

BioGaia AB

Interim management report 1 January – 30 September 2014 (14 pages)

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



CEO's comment

“The strong growth in sales during the quarter is gratifying, and the rolling 12 month performance, indicating where we are going long term, shows a 19 % increase. Our ambitions are higher than that, and considering the positive signals we are seeing in essentially all markets, we should be able to reach our historically high growth numbers within a not too distant future,” says Peter Rothschild, CEO of BioGaia AB.

Period from 1 January to 30 September 2014

Net sales amounted to SEK 360.4 million (225.7), an increase of SEK 134.7 million (60%). Net sales include license revenue of SEK 95.4 million from Nestlé. Excluding license revenue from Nestlé, net sales totalled SEK 265.0 million, an increase of 17% (excluding foreign exchange effects, 14%).

Net sales in the Paediatrics business area reached SEK 215.9¹⁾ million (173.0), up by SEK 42.9 million (25%).

Net sales in the Adult Health business area amounted to SEK 46.4 million (51.5), a decrease of SEK 5.1 million (-10%).

Operating profit was SEK 166.3 million (57.9), an increase of SEK 108.4 million (187%). Excluding license revenue from Nestlé, operating profit was SEK 70.9 million, an increase of 22% (excluding foreign exchange effects and operating expenses for the subsidiary IBT, 20%).

Profit after tax was SEK 128.9 million (47.9), up by SEK 81.0 million (169%). Excluding license revenue from Nestlé, profit after tax was SEK 54.5 million, an increase of 14%.

Earnings per share totalled SEK 7.50 (2.63). Excluding license revenue from Nestlé, earnings per share were SEK 3.19.

The period's cash flow was SEK -11.1 million (-131.7). Cash and cash equivalents at 30 September 2014 amounted to SEK 224.1 million (243.2).

Third quarter of 2014

Net sales reached SEK 79.4 million (62.2), an increase of SEK 17.2 million (28%) (excluding foreign exchange effects, 23%).

Net sales in the Paediatrics business area totalled SEK 67.6 million (45.2), an improvement of SEK 22.4 million (49%).

Net sales in the Adult Health business area amounted to SEK 11.3 million (16.0), a decrease of SEK 4.7 million (-29%).

Operating profit was SEK 17.6 million (13.8), an increase of SEK 3.8 million (28%) (excluding foreign exchange effects and operating expenses for the subsidiary IBT, 29%).

Profit after tax was SEK 14.4 million (13.4), an improvement of SEK 1.0 million (7%).

Earnings per share totalled SEK 0.84 (0.78).

Key events in the third quarter of 2014

Launch of tablets in Brazil.



1) Excluding license revenue from Nestlé. Including license revenue from Nestlé, net sales in the Paediatrics business area amounted to SEK 311.3 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 22 October 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 management report statement, 1 January – 30 September 2014

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

We hereby present BioGaia AB's interim management statement for the period from 1 January to 31 September 2014. A description of the company's operations is provided on page 14.

CEO's comment

The strong growth in sales during the quarter is gratifying, and the rolling 12 month performance, indicating where we are going long term, shows a 19% increase. Our ambitions are higher than that, and considering the positive signals we are seeing in essentially all markets, we should be able to reach our historically high growth numbers within a not too distant future. Even in North America we are seeing satisfying increases in the rolling 12-month figures, but there is still much to be done to capitalise on the potential we believe exists in the USA.

The paediatric health area is growing significantly and this is where we have around 80% of our sales. The increase is being driven partly by our continuing collaboration with Nestlé in new areas and partly by steady improvement in sales of our oil drops in the majority of markets.

In the adult health area we have a great deal of basic positioning work towards the target groups left to do. The new organisation gives us scope for a whole different focus on the areas where greater efforts need to be made to reach acceptable growth. In certain areas it is enough to reposition, whilst in others, complementary clinical studies are being carried out to achieve greater momentum in sales.

In Japan we have decided to discontinue our investments in yoghurt products as the margins are too low. On the other hand, during the quarter we started to launch our oil drops through a digital marketing effort. The reason for choosing the digital route is that paediatricians in Japan do not treat colic, since most mothers are at home and it is considered shameful not to be able to handle a crying child. Our hope is that Japanese parents will buy the oil drops directly online. It is far too early at this time to say anything about the results of the drive, since the marketing campaign will not be ramped up to a larger scale until the fourth quarter.

Our operating profit is improving continuously since we are holding down cost increases to a level of about 10% on a rolling 12-month basis. The increases are partly explained by our ongoing investment in medical conferences to expand our message directly to physicians. It is a costly marketing method, but we know that our sales are driven primarily by doctors' recommendations to their patients, and that this is consequently a very profitable investment. Last week such a paediatric conference was held in San Diego. BioGaia's booth raised a lot of attention and was visited by more than 900 interested doctors.

The solution of the identified quality problem, as mentioned earlier, at one of our sub-contractors is not yet fully implemented. The quality problem has caused costs of just under SEK 1.0 million during the third quarter and additional costs in the future cannot be excluded.

Our operating margin for the rolling 12-month period was 27%, and 28% if we exclude the subsidiary IBT as a separate investment. This is slightly below our medium-term target of at least 30%.

Our subsidiary IBT, which is developing a pharmaceutical to prevent the disease NEC that affects premature newborns, is continuing its efforts to develop an approved manufacturing process and plan for the clinical studies needed to achieve an approved drug. We have also initiated measures to secure financing, through

a London-based bank, for the development work after the two years that BioGaia itself is funding.

The probiotic supplement market is growing by 8-10% annually, which provides a solid ground for continued growth. If I look at our situation, there is good reason for optimism. Our existing products have continued to grow and in a number of markets we are currently in the launch process. When I then add the many opportunities in our collaboration with Nestlé and the new products we are launching and developing, this strengthens my conviction that we are only at the beginning of a strong growth phase for BioGaia.

FINANCIAL PERFORMANCE IN JANUARY- SEPTEMBER 2014

Sales

Consolidated net sales amounted to SEK 360.4 million (225.7), which is an increase of SEK 134.7 million (60%). 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 one of 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 meant among other things that BioGaia 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 due to considerable lower sales price.

Net sales excluding license revenue

Excluding license revenue from Nestlé, net sales amounted to SEK 265.0 million, an increase of 17% 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 8.1 million lower. Excluding foreign exchange effects, net sales (excluding license revenue) thus rose by 14%. Exchange rate fluctuations affect both revenue and expenses. Operating profit would also have been SEK 5.5 million lower in the event of unchanged exchange rates, which means an increase (excluding license revenue from Nestlé) of 13% compared to the previous year.

For the past 12-month period, total net sales increased by 19%¹⁾ (excluding foreign exchange effects, 17%).

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 311.3 million (173.0), an increase of SEK 138.3 million (80%). Excluding license revenue from Nestlé, sales of paediatric products reached SEK 215.9 million (173.0), representing growth of 25% (excluding foreign exchange effects, 21%). The increase is primarily attributable to sales of drops and then primarily in Europe and "Rest of world" but also in the USA and Canada. In Europe, sales of drops increased in a number of countries in Eastern Europe (Poland, Bulgaria, Slovakia and the Czech Republic) as well as in Germany, Italy and France, while sales decreased mainly in Ukraine, but also in Finland and Sweden. The decrease in Ukraine is due to current instability in the country.

In "Rest of world", sales increased in Brazil and Mexico but fell in South Africa.

Sales of digestive health tablets related to the Paediatrics business area were also up compared to the same period of last year, primarily in Brazil but also in the USA. In Ukraine, sales of digestive health tablets decreased during the period.

Sales of cultures for infant formula declined slightly during the period compared to the same period of last year. 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.

Revenue under the agreement with Nestlé from 2013 (regarding a product that is still classified as secret) was largely unchanged compared to the same period of last year. Launch of this product will take place in the fourth quarter of 2014.

The royalty revenue of SEK 15.3 million (0.0) from the new collaboration agreement with Nestlé (see below) was included in sales for the Paediatrics business area.

For the past 12-month period, sales in the Paediatrics business area rose by 23%¹⁾.

Activities in the Paediatrics business area during the period were focused on participation in a number of important congresses, among other things in the USA. These congresses are of vital importance, since they provide opportunity for direct contact with medical professionals from around the world to whom we can promote the BioGaia brand. Often, the company hosts satellite symposia at which researchers selected by BioGaia present BioGaia's clinical studies to between 100 and 300 doctors. The company is also preparing the launch of new packaging solutions that will be introduced in 2015.

ADULT HEALTH BUSINESS AREA

Net sales in the Adult Health business area amounted to SEK 46.4 million (51.5), down by SEK 5.1 million (-10%) (excluding foreign exchange effects, -13%).

The decrease is due to lower sales of digestive health tablets, above all in Finland where BioGaia's partner has been exposed to aggressive price competition. Sales of digestive health tablets also decreased in Italy.

Sales of oral health tablets grew during the period compared to the same period of last year. The increase was primarily attributable to Japan.

Sales of yoghurt products in Japan were up during the period. However, the company has decided to discontinue sales of yogurt products in Japan, since the margin has not met expectations and BioGaia's partner has not invested in consumer marketing to the extent required to reach the volumes necessary to achieve profitability.

For the past 12-month period, sales in the Adult Health business area increased by 3%.

Activities in the business area remain focused on clarifying the positioning of the new product Gastrus and on reducing costs for this product and the ORS product. Furthermore, the company is continuing its efforts to clarify the positioning of other products while at the same time studying the conditions for the launch of additional products.

FINISHED CONSUMER PRODUCTS

Sales of finished consumer products rose over the same period of last year by SEK 27.7 million (15%) to SEK 208.8 million.

Sales of finished consumer products were up in all regions during the period.

For the past 12-month period, sales of finished consumer products rose by 15%.

COMPONENT PRODUCTS

Sales of component products grew by SEK 106.5 million to SEK 150.0 million (244%) 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 54.6 million (43.6), an increase of 25%.

Sales were up in Europe but declined in Asia. The decrease in Asia is mainly attributable to sales of cultures to a dairy in South Korea.

Sales of cultures for infant formula decreased somewhat during the period.

Sales of component products include royalties from the new collaboration agreement with Nestlé (see below) of SEK 15.3 million (0.0).

For the past 12-month period, sales of component products have increased by 38%¹⁾.

Sales by geographical market

Sales in Europe grew by SEK 22.1 million (14%)¹⁾ to SEK 184.4¹⁾ million. Sales of both finished consumer products and component products increased. For the past 12-month period, sales in Europe rose by 12%¹⁾.

Sales in the USA and Canada increased by SEK 3.9 million (29%). Sales of finished consumer products were up in both countries. Sales of component products were largely unchanged. For the past 12-month period, sales in the USA and Canada grew by 23%.

Sales in Asia rose by SEK 0.7 million (3%). 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 26 %.

Sales in "Rest of world" were up by SEK 12.7 million (53%) 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 57%.

The BioGaia brand

Of total finished consumer products, 65% (55) were sold under the BioGaia brand, including co-branding. The target for 2014 is at least 60%.

Gross profit

Gross profit was SEK 178.9¹⁾ million (155.1), which is an increase of SEK 23.8 million (15%) compared to the same period of last year. The total gross margin declined from 69% to 67%¹⁾.

Gross margin for the Paediatrics business area narrowed slightly from 70% to 69%¹⁾. The margin has fallen during the period primarily as a result of a further decreased margin on sales of cultures for infant formula to Nestlé starting in the third quarter of 2014, but also due to costs (about SEK 3.5 million for the 9-month period) for quality problem (please see above under CEO's comment) but has been compensated by royalties from Nestlé with a margin of 100%.

Gross margin for the Adult Health business area fell from 64% to 62%. This is mainly due to a lower margin on yogurt products that were launched in the second half of last year. As mentioned above, these sales will be discontinued as of the fourth quarter of 2014.

Operating expenses

Total operating expenses rose by 14% to SEK 112.0 million during the nine-month period. Excluding the subsidiary IBT, operating expenses were up by 10%. For the past 12-month period, operating expenses increased by 11% (excluding the subsidiary IBT, by 8%).

Selling expenses grew by SEK 7.0 million (12%) and amounted to SEK 63.6 million (56.6), which is equal to 24% (25) 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. In addition, marketing expenses were up in Japan, partly in connection with the launch of drops which took place in the third quarter. For the past 12-month period, selling expenses rose by 11%.

Administrative expenses amounted to SEK 12.4 million (10.6), which is equal to 5% (5) of net sales¹⁾. The increase of SEK 1.8 million (17%) is mainly explained by higher personnel expenses and increased administrative expenses in the subsidiary TwoPac (see below). For the past 12-month period, administrative expenses grew by 13%.

R&D expenses are reported at SEK 36.1 million (30.9), which is equal to 14% (14) of net sales. The increase of SEK 5.2 million (17%) is mainly due to costs for the subsidiary IBT (see below). Furthermore, both patent expenses and personnel expenses were higher during the period. Excluding the costs for IBT, R&D expenses were up by 3%. For the past 12-month period, R&D expenses rose by 10% (excluding IBT, 0%). The reason for the low increase is that costs for clinical studies vary over time, and that costs for the NEC project were recognised already in the previous year, but at that time in the Parent Company.

The amortisation component of R&D expenses was SEK 0.2 million (0.2). Investments in capitalised development expenses totalled SEK 3.7 million (0) and refer 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 166.3 million (57.9), an increase of SEK 108.4 million (187%). Excluding license revenue from Nestlé, operating profit was SEK 70.9 million (57.9), an improvement of 22% (excluding foreign exchange effects, 13%). Excluding the subsidiary IBT, operating profit rose by 30%. Operating margin for the period from January to September was 27%¹⁾ (excluding the subsidiary IBT, 28%).

For the past 12-month period, operating profit increased by 33%¹⁾.

Financial items and profit before tax

Profit before tax was SEK 70.2¹⁾ million (61.9), an increase of SEK 8.3 (13%) compared to the same period of last year. Net financial items include a foreign exchange loss of SEK -2.7 million on forward exchange contracts in EUR. Net financial items for the previous year included a foreign exchange gain of SEK 0.1 million. At 30 September 2014 the company had outstanding forward exchange contracts for EUR 13.5 million at an average exchange rate of SEK 8.96. Forward exchange contracts amounting to EUR 2.5 will mature for payment in 2014, EUR 8.0 million in 2015 and the remaining EUR 3.0 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 September 2014 (9.20), an exchange gain/loss will be recognised in the future.

Profit after tax

Profit after tax was SEK 128.9 million (47.9), an increase of SEK 81.0 million (69%). Excluding license revenue from Nestlé, profit after tax was SEK 54.5 million (47.9), which is SEK 6.6 million (14%) better than in the same period of last year.

The tax rate for the Group was 22% (23). 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 September 2014 amounted to SEK 56.0 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 an ongoing 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 4.1 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 7.50 (2.63). Excluding license revenue from Nestlé, earnings per share amounted to SEK 3.19.

Cash flow

The Group's cash and cash equivalents at 30 September 2014 totalled SEK 224.1 million (243.2). Cash flow for the period amounted to SEK -11.0 million (-131.7). 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 51.2 million (5.5).

Equity

Consolidated equity at 30 September 2014 amounted to SEK 325.6 million (301.3). The Group's equity/assets ratio was 84% (83).

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, 2014 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 14.2 million (9.5), of which SEK 13.3 million (7.5) refers to TwoPac AB.

Investments in capitalised development expenses amounted to SEK 3.7 million (0) and refer to the NEC project in the subsidiary IBT AB.

Subsidiary in Japan

Net sales in the wholly owned subsidiary in Japan reached SEK 13.7 million (7.9). Operating profit in the Japanese subsidiary was SEK -3.4 million (-4.9). This growth in sales is primarily attributable to yoghurt and dental products.

Subsidiary TwoPac AB

Net sales in the wholly owned subsidiary TwoPac amounted to SEK 31.3 million (27.1). Operating profit was SEK 6.0 million (7.8). Profit after tax was SEK 4.2 million (5.7). The drop in profit is mainly explained by higher personnel expenses as a result of more stringent quality requirements and higher costs for development of new products. The increased quality requirements are internally driven to a certain extent, but are also motivated by BioGaia's intention to have the facility approved for pharmaceutical production by the Swedish Medical Products Agency (Läkemedelsverket). Furthermore, additional resources have been devoted to qualification and validation of new machinery.

TwoPac manufactures and develops products only for 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 (0.1) during the period. Operating profit amounted to SEK -2.0 million (-2.1).

Subsidiary IBT AB

In November 2013, 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. The project will be driven 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 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 shall 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 -4.3 million. The company has made investments in capitalised development expenses of SEK 3.7 million (0). The company does not yet have any revenue.

Parent Company

Net sales in the Parent Company reached SEK 350.1 million (221.0) and profit before tax was SEK 165.2 million (54.8).

Profit after tax amounted to SEK 129.7 million (42.5). Cash flow in the Parent Company totalled SEK -10.3 million (-133.5).

FINANCIAL PERFORMANCE IN THE THIRD QUARTER OF 2014

Third quarter sales

Net sales for the third quarter amounted to SEK 79.4 million (62.2), up by SEK 17.2 million (28%) compared to the same period of last year. Excluding foreign exchange effects, the increase was 23%. Compared to the previous quarter, net sales decreased by SEK 13.0 million, which is due to lower activity among distributors and suppliers during the customary summer holiday period in Europe.

PAEDIATRICS THIRD QUARTER

Sales in the Paediatrics business area amounted to SEK 67.6 million (45.2), an improvement of SEK 22.4 million (49%). Excluding foreign exchange effects, the increase was 44%. These sales include royalties of SEK 7.6 million from Nestlé. Excluding royalties, net sales grew by SEK 14.8 million, which is primarily attributable to sales of drops but also sales digestive health tablets. Sales of drops and digestive health tablets rose in all markets except Asia.

Sales of culture for infant formula declined somewhat.

Compared to the previous quarter, sales in the Paediatrics business fell by SEK 4.1 million.

ADULT HEALTH THIRD QUARTER

Sales in the Adult Health business area amounted to SEK 11.3 million (16.0), a decrease of SEK 4.7 million (29%). Excluding foreign exchange effects, declined by 32%. The decrease is mainly attributable to sales of digestive health tablets in Europe and "Rest of World".

Sales of oral health tablets increased during the third quarter, compared to the same period of last year.

Compared to the previous quarter, sales in the Adult Health business area were down by SEK 8.8 million.

A minor reclassification of revenue between the Paediatrics and Adult Health business areas compared to the previous quarter took place during the quarter.

FINISHED CONSUMER PRODUCTS THIRD QUARTER

Sales of finished consumer products reached SEK 56.2 million (46.4), an increase of SEK 9.8 million (21%) compared to the same period of last year. Sales of finished consumer products grew in all regions except Asia. Compared to the previous quarter, sales of finished consumer products were down by SEK 20.6 million.

COMPONENT PRODUCTS THIRD QUARTER

Sales of component products amounted to SEK 22.6 million (15.7), an increase of SEK 6.9 million (44%) compared to the same period of last year. This figure includes royalties from Nestlé of SEK 7.6 million. Sales of culture for infant formula declined during the quarter. Revenue from the new agreement with Nestlé (regarding a product that has not yet been publicly disclosed) was largely unchanged compared to the year-earlier period. Compared to the previous quarter, sales of component products rose by SEK 7.3 million.

Gross profit for the third quarter

Gross profit amounted to SEK 52.1 million (43.2), an increase of SEK 8.9 million (21%) compared to the same period of last year. Gross margin was 66%, compared to 70% in the same period of last year. Excluding royalties from Nestlé in the third quarter (see below), gross margin was 62%. The lower margin is mainly attributable to cultures for infant formula for Nestlé (see above), which fell further during the period but also to costs for quality problem (see above under CEO's comment). On other products, the margin was 71%.

Other operating expenses in the third quarter

Total operating expenses rose by 24% in the quarter. Excluding costs for the subsidiary IBT, total operating expenses increased by 20%.

Selling expenses for the third quarter were up compared to the same quarter of last year, from SEK 17.3 million to SEK 20.8 million (20%). This is due to higher costs for samples and conferences, as well as higher costs in Japan in connection with the launch of drops. Compared to the second quarter of 2014, selling expenses were down by SEK 3.0.

Administrative expenses increased by SEK 0.8 million (29%) compared to the same period of last year and amounted to SEK 3.6 million. This is mainly attributable to higher costs for the subsidiary TwoPac (see above). Compared to the previous quarter, administrative expenses decreased by SEK 1.6 million.

R&D expenses for the third quarter amounted to SEK 11.7 million (9.0), up by SEK 2.7 million (30%) compared to the same period of last year. Excluding costs for the subsidiary IBT, R&D expenses were rose 17%. The increase is due to higher personnel and patent expenses. Compared to the second quarter, R&D expenses decreased by SEK 1.2 million.

Operating profit for the third quarter

Operating profit was SEK 17.6 million (13.8), which is an increase of SEK 3.8 million (28%) compared to the same period of last year. Excluding foreign exchange effects and operating expenses for IBT, the increase was 29%.

Profit before tax for the third quarter

Profit before tax was SEK 18.6 million (16.5), which is an increase of SEK 2.1 million (13%) compared to the same period of last year. Net financial items include a foreign exchange gain of SEK 0.5 million (1.7) on forward exchange contracts in EUR (for more information see above).

Profit after tax for the third quarter

Profit after tax was SEK 14.4 million (13.4), which is an increase of SEK 1.0 million (7%) compared to the same period of last year. The tax rate was 22% (19%).

Cash flow for the third quarter

Cash flow was SEK -15.4 million (-6.2). Work capital increased by SEK 11.8 million, which is mainly due to lower current liabilities.

KEY EVENTS IN THE THIRD QUARTER OF 2014

Launches in the third quarter of 2014

Distributor/licensee	Country	Product
Aché	Brazil	Digestive health tablets
Pediact	France	Oral rehydration product
George Petrou Ltd	Cyprus	Oral health tablets

KEY EVENTS EARLIER IN 2014

Launches in the first half 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 and paid 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.

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 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 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 during a three year period.

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

EMPLOYEES

The number of employees in the Group at 30 September 2014 was 92 (85).

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 January – September 2014 amounted to SEK -2.1 million (-2.0). On the balance sheet date, assets in CapAble were reported at SEK 3.5 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 7.0 million to IBT. On the balance sheet date, assets in IBT were reported at SEK 4.6 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 management statement has in all material aspects been prepared in accordance with NASDAQ OMX Stockholm's Guidelines for preparing interim management statements.

The financial statements and segment information for the Group have been prepared in accordance with IAS 34, Interim Financial Reporting, and the Annual Accounts Act in order to achieve comparability in presentation between quarters.

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, for the period from January to September 2014, operating margin amounted to 46%, total net sales to SEK 360.4 million, net sales of component products to SEK 150.0 million, net sales in the Paediatrics business area to SEK 311.3 million, net sales in Europe to SEK 279.8 million, gross profit to SEK 274.3 million, operating profit to SEK 166.3 million, profit before tax to SEK 165.6 million and profit after tax to SEK 128.9 million. Earnings per share amounted to SEK 7.50. The increase in net sales for the 12-month period was 51% including license revenue from Nestlé.

Statements of comprehensive income - Group

(Amounts in SEK 000s)

	Jan- Sept 2014	Jan-Sept 2013	July- Sept 2014	July-Sept 2013	Jan-Dec 2013	Oct 2013- Sept 2014	Oct 2012- Sept 2013
Net sales	265,031	225,654	79,434	62,169	315,875	355,252	298,057
License revenue	95,397	-	-	-	-	95,397	-
Cost of goods sold	-86,165	-70,600	-27,362	-18,959	-101,711	-117,276	-94,908
<i>Gross profit</i>	274,263	155,054	52,072	43,210	214,164	333,373	203,149
Selling expenses	-63,567	-56,628	-20,815	-17,257	-79,396	-86,335	-78,094
Administrative expenses	-12,385	-10,615	-3,576	-2,768	-14,356	-16,126	-14,302
Research and development expenses	-36,060	-30,856	-11,670	-8,995	-40,555	-45,759	-41,417
Other operating income	4,072	925	1,600	-	1,796	4,943	1,683
Other operating expenses	-	-	-	-394	-	-	-
<i>Operating profit</i>	166,323	57,880	17,611	13,796	81,653	190,096	71,019
Interest income	2,136	3,916	495	1,026	5,081	3,301	5,966
Foreign exchange gain/loss, forward contracts	-2,701	129	503	1,674	-2,882	-5,712	-1,483
Financial expenses	-129	-75	-54	-13	-92	-146	-100
<i>Profit before tax</i>	165,629	61,850	18,555	16,483	83,760	187,539	75,402
Tax	-36,707	-13,956	-4,145	-3,123	-19,572	-42,323	-11,701
PROFIT FOR THE PERIOD	128,922	47,894	14,410	13,360	64,188	145,216	63,701
Items that will be reclassified to profit or loss							
Gains/losses arising on translation of the financial statements of foreign operations	697	-722	117	-164	-1,419	0	-1,409
Comprehensive income for the period	129,619	47,172	14,527	13,196	62,769	145,216	62,292
Profit for the period attributable to:							
Owners of the Parent Company	129,517	45,422	14,546	13,428	61,722	145,817	60,277
Non-controlling interests	-595	2,472	-136	-68	2,466	-601	3,424
	128,922	47,894	14,410	13,360	64,188	145,216	63,701
Comprehensive income for the period attributable to:							
Owners of the Parent Company	130,214	44,700	14,663	13,264	60,303	145,817	58,868
Non-controlling interests	-595	2,472	-136	-68	2,466	-601	3,424
	129,619	47,172	14,527	13,196	62,769	145,216	62,292
Earnings per share							
Basic earnings per share (average number of shares), SEK	7.50	2.63	0.84	0.78	3.57	8.44	3.49
Diluted earnings per share, SEK	7.50	2.63	0.84	0.78	3.56	8.44	3.49
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 Sep	31 Dec	30 Sep
(Amounts in SEK 000s)	2014	2013	2013
ASSETS			
Intangible assets	3,690	-	-
Property, plant and equipment	70,512	60,286	54,880
Other non-current receivables	19	17	17
<i>Total non-current assets</i>	74,221	60,303	54,897
Current assets excl. Cash and cash equivalents	90,605	88,845	66,848
Cash and cash equivalents	224,125	234,271	243,193
<i>Total current assets</i>	314,730	323,116	310,041
TOTAL ASSETS	388,951	383,419	364,938
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent Company	326,658	317,341	301,739
Non-controlling interests	-1,079	-484	-483
Total equity	325,579	316,857	301,256
Provision for deferred tax	85	85	24,649
Interest-free current liabilities	63,287	66,477	39,033
TOTAL EQUITY AND LIABILITIES	388,951	383,419	364,938
Pledged assets	2,000	2,000	2,000

CONSOLIDATED CASH FLOW STATEMENTS	Jan-Sept	Jan-Sept	July-Sept	July-Sept	Jan-Dec
(Amounts in SEK 000s)	2014	2013	2014	2013	2013
Operating activities					
Operating profit	166,323	57,880	17,611	13,796	81,653
Depreciation/amortisation	3,972	3,788	1,284	1,277	5,541
Other non-cash items	-767	-17	-362	117	-308
	169,528	61,651	18,533	15,190	86,886
Gains/losses on realised forward exchange contracts	-589	439	-448	-8	193
Paid tax	-51,238	-5,488	-15,483	-4,343	-10,799
Interest received and paid	2,002	3,843	437	1,015	4,996
Cash flow from operating activities before changes in working capital	119,703	60,445	3,039	11,854	81,276
Changes in working capital	7,997	20,041	-11,844	16,300	-2,835
<i>Cash flow from operating activities</i>	127,700	80,486	-8,805	28,154	78,441
<i>Cash flow from investing activities</i>	-17,862	-39,514	-6,561	-34,348	-46,538
<i>Cash flow from financing activities</i>	-120,897	-172,710	-	-	-172,710
Cash flow for the period	-11,059	-131,738	-15,366	-6,194	-140,807
Cash and cash equivalents at beginning of period	234,271	374,974	239,117	249,560	374,974
Exchange difference in cash and cash equivalents	913	-43	374	-173	104
Cash and cash equivalents at end of period	224,125	243,193	224,125	243,193	234,271

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in SEK 000s)

	Jan-Sept 2014	Jan-Sept 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	-30,000
Sale of 9% of IBT AB	-	-	4
Comprehensive income for the period	129,619	47,172	62,769
At end of period	325,579	301,256	316,857

REPORTING BY SEGMENT - GROUP

(Amounts in 000s)

Income by segment - business area

	Jan-Sept 2014	Jan-Sept 2013	July-Sept 2014	July-Sept 2013	Jan-Dec 2013	Oct 2013- Sept 2014	Oct 2012- Sept 2013
Paediatrics	215,922	172,957	67,562	45,198	238,586	281,551	228,165
License revenue (Paediatrics)	95,397	-	-	-	-	95,397	-
Adult Health	46,448	51,544	11,329	15,983	75,616	70,520	68,772
Other	2,661	1,153	543	988	1,673	3,181	1,120
	360,428	225,654	79,434	62,169	315,875	450,649	298,057

Gross profit by segment - business area

	Jan-Sept 2014	Jan-Sept 2013	July-Sept 2014	July-Sept 2013
Paediatrics	148,191	121,285	44,202	32,308
License revenue (Paediatrics)	95,397	-	-	-
Adult Health	28,651	33,145	7,463	10,435
Other	2,024	624	407	467
	274,263	155,054	52,072	43,210

Income by segment (old segments)

	Jan-Sept 2014	Jan-Sept 2013	July-Sept 2014	July-Sept 2013	Jan-Dec 2013	Oct 2013- Sept 2014	Oct 2012- Sept 2013
Finished consumer products	208,819	181,056	56,204	46,446	256,164	283,927	246,637
Component products	54,629	43,559	22,584	15,652	58,592	69,662	50,333
License revenue (component products) 1)	95,397	-	-	-	-	95,397	-
Other products	1,583	1,039	646	71	1,119	1,663	1,087
	360,428	225,654	79,434	62,169	315,875	450,649	298,057

Gross profit by segment

	Jan-Sept 2014	Jan-Sept 2013	July-Sept 2014	July-Sept 2013	Jan-Dec 2013	Oct 2013- Sept 2014	Oct 2012- Sept 2013
Finished consumer products	145,509	129,126	39,048	31,742	180,088	196,471	175,924
Component products	31,774	25,316	12,378	11,398	33,384	39,842	26,608
License revenue (component products) 1)	95,397	-	-	-	-	95,397	-
Other products	1,583	612	646	70	692	1,663	617
	274,263	155,054	52,072	43,210	214,164	333,373	203,149

Revenue by geographical market

	Jan-Sept 2014	Jan-Sept 2013	July-Sept 2014	July-Sept 2013	Jan-Dec 2013	Oct 2013- Sept 2014	Oct 2012- Sept 2013
Net sales							
Europe	184,392	162,260	50,505	41,851	218,301	240,433	214,020
License revenue (Europe) 1)	95,397	-	-	-	-	95,397	-
USA and Canada	17,504	13,572	9,898	5,089	22,412	26,344	21,319
Asia	26,763	26,107	4,767	6,695	40,100	40,756	32,360
Rest of world	36,372	23,715	14,264	8,534	35,062	47,719	30,358
	360,428	225,654	79,434	62,169	315,875	450,649	298,057

CONSOLIDATED KEY RATIOS 2)

	Jan-Sept 2014	Jan-Sept 2014 ²⁾	Jan-Sept 2013	Jan-Dec 2013
Net sales, SEK 000s	360,428	265,031	225,654	315,875
Operating profit, SEK 000s	166,323	70,926	57,880	81,653
Profit after tax, SEK 000s	128,922	54,512	47,894	64,188
Return on				
- average equity	40%	17%	12%	16%
- average capital employed	52%	46%	16%	22%
Capital employed, SEK 000s	325,664	325,664	325,905	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	7.50	3.19	2.63	3.57
Diluted earnings per share, SEK	7.50	3.19	2.63	3.56
Basic equity per share, SEK	18.91	18.91	17.47	18.37
Diluted equity per share, SEK	18.91	18.91	17.47	18.28
Equity/assets ratio	84%	84%	83%	83%
Operating margin	46%	27%	26%	26%
Profit margin	46%	26%	27%	27%
Average number of employees	89	89	81	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.

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.

FINANCIAL CALENDAR

22 October 2014	9:30 am. Teleconference regarding the interim report by CEO Peter Rothschild. To take part in the conference, please see www.biogaia.com/agenda
12 February 2015	Year-end report 2014
7 May 2015	Interim report 1 January – 31 March 2015
7 May 2015	Annual General Meeting at 4:00 p.m. in Stockholm. Shareholders who wish to have a matter dealt with at the AGM must submit a request by 20 March 2015 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 Per Erik Andersson at pea@biogaia.se

Stockholm, 22 October 2014

Peter Rothschild
Chief Executive Officer

This interim management report has not been examined by the company's independent auditor.

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 92 employees, of whom 33 are based in Stockholm, 25 in Lund, 23 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 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, 125 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 101 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 releases from BioGaia:

2014-08-20	BioGaia Interim report 1 January - 30 June 2014
2014-06-26	BioGaia expands in Eslöv
2014-06-18	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.com
For additional information, contact:
Peter Rothschild, CEO, BioGaia AB, telephone +46 8-555 293 20
Margareta Hagman, Executive Vice President, BioGaia AB, telephone +46 8-555 293 04