other operating expenses in the second quarter

Total operating expenses rose by 16% during the quarter.

Selling expenses for the second quarter increased compared to the same quarter of last year, from SEK 20.0 million to SEK 23.8 million (19%). This is due to higher costs for marketing activities and increased personnel expenses. Compared to the first quarter of 2014, selling expenses were up by SEK 4.8 million.

Administrative expenses increased by SEK 0.9 million (21%) compared to the same period of last year and amounted to SEK 5.2 million. This is mainly due to higher personnel expenses. Compared to the previous quarter, administrative expenses rose by SEK 1.6 million.

R&D expenses for the second quarter amounted to SEK 12.9 million (11.6), up by SEK 1.3 million (11%) compared to the same period of last year. This is explained by higher costs for the subsidiary IBT (see above) and increased patent expenses. Excluding costs for the subsidiary IBT, R&D expenses were down by 3%. Compared to the first quarter, R&D expenses rose by SEK 1.4 million.

Operating profit for the second quarter

Operating profit for the second quarter was SEK 24.9 million (26.3), down by SEK 1.4 million (-5%) compared to the same period of last year. Excluding foreign exchange effects and operating expenses for the subsidiary IBT, the decrease was 8%.

Profit before tax for the second quarter

Profit before tax for the second quarter was SEK 22.4 million (22.7), which is a decrease of SEK 0.3 million (1%) compared to the same period of last year. Net financial items include a foreign exchange loss of SEK -3.3 million (-4.7) on forward exchange contracts in EUR (for more information see above).

Profit after tax for the second quarter

Profit after tax was SEK 17.5 million (16.9), which is an increase of SEK 0.6 million (4%) compared to the same period of last year.

Cash flow for the second quarter

Cash flow for the second quarter was SEK -104.1 million (-148.3). Cash flow includes dividends of SEK 120.9 million (172.7).

KEY EVENTS IN THE SECOND QUARTER OF 2014

Launches in the second quarter of 2014

Distributor/licensee	Country	Product
Cube	Greece	Oral rehydration product with orange flavour
Dong Sung	South Korea	Drops and Gastrus digestive health tablets
Ewopharma	Latvia and Lithuania	Tablets with Vitamin D
Keyuan	China	Drops and Gastrus digestive health tablets
Noos	Italy	Drops with Vitamin D and Vitamin K

Agreement for the sale of drops in India

In June BioGaia signed a non-exclusive agreement with Pharma Base SA for the rights to sell BioGaia's ProTectis Baby Drops in India. Pharma Base will cooperate with a local distributor for marketing and sales of the drops, which will be sold under BioGaia's own brand. Registration of the product will be started in 2014 and the launch is planned for the beginning of 2015.

Agreement for the sale of drops in the UK

In June BioGaia signed an agreement with Nestlé Nutrition UK that gives its subsidiary SMA exclusive rights to sell BioGaia's ProTectis Baby Drops in the United Kingdom and Ireland. The drops will be sold under the BioGaia brand with elements of SMA's brand, which is very well known in the UK. The launch is planned to take place in the beginning of 2015.

Decision to build an additional production plant at the subsidiary TwoPac in Eslöv

In June BioGaia made a decision for the subsidiary TwoPac to build an additional production plant in Eslöv. BioGaia will invest around SEK 16 million in the new facility.

In 2012 a new production plant was completed in Eslöv and was mainly financed by loans from BioGaia.

KEY EVENTS EARLIER IN 2014

Launches in the first quarter of 2014

Distributor/licensee	Country	Product
BG Distribution	Hungary	Drops with Vitamin D and digestive health tablets with Vitamin D
Cube Pharmaceutical	Greece	Drops with Vitamin D
EwoPharma	Slovenia	Drops with Vitamin D
Exeer	Libya	Drops and oral rehydration product
Infectopharm	Germany	Drops with Vitamin D
Nestlé	Ukraine, Russia and the CIS countries	Infant formula with <i>Lactobacillus reuteri</i> Protectis
Plac Control	Greece	Oral health tablets
Semper	Norway	Drops and digestive health tablets with strawberry flavour

Publication of study showing that colic can be prevented

A study on 468 healthy newborns, which was published in January 2014, shows that infants given the probiotic *Lactobacillus reuteri* Protectis cried less than half as long as infants given a placebo. The infants given *Lactobacillus reuteri* Protectis also had significantly fewer daily regurgitations and were less constipated compared to infants in the placebo group.

The study was published in the highly regarded medical journal JAMA on 13 January 2014.

No significant differences in BioGaia's diabetes study

In May 2012 BioGaia initiated a double-blind, placebo-controlled study to investigate the effects of *Lactobacillus reuteri* Protectis on blood glucose in type 2 diabetics. Despite positive results from an earlier pilot study, no significant differences between the groups were seen in this study.

Continued efforts are being made to analyse if a change in some of the essential parameters in the study or in the study design may be a possible approach for a solution.

New major agreement with Nestlé including payment of contingent consideration

In February 2012 BioGaia sold the rights for the use of *Lactobacillus reuteri* Protectis in infant formula to Nestlé for the remainder of the patent lifetime. BioGaia received EUR 40 million up front and a commitment for a further EUR 10.8 million during the period from 2014 to 2017 upon the achievement of certain milestones. The first milestone payment of EUR 3.6 million was received in February this year.

Nestlé and BioGaia have further broadened and strengthened the cooperation and in March this year entered into a supplementary agreement to the original. The agreement will provide BioGaia with royalties of around SEK 92 million (approximately EUR 10.4 million) over a three-year period, starting in the second quarter of 2014, for which BioGaia will carry out specific clinical studies in the paediatric area. In addition, BioGaia will develop new products for Nestlé in whole new areas.

Furthermore, the agreement means that BioGaia immediately received the remaining milestone payments of EUR 7.2 million from the 2012 agreement. Consequently, the entire contingent consideration of EUR 10.8 million (SEK 95.4 million) was recognised as income in the first quarter.

Publication of study showing that it is possible to prevent common infections in children

Healthy children attending daycare centres have a significantly lower risk of getting diarrhoea or respiratory tract infections when given a daily supplement of *Lactobacillus reuteri* Protectis, as shown by a study on 336 children that was conducted in Mexico.

The study confirms previously published data and proves that preventative treatment with *L. reuteri* Protectis in healthy children reduces episodes of diarrhoea. Furthermore, the study demonstrated a reduction in respiratory tract infections among the children given supplements of Protectis. Moreover, the children receiving *Lactobacillus reuteri* Protectis had fewer days with fever, used less antibiotics and had fewer days of absence from daycare.

The study was published in the medical journal Pediatrics on 17 March 2014.

EMPLOYEES

The number of employees in the Group at 30 June 2014 was 91 (84).

Incentive scheme for the employees

In June 2012 BioGaia carried out the subscription warrant programme for all employees in the BioGaia Group that was resolved on by the AGM the same year. For more information, see above under "Equity".

SIGNIFICANT RISKS AND UNCERTAINTIES; GROUP AND PARENT COMPANY

The Japanese subsidiary has operated at a loss since the start in 2006. The business model previously used was found to be unsuccessful and in 2010 a decision was made to change the business model in Japan to that which is used in the other markets. On the balance sheet date, assets in the Japanese subsidiary were reported at SEK 8.5 million in the Group. BioGaia's assessment is that there is no indication of impairment of these assets. In the Parent Company, all receivables and participations in the Japanese subsidiary 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 9.8 million during the period from 2010 to 2013. Profit before tax for the first half of the year amounted to SEK -1.5 million (-1.4). On the balance sheet date, assets in CapAble were reported at SEK 2.9 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 90.1% owned by BioGaia, was established in November 2013. At that time, the Board of BioGaia made a decision to invest in phase one of a long-term project aimed at developing a drug with rigorous hygiene, analysis and documentation requirements, to treat the highly fatal disease Necrotising Enterocolitis (NEC), which affects premature infants. BioGaia will invest up to SEK 42 million in the project over a two-year period.

BioGaia AB has made conditional shareholder contributions of SEK 5 million to IBT. On the balance sheet date, assets in IBT were reported at SEK 2.9 million in the Group. BioGaia's assessment is that IBT will show profitability in coming years, for which reason there was no indication of impairment on the balance sheet date.

For further information see the administration report and Notes 28 and 29 of the annual report for 2013.

ACCOUNTING POLICIES

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

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 policies applied for the Group and the Parent Company are the same as those used in preparation of the latest annual report.

BioGaia has applied IFRS 10 and 12 from 1 January 2013.

New accounting policies

The applied accounting policies correspond to those described in the annual report for 2013, aside from a number of minor amendments to existing standards and new interpretations that are effective as of 1 January 2014. 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.

New segment reporting as of 2014

Since the autumn of 2013 the company is divided into three business areas, Paediatrics, Adult Health and New Business. Starting in the first quarter of 2014 the company reports sales and gross profit for these business areas. To facilitate comparison, sales and gross profit for finished consumer products and component products will also be reported during 2014.

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 license revenue from Nestlé of SEK 95.4 million. Including license revenue from Nestlé, total net sales for the first half of 2014 amounted to SEK 281.0 million, net sales of component products to SEK 119.8 million, net sales in the Paediatrics business area to SEK 243.8 million, net sales in Europe to SEK 229.3 million, gross profit to SEK 222.2 million, operating profit to SEK 148.7 million, profit before tax to SEK 147.1 million and profit after tax to SEK 114.5 million. Earnings per share amounted to SEK 6.66.

Statements of comprehensive income - Group

(Amounts in SEK 000s)

	Jan-June 2014	Jan-June 2013	April-June 2014	April-June 2013	Jan-Dec 2013	July 2013- June 2014	July 2012- June 2013
Net sales	185,597	163,485	92,379	85,343	315,875	337,987	298,702
License revenue	95,397	-	-	-	-	95,397	-
Cost of goods sold	-58,803	-51,641	-27,090	-25,460	-101,711	-108,873	-95,449
<i>Gross profit</i>	222,191	<i>111,844</i>	65,289	<i>59,883</i>	<i>214,164</i>	324,511	<i>203,253</i>
Selling expenses	-42,752	-39,371	-23,757	-20,047	-79,396	-82,777	-78,260
Administrative expenses	-8,809	-7,847	-5,221	-4,323	-14,356	-15,318	-14,435
Research and development expenses	-24,390	-21,861	-12,866	-11,645	-40,555	-43,084	-39,381
Other operating income	2,472	1,319	1,488	2,462	1,796	2,949	1,319
Other operating expenses	-	-	-	-	-	-	-1,817
<i>Operating profit</i>	148,712	<i>44,084</i>	24,933	<i>26,330</i>	<i>81,653</i>	186,281	<i>70,679</i>
Interest income	1,641	2,891	798	1,041	5,081	3,831	7,371
Foreign exchange gain/loss, forward contracts	-3,204	-1,545	-3,281	-4,691	-2,882	-4,541	1,110
Financial expenses	-75	-63	-32	-16	-92	-104	-98
<i>Profit before tax</i>	147,074	<i>45,367</i>	22,418	<i>22,664</i>	<i>83,760</i>	185,467	<i>79,062</i>
Tax	-32,562	-10,833	-4,873	-5,807	-19,572	-41,301	-14,563
PROFIT FOR THE PERIOD	114,512	34,534	17,545	16,857	64,188	144,166	64,499
<u>Items that will be reclassified to profit or loss</u>							
Gains/losses arising on translation of the financial statements of foreign operations	580	-558	410	21	-1,419	-281	-1,777
Comprehensive income for the period	115,092	33,976	17,955	16,878	62,769	143,885	62,722
<u>Profit for the period attributable to:</u>							
Owners of the Parent Company	114,971	31,994	17,764	15,285	61,722	144,699	60,698
Non-controlling interests	-459	2,540	-219	1,572	2,466	-533	3,801
	114,512	34,534	17,545	16,857	64,188	144,166	64,499
<u>Comprehensive income for the period attributable to:</u>							
Owners of the Parent Company	115,551	31,436	18,174	15,306	60,303	144,418	58,921
Non-controlling interests	-459	2,540	-219	1,572	2,466	-533	3,801
	115,092	33,976	17,955	16,878	62,769	143,885	62,722
<u>Earnings per share</u>							
Basic earnings per share (average number of shares), SEK	6.66	1.85	1.03	0.89	3.57	8.38	3.51
Diluted earnings per share, SEK	6.66	1.85	1.03	0.89	3.56	8.38	3.51
Number of shares, thousands	17,271	17,271	17,271	17,271	17,271	17,271	17,271
Average number of shares, thousands	17,271	17,271	17,271	17,271	17,271	17,271	17,271
Number of outstanding warrants, thousands	87	87	87	87	87	87	87
Number of outstanding warrants with a dilutive effect, thousands	-	-	-	-	87	-	-
Number of shares after dilution, thousands	17,271	17,271	17,271	17,271	17,358	17,271	17,271

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	30 June	31 Dec	30 June
(Amounts in SEK 000s)	2014	<u>2013</u>	<u>2013</u>
ASSETS			
Intangible assets	1,800	-	-
Property, plant and equipment	67,121	60,286	51,824
Other non-current receivables	18	17	17
<i>Total non-current assets</i>	68,939	60,303	51,841
Current assets excl. cash and cash equivalents	88,009	88,845	80,321
Cash and cash equivalents	239,117	234,271	249,560
<i>Total current assets</i>	327,126	323,116	329,881
TOTAL ASSETS	396,065	383,419	381,722
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent Company	311,994	317,341	312,027
Non-controlling interests	-942	-484	6,033
Total equity	311,052	316,857	318,060
Provision for deferred tax	85	85	24,649
Interest-free current liabilities	84,928	66,477	39,013
TOTAL EQUITY AND LIABILITIES	396,065	383,419	381,722
Pledged assets	2,000	2,000	2,000

CONSOLIDATED CASH FLOW STATEMENTS	Jan-June	Jan-June	April-June	April-June	Jan-Dec
(Amounts in SEK 000s)	2014	<u>2013</u>	2014	<u>2013</u>	<u>2013</u>
<i>Operating activities</i>					
Operating profit	148,712	44,084	24,933	26,330	81,653
Depreciation/amortisation	2,688	2,511	1,319	1,249	5,541
Other non-cash items	-405	-134	-376	-239	-308
	150,995	46,461	25,876	27,340	86,886
Gains/losses on realised forward exchange contracts	-141	447	-322	96	193
Paid tax	-35,755	-1,145	-4,440	1,311	-10,799
Interest received and paid	1,565	2,828	765	1,025	4,996
Cash flow from operating activities before changes in working capital	116,664	48,591	21,879	29,772	81,276
Changes in working capital	19,841	3,741	1,848	-1,628	-2,835
<i>Cash flow from operating activities</i>	136,505	52,332	23,727	28,144	78,441
<i>Cash flow from investing activities</i>	-11,301	-5,166	-6,892	-3,756	-46,538
<i>Cash flow from financing activities</i>	-120,897	-172,710	-120,897	-172,710	-172,710
Cash flow for the period	4,307	-125,544	-104,062	-148,322	-140,807
Cash and cash equivalents at beginning of period	234,271	374,974	342,693	397,624	374,974
Exchange difference in cash and cash equivalents	539	130	486	258	104
Cash and cash equivalents at end of period	239,117	249,560	239,117	249,560	234,271

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in SEK 000s)

	Jan-June 2014	Jan-June 2013	Jan-Dec 2013
At beginning of period	316,857	456,794	456,794
Dividends	-120,897	-172,710	-172,710
Purchase of 50% of TwoPac AB	-	-	-30,000
Sale of 9% of IBT AB	-	-	4
Comprehensive income for the period	115,092	33,976	62,769
At end of period	311,052	318,060	316,857

REPORTING BY SEGMENT - GROUP

(Amounts in 000s)

<u>Income by segment - business area</u>	Jan-June 2014	Jan-June 2013	April-June 2014	April-June 2013	Jan-Dec 2013	July 2013 - June 2014	July 2012 - June 2013
Paediatrics	148,360	127,759	71,680	66,567	243,658	320,613	235,403
License revenue (Paediatrics)	95,397	-	-	-	-	95,397	-
Adult Health	35,119	35,561	20,082	18,664	70,414	69,972	62,962
Other	2,118	165	617	112	1,803	3,756	337
	280,994	163,485	92,379	85,343	315,875	489,738	298,702

<u>Gross profit by segment - business area</u>	Jan-June 2014	Jan-June 2013	April-June 2014	April-June 2013
Pediatrics	103,989	88,977	52,617	47,375
License revenue (Pediatrics)	95,397	-	-	-
Adult Health	21,188	22,710	12,250	12,402
Other	1,617	157	422	106
	222,191	111,844	65,289	59,883

<u>Revenue by segment</u>	Jan-June 2014	Jan-June 2013	April-June 2014	April-June 2013	Jan-Dec 2013	July 2013 - June 2014	July 2012 - June 2013
Finished consumer products	152,615	134,610	76,775	68,982	256,164	274,169	250,372
Component products	32,045	27,907	15,257	15,964	58,592	62,730	47,142
License revenue (component products)	95,397	-	-	-	-	95,397	-
Other products	937	968	347	397	1,119	1,088	1,188
	280,994	163,485	92,379	85,343	315,875	433,384	298,702

<u>Gross profit by segment</u>	Jan-June 2014	Jan-June 2013	April-June 2014	April-June 2013	Jan-Dec 2013	July 2013 - June 2014	July 2012 - June 2013
Finished consumer products	106,461	97,384	53,783	50,788	180,088	189,165	179,804
Component products	19,396	13,918	11,159	8,991	33,384	38,862	22,750
License revenue (component products)	95,397	-	-	-	-	95,397	-
Other products	937	542	347	104	692	1,087	699
	222,191	111,844	65,289	59,883	214,164	324,511	203,253

Revenue by geographical market

	Jan-June 2014	Jan-June 2013	April-June 2014	April-June 2013	Jan-Dec 2013	July 2013 - June 2014	July 2012 - June 2013
Net sales	2014	2013	2014	2013	2013	- June 2014	- June 2013
Europe	133,887	120,409	63,085	60,154	218,301	231,779	216,580
License revenue (Europe)	95,397	-	-	-	-	95,397	-
USA and Canada	7,606	8,483	4,792	6,182	22,412	21,535	20,197
Asia	21,996	19,412	11,473	10,955	40,100	42,684	33,452
Rest of world	22,108	15,181	13,029	8,052	35,062	41,989	28,473
	280,994	163,485	92,379	85,343	315,875	433,384	298,702

CONSOLIDATED KEY RATIOS ¹⁾

	Jan-June 2014	Jan-June 2014 ²⁾	Jan-June 2013	Jan-Dec 2013
Net sales, SEK 000s	280,994	185,597	163,485	315,875
Operating profit, SEK 000s	148,712	53,315	44,084	81,653
Profit after tax, SEK 000s	114,512	40,102	34,534	64,188
Return on				
- average equity	37%	15%	8%	16%
- average capital employed	48%	20%	12%	22%
Capital employed, SEK 000s	311,137	236,727	342,709	316,942
Number of shares, thousands	17,271	17,271	17,271	17,271
Average number of shares, thousands	17,271	17,271	17,271	17,271
Number of outstanding warrants, thousands	87	87	87	87
Average number of outstanding warrants with a dilutive effect, thousands	-	-	-	87
Number of shares after dilution, thousands	17,271	17,271	17,271	17,358
Basic earnings per share, SEK	6.66	2.35	1.85	3.57
Diluted earnings per share, SEK	6.66	2.35	1.85	3.56
Basic equity per share, SEK	18.06	13.76	18.07	18.37
Diluted equity per share, SEK	18.06	13.76	18.07	18.28
Equity/assets ratio	79%	79%	83%	83%
Operating margin	53%	29%	27%	26%
Profit margin	52%	28%	28%	27%
Average number of employees	88	88	80	82

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

2) Excluding license revenue from Nestlé. License revenue is included in the Paediatrics business area, in the component products segment and in the European market.

Income statements - Parent Company

(Amounts in SEK 000s)

	Jan-June 2014	Jan-June 2013	Jan-Dec 2013
Net sales	177,945	160,421	304,624
License revenue	95,397	-	-
Cost of goods sold	-61,685	-59,996	-108,840
<i>Gross profit</i>	211,657	100,425	195,784
Selling expenses	-33,689	-30,872	-59,662
Administrative expenses	-7,949	-7,205	-13,302
Research and development expenses	-21,167	-21,959	-40,461
Other operating income	2,472	1,319	1,796
<i>Operating profit</i>	151,324	41,708	84,155
Impairment loss on receivable from subsidiary	-4,288	-6,473	-8,960
Impairment loss on shares in subsidiary	-	-	-2,589
Net financial items	-530	2,371	4,314
Profit before appropriations and tax	146,506	37,606	76,920
Change in tax allocation reserve	-	-	109,341
Profit before tax	146,506	37,606	186,261
Tax	-31,622	-9,210	-41,604
Profit for the period	114,884	28,396	144,657

Balance sheets - Parent Company**Assets**

	30 June 2014	31 Dec 2013	30 June 2013
Intangible assets	-	-	-
Property, plant and equipment	1,605	2,058	1,926
Shares in group companies	56,394	52,394	21,160
Non-current receivables from subsidiaries	37,513	29,513	24,513
<i>Total non-current assets</i>	95,512	83,965	47,599
Currents assets excl. cash and cash equivalents	76,867	76,594	70,477
Cash and cash equivalents	230,402	228,456	245,540
<i>Total current assets</i>	307,269	305,050	316,017
Total assets	402,781	389,015	363,616
EQUITY AND LIABILITIES			
Equity	315,594	321,607	205,346
Tax allocation reserve	-	-	109,341
Interest-free current liabilities	87,187	67,408	48,929
TOTAL EQUITY AND LIABILITIES	402,781	389,015	363,616
Pledged assets	2,000	2,000	2,000

Cash flow statements - Parent Company

	Jan-June 2014	Jan-June 2013	Jan-Dec 2013
<u>Operating activities</u>			
Operating profit	151,324	41,708	84,155
Depreciation/amortisation	512	595	1,157
Other non-cash items	-405	-134	-310
Realised forward exchange contracts	-141	447	193
Paid tax	-34,791	-1,129	-9,816
Interest received and paid	1,936	3,131	5,603
Cash flow from operating activities before changes in working capital	118,435	44,618	80,982
Changes in working capital	17,356	6,371	-7,218
<i>Cash flow from operating activities</i>	135,791	50,989	73,764
<i>Cash flow from investing activities</i>	-13,349	-4,321	-44,218
<i>Cash flow from financing activities</i>	-120,897	-172,710	-172,710
Cash flow for the period	1,545	-126,042	-143,164
Cash and cash equivalents at beginning of period	228,456	371,448	371,448
Exchange difference in cash and cash equivalents	401	134	172
Cash and cash equivalents at end of period	230,402	245,540	228,456

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

(Amount in SEK 000s)

	Jan-June 2014	Jan-June 2013	Jan-Dec 2013
At beginning of period	321,607	349,660	349,660
Dividends	-120,897	-172,710	-172,710
Profit for the period	114,884	28,396	144,657
At end of period	315,594	205,346	321,607

Related party transactions – Parent Company

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 90.1% of the shares in Infant Bacterial Therapeutics (IBT) AB.

Annwall & Rothschild Investment AB hold 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, CEO of BioGaia, and Jan Annwall, a member of the Board of BioGaia AB. The only transaction that has taken place during the period is the payment of a dividend of SEK 7 per share. No other transactions between BioGaia and Annwall & Rothschild Investment AB have taken place during the period.

The following transactions have taken place with BioGaia Japan

	Jan-June 2014	Jan-June 2013	Jan-Dec 2013
Interest income	723	770	1 565
Loan provided	-1 294	-4 076	-7 419
Sale of goods	2 271	1 627	4 410

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

	Jan-June 2014	Jan-June 2013	Jan-Dec 2013
Interest income	331	301	610
Loan provided	-8 000	-	-5 000
Purchase of goods	-21 579	-20 969	-37 487

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

	30 June 2014	30 June 2013	31-dec 2013
Non-current receivables from TwoPac AB (incl. subsidiaries)	36 491	23 491	28 491
<i>Current transactions with related parties</i>			
Current receivables from TwoPac AB	170	167	1914
Current liabilities from TwoPac AB	-4 149	-5 972	-1 643
	-3 979	-5 805	271

The following transactions have taken place with IBT AB

	Jan-June 2014	Jan-June 2013	Jan-dec 2013
Conditional shareholder contribution	-4 000	-	-1 000
Group contribution paid	-	-	-229
Purchase of services	-228	-	-

No significant transactions have taken place with the other related parties.

Financial Calendar

20 August 2014	9:30 a.m. Teleconference on the interim report with CEO Peter Rothschild. To take part in the conference, please see www.biogaia.com/agenda
22 October 2014	Interim report 1 January – 30 September 2014
12 February 2015	Year-end report 2014
7 May, 2015	Interim report 1 January – 31 March 2015

This interim 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, 20 August 2014

David Dangoor
Board Chairman

Jan Annwall
Board member

Stefan Elving
Board member

Inger Holmström
Board member

Jan Litborn
Board member

Brit Stakston
Board member

Jörgen Thorball
Board member

Paula Zeilon
Board member

Peter Rothschild
CEO

Report on Review of Interim Financial Information in accordance with IAS 34 and the Swedish Annual Accountants Act (translated)

Introduction

We have reviewed the condensed interim financial information (interim report) of BioGaia AB (publ), corporate identity number 556380-8723, as of 30 June 2014 and for the six-month period then ended. The Board of Directors and the CEO 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 report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 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 is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accounting auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Stockholm, 20 August 2014
Grant Thornton Sweden AB

Lena Möllerström Nording
Authorised 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 91 employees, of whom 34 are based in Stockholm, 24 in Lund, 23 in Eslöv, two in Raleigh, USA, six in Hiroshima, Japan, and two in Shanghai, China.

Business model

BioGaia's revenue comes mainly from the sale of finished consumer products (digestive health tablets, drops, oral rehydration solution (ORS) and oral health tablets) to distributors, but also of revenue from the sale of component products such as Reuteri cultures, straws and caps.

The products are sold through nutrition, food, natural health and pharmaceutical companies in more than 80 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, 126 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on around 10,700 individuals of all ages. The results have been published in 97 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)
- Necrotising 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 release from BioGaia:

2014-06-26	BioGaia expands in Eslöv
2014-06-18	BioGaia signs new exclusive agreement in the UK
2014-06-17	BioGaia signs distribution agreement for India

BioGaia AB Box 3242, SE-103 64 STOCKHOLM
Street address: Kungsbrogatan 3A, Stockholm
Telephone: +46 8-555 293 00, corp. identity no. 556380-8723 www.biogaia.se
For additional information contact:
Peter Rothschild, President, BioGaia AB, telephone +46 8-555 293 20
Margareta Hagman, Executive Vice President, BioGaia AB, telephone +46 8-555 293 04