

BioGaia AB Year-end report 2016

The figures in brackets and comparative figures in the text refer to the same period of last year.

Comments from the Managing Director:



“Looking back at 2016, we can only feel satisfied. With sales growth of 9% excluding foreign exchange effects, we were able to pass the half billion mark and achieve annual sales of SEK 534.7 million. This enabled us to increase our market shares despite the fact that the sales to Brazil, one of our most important markets, were low as a result of the inventory build-up during 2015. The operating profit, excluding the distributed former subsidiary IBT, reached SEK 199.4 million, an increase of 14% excluding foreign exchange effects, which leads to an operating margin of 37%. Our strong financial development, while we were building a platform for future growth and signing new distribution agreements in Japan and Thailand, demonstrates the strength of our business model, our employees and our products, and gives us reason to look to the future with continued confidence,” says Axel Sjöblad, Managing Director of BioGaia AB.

Full year 2016

Net sales amounted to SEK 534.7 (483.2) million, an increase of SEK 51.5 million (11%) (excluding foreign exchange effects, 9%).

Net sales in Business Unit Paediatrics reached SEK 433.0 million (389.6), an increase of SEK 43.4 million (11%).

Net sales in Business Unit Adult Health amounted to SEK 85.3 million (74.7), an increase of SEK 10.6 million (14%).

Operating profit excluding the distributed former subsidiary IBT was SEK 199.4 million (172.8), an increase of SEK 26.6 million (15%). (Excluding foreign exchange effects, 14%). Including IBT, operating profit was SEK 194.3 million (152.2).

Profit after tax excluding IBT was SEK 159.3 million (137.4), an increase of SEK 21.9 million (16%). Profit includes deferred tax revenue of SEK 10.4 million.

Earnings per share from continuing operations totalled SEK 9.19 (7.94). Earnings per share including discontinued operations totalled SEK 13.13 (7.01).

The period's cash flow was SEK 14.0 million (15.1). Cash and cash equivalents at 31 December amounted to SEK 243.1 million (226.9). Excluding IBT, cash flow was SEK 58.4 (56.1) million.

The Board proposes that the upcoming AGM on 3 May 2017 approves a dividend according to policy of SEK 3.16 (3.03) per share and an extraordinary dividend of SEK 4.34 (1.97) per share, amounting to a total dividend of SEK 7.50 (5.00) per share.

The long-term financial target is increased to an operating margin of at least 34% (previously 30%).

Fourth quarter 2016

Net sales amounted to SEK 138.8 million (104.4), an increase of SEK 34.4 million (33%) (excluding foreign exchange effects 27%).

Net sales in Business Unit Paediatrics reached SEK 119.2 million (76.6), an increase of SEK 42.6 million (56%).

Net sales in Business Unit Adult Health amounted to SEK 15.9 million (20.0), a decrease of SEK 4.1 million (21%).

Operating profit excluding IBT was SEK 46.4 million (32.0), an increase of SEK 14.4 million (45%) (excluding foreign exchange effects, 41%). Including IBT, operating profit was SEK 46.4 million (27.5).

Profit after tax excluding IBT was SEK 47.0 million (25.2), an increase of SEK 21.8 million (87%). Profit includes deferred tax revenue of SEK 10.4 million.

Earnings per share excluding IBT totalled SEK 2.71 (1.46). Earnings per share including IBT totalled SEK 2.71 (1.26).

The period's cash flow was SEK 41.6 million (7.1).

Key events in the fourth quarter of 2016

Major agreements signed for the sale of BioGaia's probiotic products in Japan.

BioGaia makes further investment in MetaboGen.

Key events after the end of 2016

Agreement for the sale of BioGaia's products in Thailand.

Teleconference: You are welcome to take part in a teleconference on the year-end report that will be held today, 10 February 2017, at 9:30 a.m. CET by Managing Director Axel Sjöblad. To participate in the teleconference, please see www.biogaia.com/agenda. The teleconference can also be followed at <https://wonderland.videosync.fi/biogaia-q4-report-2016>

This information is information that BioGaia AB is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the Managing Director, at 10 February 2017, 8:00 a.m. CET.



BioGaia AB (publ.)

Year-end report 2016

Figures in brackets and comparative figures in the text refer to the same period of last year.

The Board of Directors and the Managing Director of BioGaia AB hereby present the year-end report for 2016. A description of the company's operations is provided on page 17.

MANAGING DIRECTOR'S COMMENTS

When I look back at 2016, after ten months as Managing Director of BioGaia, I can only feel satisfied with the past year. With sales growth of 9% excluding foreign exchange effects we were able to pass the half billion mark and achieved annual sales of SEK 534.7 million despite the fact that the sales to Brazil, one of our most important markets, were low as a result of the inventory build-up in 2015. Since the total market for probiotic supplements is growing by around 7% annually according to our information, this means that we increased our market shares.

The operating profit, excluding the distributed former subsidiary IBT, reached SEK 199.4 million. This is an increase of 14% after foreign exchange effects and equal to an operating margin of 37%.

In the fourth quarter of 2016 our sales amounted to SEK 138.8 million, up by 34.4 million compared to the same period of last year. This was our strongest fourth quarter ever and sales were driven by very strong growth in Europe and Rest of the World. The increase in Europe was 21% and in Rest of the World a full 188%. This growth included very satisfactory quarterly sales in South Africa and Brazil, which confirms our partners' reports of robust sales to consumers. Sales in the USA and Canada were up by 22%, which compensated for a weaker third quarter. In Asia sales increased by only 9%. This meant that our cumulative annual sales growth in Asia fell to 19%, which we are not satisfied with. It is therefore very gratifying that in December we signed two new exclusive distribution agreements for Japan with Nippon Kabaya Ohayo Holdings Inc through our Japanese subsidiary.

The first agreement, where the main target segment is adults, concerns the exclusive rights to sell probiotic supplements, with the exception of drops, with BioGaia's patented strains of *Lactobacillus reuteri* in drug stores, supermarkets and similar outlets. The second agreement is an exclusive license that gives Ohayo Dairy Products the right to use strains of *Lactobacillus reuteri* in food products. Both agreements will ensure a stable revenue stream in Japan in the next few years.

In Business Unit Paediatrics, sales for the quarter reached SEK 119.2 million, an increase of 56%. Sales rose mainly thanks to increased royalty revenue from Growing Up Milk for children over the age of one year and higher sales of drops in all four sales regions, particularly in Rest of the World (South Africa and Brazil). Sales of Protectis digestive health tablets were also up, driven by Rest of the World and the USA and Canada. When we look back on 2016 it is very satisfying to see that EasyDropper, our new package for drops with much better dosing, has been very well received in the markets where it has been launched.

In Business Unit Adult Health, fourth quarter sales declined by 21% to SEK 15.9 million. Following strong growth earlier in the year, this decrease, which was due to lower sales of cultures to dairies, Prodentis oral health lozenges in the USA and Canada and Gastrus digestive health tablets, meant that cumulative annual sales growth stopped at 14%.

In the fourth quarter the operating expenses rose by 30%. This was due to higher costs for marketing activities, higher personnel costs in pace with the reinforcement of our organization and higher patent and R&D costs in line with the focus on research in existing and new areas. On an annual basis, our operating expenses thus

increased by 16%, an effect of our investments toward the goal of optimizing the conditions for future growth through an improved local presence, stronger support to our partners, elimination of internal bottlenecks and faster research results.

In November we made our third, previously agreed, investment in the research company MetaboGen. We have now invested a total of SEK 12 million and our holding amounts to 36%. Our investment is of a long-term nature and is aimed at developing the next generation of probiotic products based on in-depth analyzes of the microbiome.

In the Italian market, where our distributor Italchimici has been acquired by another of our partners, Recordati, we saw lower sales than previously as a result of the inventory build-up prior to the acquisition and the merger of the sales organizations. We naturally maintain regular contact with our local partners to ensure that they return to full focus on sales after the integration.

With regard to Nestlé, they have continued the previous trend of buying less cultures for infant formula with a very low margin at the same time as royalties from Growing Up Milk for children over the age of one year are rising. As earlier, this development has contributed to strengthening our margins and profitability.

In January 2017 we signed an exclusive agreement with Abbott for the right to sell BioGaia's products in the paediatric and gastroenterology areas in Thailand. This was yet another step in the expansion of our operations in Asia, and in light of our positive experiences of collaboration with Abbott in Latin America, we look forward to successful launches during 2017.

Finally, it must be said that the strong financial development that we have achieved while at the same time working to build a platform for future growth and signing new distribution agreements demonstrates the strength of our business model, our employees and our products, and gives us reason to look to the future with continued confidence.

Axel Sjöblad
10 February 2017



FINANCIAL PERFORMANCE IN 2016

Net sales, 2016

Consolidated net sales amounted to SEK 534.7 million (483.2), which is an increase of SEK 51.5 million (11%) compared to the same period of last year.

Most of the company's sales are denominated in foreign currency, primarily EUR but also USD, CHF and JPY. With unchanged exchange rates compared to the same period of last year, net sales would have been SEK 7.5 million lower. Changes in foreign exchange rates affect both income and expenses. With unchanged exchange rates, operating profit for 2016 would have been SEK 2.6 million higher. Expenses arise mainly in SEK but also in JPY, EUR and USD.

Sales by segment, 2016

BUSINESS UNIT PAEDIATRICS

Net sales in BioGaia's core area Paediatrics amounted to SEK 433.0 million (389.6), an increase of SEK 43.4 million (11%) (excluding foreign exchange effects, 10%).

Sales of drops were up compared to last year. Sales of drops rose steeply in Europe, somewhat less in the USA and Canada and modestly in Asia, but declined in Rest of the World (mainly in Brazil).

Sales of digestive health tablets were largely unchanged compared to last year. Tablet sales rose in the USA, Canada and Asia, were unchanged in Europe and fell sharply in Rest of the World (mainly in Brazil).

Sales of cultures for infant formula were lower than in the previous year.

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

Royalty revenue from the collaboration agreement with Nestlé (for more information, see below under other sales) in Business Unit Paediatrics amounted to SEK 9.4 million (5.3).

BUSINESS UNIT ADULT HEALTH

Net sales in Business Unit Adult Health amounted to SEK 85.3 million (74.7), an increase of SEK 10.6 million (14%) (excluding foreign exchange effects, 10%). The increase was driven mainly by higher sales of Protectis digestive health tablets but also high sales of Prodentis oral health lozenges and the rollout of Gastrus digestive health tablets.

Sales of Protectis digestive health tablets rose in Asia and Rest of the World (South Africa) compared to last year but were unchanged in Europe. In the USA and Canada and Latin America regions, no digestive health tablets are sold in the Adult Health segment.

Sales of oral health products were up in all markets except the USA and Canada.

Since 2015, Gastrus is sold in Japan and South Korea. In 2016 Gastrus was launched in Italy, Spain, Singapore and the USA, and sales are rising steadily from a low level.

OTHER SALES

Other sales amounted to SEK 16.4 million (19.0), a decrease of SEK 2.6 million (14%). No foreign exchange effects arose during the period.

Other sales include royalty revenue of SEK 14.1 (million 12.1) from the collaboration agreement that was signed with Nestlé in March 2014. The royalty revenue amounts to a total of SEK 92.0 million for the period 2014-2017 and is distributed between Business Unit Paediatrics and New Business. Under the agreement, BioGaia has undertaken to carry out clinical studies on children and develop new products in new areas. BioGaia will recognize the royalty revenue in pace with completion of the projects. As of 31 December 2016, BioGaia had recognized revenue of SEK 63.9 million of a total of SEK 92 million, of which SEK 38.7 in Business Unit New Business and SEK 25.2 million in Business Unit Paediatrics.

SALES BY GEOGRAPHICAL MARKET IN 2016

Sales in Europe were up by SEK 63.5 million (22%) to SEK 348.2 million.

Sales in the USA and Canada rose by SEK 5.0 million (14%) to SEK 40.2 million.

Sales in Asia grew by SEK 9.9 million (19%) to SEK 62.0 million.

Sales in Rest of the World were down by SEK 26.9 million (24%) to SEK 84.3 million. This is almost exclusively due to lower sales to Brazil resulting from the inventory build-up in 2015.

THE BIOGAIA BRAND

Of total finished consumer products, (drops, digestive health tablets, oral health lozenges, oral rehydration solution, etc.), 59% (60%) were sold under the BioGaia brand, including co-branding, during the 2016.

Gross profit, 2016

Gross profit amounted to SEK 387.8 million (336.6), which is an increase of SEK 51.2 million (15%) compared to last year. The total gross margin rose from 70% to 73%.

Gross margin for Business Unit Paediatrics increased from 68% to 74%. This is due to higher royalty revenue for the use of cultures in Growing Up Milk for children over the age of one year (with a 100% margin) and lower sales of cultures for infant formula with a very low margin.

Gross margin for Business Unit Adult Health fell from 70% to 62%. This is explained by the fact that the company recognized an obsolescence charge for bacteria cultures in inventory that had become too old, costs for Gastrus increased during the launch period and the margin on both digestive health tablets and oral health lozenges has shrunk somewhat due to higher costs for bacteria cultures.

Operating expenses, 2016

Total operating expenses excluding discontinued operations (IBT) rose by 16% to SEK 192.8 million.

Selling expenses, excluding IBT, increased compared to the previous year by SEK 14.4 million (15%) and amounted to SEK 108.1 million (93.7), which is equal to 20% (19%) of net sales. The increase is attributable to higher costs for marketing activities such as market samples and congress costs as well as higher personnel costs.

Administrative expenses amounted to SEK 20.9 million (18.5), which is equal to 4% (4%) of net sales. The increase of SEK 2.4 million (13%) is mainly explained by higher personnel costs.



R&D expenses excluding IBT are reported at SEK 63.8 million (53.3), which is equal to 12% (11%) of net sales. The increase of SEK 10.5 million (20%) is mainly attributable to higher personnel costs and increased costs for research projects and clinical studies, but also to higher patent costs. Furthermore, a provision of SEK 3.9 million was reversed in the fourth quarter of last year, which reduced the comparative figure.

Other operating income/expenses refer to foreign exchange gains/losses on operating receivables and liabilities. These amounted to SEK 5.6 million (1.8).

Share in profit of associates

In December BioGaia invested further in MetaboGen AB (see below). Following the investment, BioGaia's holding amounts to 36%. MetaboGen is reported as an associate to BioGaia. The share of profit in MetaboGen is reported according to the equity method and amounted to SEK -1.2 million (-0.1).

Operating profit, 2016

Operating profit excluding IBT was SEK 199.4 million (172.8), an increase of SEK 26.6 million (15%), and operating margin excluding IBT was 37% (36%). Including IBT, operating profit was SEK 194.3 million (152.2).

Financial items and profit before tax, 2016

Profit before tax excluding IBT was SEK 196.1 million (178.0), an increase of SEK 18.1 million (10%). Net financial items include a foreign exchange loss of SEK 4.7 million on forward exchange contracts in EUR and USD. The figures for the previous year include a corresponding foreign exchange gain of SEK 5.1 million.

At 31 December 2016 the company had outstanding forward exchange contracts for EUR 11.1 million at an average exchange rate of SEK 9.45 and USD 2.2 million at an average exchange rate of SEK 8.76. The actual exchange gain/loss depends on the exchange rate on the maturity date of the contracts.

Profit after tax, 2016

Profit after tax excluding IBT was SEK 159,3 million (137.4), an increase of SEK 21,9 million (16%).

The tax rate for the Group was 19% (23). At 31 December 2015 the subsidiary BioGaia Japan had an accumulated loss carryforward of approximately SEK 35.2 million. Owing to the new distribution and license agreement (see below under "Key events in the fourth quarter"), a large share of the loss carryforward has been utilized in the Japanese company in that the exclusivity fees were recognized in the local company during 2016. In the Group, the exclusivity fees will be recognized successively over the term of the agreement. BioGaia's assessment is that it will be possible to utilize the entire loss carryforward and a deferred tax asset of SEK 10.4 million has therefore been recognized. There were therefore no unrecognized loss carryforwards at 31 December 2016.

Earnings per share, 2016

Earnings per share excluding IBT amounted to SEK 9.19 (7.94). Earnings per share including discontinued operations amounted to SEK 13.13 (7.01). No dilutive effects arose.

Cash flow, 2016

Cash flow for the year was SEK 14.0 million (15.1). BioGaia's former subsidiary IBT was distributed to BioGaia's shareholders on 29 March 2016. At that time, IBT's cash and cash equivalents amounted to SEK 37.6 million, compared to SEK 44.4 million at year-end 2015. Excluding IBT, cash flow for the period was SEK 58.4 (56.1) million. Cash flow includes dividends of SEK 86.7 million (86.3). Cash and cash equivalents at 31 December 2016 amounted to SEK 243.1 million (226.9).

Equity

Consolidated equity at 31 December 2016 amounted to SEK 415,2 million (395.8). The Group's equity/assets ratio was 85% (84%).

Investments in property, plant and equipment, 2016

Investments in property, plant and equipment amounted to SEK 5.6 million (17.8), of which the majority refers to the subsidiary TwoPac.

Investments in capitalized development expenditure amounted to SEK 0.0 million (10.1). Investments during 2015 referred to development of a product for the NEC project in the former subsidiary IBT, which was distributed to the shareholders in March 2016.

Subsidiary in Japan, 2016

Net sales in the wholly owned subsidiary in Japan reached SEK 24.4 million (21.1). Operating profit/loss in the Japanese subsidiary was SEK -2.0 million (-2.8).

In December 2016 BioGaia signed a major distribution and sales agreement with its partner in Japan – see below under "Key events in the fourth quarter".

Subsidiary TwoPac AB, 2016

TwoPac AB is a wholly owned subsidiary of BioGaia that manufactures and develops products, such as drops, exclusively for BioGaia.

Net sales in TwoPac totalled SEK 71.1 million (52.6). Operating profit was SEK 17.9 million (9.9). Profit after tax was SEK 13.6 million (7.2).

Subsidiary CapAble AB, 2016

CapAble, which is owned 90.1% by BioGaia and 9.9% by CapAble's President, was started in November 2008 to manufacture and sell the patented LifeTop Cap. Net sales in CapAble amounted to SEK 0.0 million (1.6). Operating profit was SEK -3.6 million (-3.5). During the year, both the tool designs for the cap and the machine that fills the blister and assembles them together were re-engineered and improved. As a result, there has been no production during the year. The rebuild will be completed in the first quarter of 2017 and deliveries can resume in the second quarter of the year.

Parent Company, 2016

Net sales in the Parent Company amounted to SEK 518.3 million (470.6) and profit before tax was SEK 180,1 million (165.6). The Parent Company's profit includes a write-down of the loan to the subsidiary in Japan by SEK 7.2 million. No new loans have been paid, and the write-down refers to currency adjustment of the existing loan. Cash flow in the Parent Company totalled SEK 40.9 million (-29.9).



FINANCIAL PERFORMANCE IN THE FOURTH QUARTER OF 2016

Net sales, fourth quarter 2016

Consolidated net sales amounted to SEK 138.8 million (104.4), which is an increase of SEK 34.4 million (33%). Excluding foreign exchange effects, sales were up by 27%.

Compared to the previous quarter, net sales rose by SEK 12.7 million.

Sales by segment, fourth quarter 2016

BUSINESS UNIT PAEDIATRICS, FOURTH QUARTER

Net sales in BioGaia's core area Paediatrics amounted to SEK 119.2 million (76.6), an increase of SEK 42.6 million (56%) (excluding foreign exchange effects, 50%). This is mainly due to higher royalties on Growing Up Milk with *Lactobacillus reuteri* Protectis for children over the age of one year and increased sales of drops.

Sales of drops were up in all regions compared to the same period of last year. Growth in sales was strongest in Rest of the World, primarily in Brazil but also South Africa.

Sales of Protectis digestive health tablets increased compared to the same period of last year. Tablet sales rose in Rest of the World and in the USA and Canada, but declined slightly in Europe and Asia.

Sales of cultures for infant formula decreased compared to the same period of last year.

Royalty revenue from Nestlé for the use of *Lactobacillus reuteri* Protectis in Growing Up Milk for children over the age of one year increased sharply compared to the same period of last year.

Royalty revenue from the collaboration agreement with Nestlé (for more information see above under other sales in 2016) in Business Unit Paediatrics amounted to SEK 1.9 million (0.6).

Compared to the previous quarter, net sales in Paediatrics were up by SEK 20.2 million.

BUSINESS UNIT ADULT HEALTH, FOURTH QUARTER

Net sales in Business Unit Adult Health amounted to SEK 15.9 million (20.0), a decrease of SEK 4.1 million (21%) (excluding foreign exchange effects, 28%) compared to the same period of last year. The decrease is explained by lower sales of cultures to dairies and by decreased sales of Gastrus digestive health tablets and Prodentis oral health lozenges.

Sales of Protectis digestive health tablets were largely unchanged compared to the same period of last year. Sales rose in Asia and Rest of the World (South Africa) compared to the same period of last year, but were down in Europe. In the USA and Canada and in Latin America, no digestive health tablets are sold in the Adult Health segment.

Sales of Prodentis oral health lozenges rose in Asia and were largely unchanged in Europe and Rest of the World. In the region USA and Canada, sales of oral health lozenges declined. The distribution agreement for USA has been terminated and efforts to find a new partner are under way.

Sales of Gastrus were low during the quarter. Gastrus was launched in Italy, Spain, Singapore and the USA during 2016. As earlier, Gastrus is also sold in Japan and South Korea.

Compared to the previous quarter, sales in Adult Health were down by SEK 6.7 million.

OTHER SALES, FOURTH QUARTER

Other sales amounted to SEK 3.6 million (7.8).

Other sales include royalty revenue of SEK 3.5 million (3.5) from the collaboration agreement that was signed with Nestlé in March 2014. For more information, see above under sales for 2016.

SALES BY GEOGRAPHICAL MARKET, FOURTH QUARTER

Sales in Europe increased by SEK 14.7 million (21%) to SEK 85.8 million.

Sales in the USA and Canada rose by SEK 2.4 million (22%) to SEK 13.3 million.

Sales in Asia were up by SEK 1.3 million (9%) to SEK 15.2 million.

Sales in Rest of the World increased by SEK 16.0 million (188%) to SEK 24.5 million.

Gross profit, fourth quarter

Gross profit amounted to SEK 104.1 million (73.4), which is an increase of SEK 30.7 million (42%). The total gross margin improved from 70% to 75%.

Gross margin for Business Unit Paediatrics strengthened from 69% to 77%. This is attributable to significantly increased royalty revenue for the use of bacteria cultures in Growing Up Milk for children over the age of one year (with a margin of 100%) and lower sales or bacteria cultures for infant formula with very low margins.

Gross margin for Business Unit Adult Health fell from 66% to 54%. This is mainly because the company has recognized obsolescence charges on bacteria cultures in inventory that have become too old.

Operating expenses, fourth quarter

Total operating expenses (excluding IBT) were up by 43% to SEK 57.2 million compared to the same period of last year. In the fourth quarter of 2015, a provision of SEK 3.9 million was reversed. Excluding the reversal, expenses increased by 30%.

Selling expenses amounted to SEK 33.8 million (23.5), up by SEK 10.3 million (44%) owing to higher costs for marketing activities, increased costs in Japan and higher personnel costs. The increase in personnel is mainly attributable to the quality assurance and marketing functions.

Administrative expenses amounted to SEK 5.2 million (4.9), an increase of SEK 0.3 million (6%) due to higher personnel costs.

R&D expenses (excluding IBT) are reported at SEK 18.1 million (11.6), an increase of SEK 6.5 million (56%). In the fourth quarter of 2015 a provision of SEK 3.9 million was reversed. Excluding the reversal, R&D expenses increased by 17%. This is mainly due to higher costs for research projects and clinical studies, personnel and patents.

Other operating income refers to foreign exchange gains on operating receivables and liabilities. These amounted to SEK 0.3 million (-1.3) during the quarter.



Operating profit, fourth quarter

Operating profit (excluding IBT) was SEK 46.4 million (32.0), an increase of SEK 14.4 million (45%) (excluding foreign exchange effects, 41%). Operating margin was 33% (31%). Including the subsidiary IBT, operating profit was SEK 46.4 (27.5) million.

Profit before tax, fourth quarter

Profit before tax (excluding IBT) was SEK 47.3 million (35.5), an increase of SEK 11.8 million (33%).

Profit after tax, fourth quarter

Profit after tax (excluding IBT) was SEK 47.0 million (25.2), an increase of SEK 21.8 million (87%).

KEY EVENTS IN THE FOURTH QUARTER

Launches in the fourth quarter

Distributor/licensee	Country	Product
BioWellTech	Hong Kong	Prodentis oral health lozenges

Further investment in MetaboGen

In December 2014 BioGaia reported its decision to invest SEK 12 million in MetaboGen AB, Gothenburg, Sweden. The investment was to be made over a two-year period. The first investment of SEK 4 million took place in December 2014 and the second in December 2015 and as MetaboGen has reached the agreed milestones the third investment of SEK 4 million was made at the end of November. BioGaia's ownership stake in MetaboGen thus amounts to 36%, a holding the company currently has no plans to change.

MetaboGen is a research company that was founded in 2011 in Gothenburg by Professor Fredrik Bäckhed at the University of Gothenburg and Professor Jens B. Nielsen at Chalmers University of Technology together with GU Holding, which commercializes research results and develops companies linked to the University of Gothenburg. MetaboGen researches in metagenomics, the research-intensive and fast developing field of gene sequencing of all genes in the microbial communities of for example the human gut, to find previously unknown members and patterns of the microbial diversity related to health and disease. The aim is to develop new treatments and products for different metabolic and other microbial associated diseases by influencing large parts of the microbiota. Peter Rothschild is Board Chairman and Sara Marcus is President of MetaboGen AB.

At the beginning of December, MetaboGen announced the start of a research collaboration with Ferring Pharmaceuticals aimed at developing a product to prevent and treat Intrahepatic Cholestasis of Pregnancy (ICP). The study commenced in December and is expected to continue for 18 months.

BioGaia's investment in MetaboGen is long-term and is aimed at developing the next generation of probiotic products based on in-depth analysis of the microbiome. This field of research is expanding rapidly and a number of large pharmaceutical companies have invested in microbiome companies.

Major distribution and license agreements signed with partner in Japan

Through its Japanese subsidiary, BioGaia signed two new exclusive distributor agreements for Japan with Nippon Kabaya Ohayo Holdings Inc. at the beginning of December, one for sales of finished probiotic supplements with *Lactobacillus reuteri* and one for the use of *Lactobacillus reuteri* as an ingredient in food products. Launches are planned for 2017.

The first agreement concerns the exclusive rights to sell probiotic supplements with BioGaia's patented strains of *Lactobacillus reuteri* at drugstores, supermarkets and similar outlets. Depending on the product category, the products will be sold under the Kabaya, Ohayo and/or BioGaia brands and the main target segment is adults. The other agreement is an exclusive license that gives Ohayo Dairy Products the rights to use strains of *Lactobacillus reuteri* in food products, such as beverages and dairy products.

The agreements are long-term and include exclusivity fees and minimum royalties over the term of the contracts, which will have a substantial effect on BioGaia's Japanese business. Due to confidentiality, the amounts of the fees and the royalties cannot be disclosed.

KEY EVENTS AFTER THE END OF 2016

BioGaia's probiotic to be launched in Thailand

In January 2017 BioGaia signed an exclusive agreement with Abbott for the rights to sell BioGaia's products in the area of paediatrics and gastroenterology in Thailand. The products will be co-branded under the BioGaia and Abbott brands. The launch is planned for 2017.

EMPLOYEES

The number of employees in the Group at 31 December 2016 (excluding IBT) was 109 (100).



SIGNIFICANT RISKS AND UNCERTAINTIES: GROUP AND PARENT COMPANY

Significant risks and uncertainties are described in the administration report of the annual report for 2015, on pages 6 and 7 and in Notes 29 and 30. No significant changes in these risks and uncertainties are assessed to have taken place at 31 December 2016 aside from the fact that the subsidiary IBT, which is developing a drug for premature newborns, is no longer part of the Group following the distribution of the shares in the company to BioGaia's shareholders at the end of March.

ACCOUNTING POLICIES

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

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

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

As of the interim report published on 30 June 2016, the Group applies the ESMA's Guidelines for Alternative Performance Measures.

The company applies IFRIC 17, which means that the distribution of the subsidiary IBT is carried at the fair value of the assets that have been distributed. The difference between the carrying amount of the net assets distributed and the carrying amount of the unpaid

distribution at settlement is recognized in the income statement. The profit in the income statement reflects the difference between the fair value (based on the average price of the share on the first day of trading on 29 March 2016) and the company's recorded value in the consolidated balance sheet on 18 March 2016.

New accounting standards

The applied accounting policies correspond to those presented in the annual report for 2015. A number of new standards and interpretations have been published but are not yet effective.

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 long-term financial target is an operating margin (operating profit in relation to sales) of at least 34% (previously 30%) with continued strong growth and increased investments in research, product development, brand building and the sales organization.

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.



Consolidated statements of comprehensive income

Continuing operations

(Amounts in SEK 000s)

	Jan-Dec 2016	Jan-Dec 2015	Oct-Dec 2016	Oct-Dec 2015
Net sales	534,696	483,241	138,750	104,391
Cost of goods sold	-146,889	-146,657	-34,698	-31,028
<i>Gross profit</i>	387,807	336,584	104,052	73,363
Selling expenses	-108,108	-93,735	-33,813	-23,533
Administrative expenses	-20,893	-18,475	-5,220	-4,941
Research and development expenses	-63,795	-53,283	-18,125	-11,588
Shares of profit of associates	-1,184	-65	-784	-65
Other operating income/expenses	5,610	1,773	248	-1,259
<i>Operating profit</i>	199,437	172,799	46,358	31,977
Financial income	1,429	331	65	50
Foreign exchange gains/losses, forward exchange contracts	-4,685	5,106	898	3,529
Financial expenses	-122	-259	8	-67
<i>Profit before tax</i>	196,059	177,977	47,329	35,489
Deferred tax	10,433	-	10,433	-
Tax expense	-47,143	-40,594	-10,787	-10,307
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	159,349	137,383	46,975	25,182
Discontinued operations (Distribution of IBT)				
PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS	67,935	-16,092	-	-3,481
PROFIT FOR THE PERIOD	227,284	121,291	46,975	21,701
Items that may be reclassified subsequently to profit or loss				
Gains/losses arising on translation of the financial statements of foreign operations	889	462	-1,227	-94
Comprehensive income for the period	228,173	121,753	45,748	21,607
Profit from continuing operations attributable to:				
Owners of the Parent Company	159,349	137,497	46,975	25,297
Non-controlling interests	0	-114	0	-115
	159,349	137,383	46,975	25,182
Profit for the period attributable to:				
Owners of the Parent Company	227,568	121,408	46,975	25,297
Non-controlling interests	-284	-117	0	-115
	227,284	121,291	46,975	25,182
Comprehensive income for the period attributable to:				
Owners of the Parent Company	228,457	121,870	45,748	21,722
Non-controlling interests	-284	-117	0	-115
	228,173	121,753	45,748	21,607
Earnings per share				
Earnings per share in continuing operations (average number of shares), SEK	9.19	7.94	2.71	1.46
Earnings per share including discontinued operations (average number of shares), SEK	13.13	7.01	2.71	1.26
Number of shares (thousands)	17,336	17,336	17,336	17,336
Average number of shares (thousands)	17,336	17,309	17,336	17,336



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 Dec 2016	31 Dec 2015
Summary (Amounts in SEK 000s)	2016	2015
ASSETS		
Intangible assets	-	16,225
Property, plant and equipment	82,430	83,934
Investments in associates	10,752	7,936
Deferred tax asset	10,433	-
Other non-current receivables	23	22
<i>Total non-current assets</i>	103,638	108,117
Current assets excl. cash and cash equivalents	142,271	138,179
Cash and cash equivalents	243,069	226,882
<i>Total current assets</i>	385,340	365,061
TOTAL ASSETS	488,978	473,178
EQUITY AND LIABILITIES		
Equity attributable to owners of the Parent Company	415,198	395,851
Non-controlling interests	-18	-18
Total equity	415,180	395,833
Provision for deferred tax	332	351
Interest-free current liabilities	73,466	76,994
TOTAL EQUITY AND LIABILITIES	488,978	473,178

Other current liabilities include forward exchange contracts with a fair value of SEK 1.7 million. All forward exchange contracts are attributable to level 2 of the fair value hierarchy.

CONSOLIDATED CASH FLOW STATEMENTS

	Jan-Dec 2016	Jan-Dec 2015	Oct-Dec 2016	Oct-Dec 2015
Summary (Amounts in SEK 000s)	2016	2015	2016	2015
<i>Operating activities</i>				
Operating profit (including discontinued operations)	194,275	152,184	46,358	27,522
Depreciation/amortization	7,074	6,548	2,023	2,599
Other non-cash items	-1,885	-813	-213	170
	199,464	157,919	48,168	30,291
Gains/losses on realized forward exchange contracts	-2,081	2,203	-688	552
Paid tax	-43,381	-50,124	-6,285	-14,857
Interest received and paid	1,305	63	183	-16
Cash flow from operating activities before changes in working capital	155,307	110,061	41,378	15,970
Changes in working capital	-7,378	7,440	6,348	-1,344
Cash flow from operating activities	147,929	117,501	47,726	14,626
Acquisition of intangible assets	-	-10,150	-	-1,113
Acquisition of property, plant and equipment	-5,611	-17,780	-2,101	-2,407
Acquisition of financial assets	-4,000	-4,000	-4,000	-4,000
Cash flow from investing activities	-9,611	-31,930	-6,101	-7,520
Dividends	-86,682	-86,355	-	-
Distribution of shares in IBT	-37,629	-	-	-
New share issue, warrant programme	-	15,844	-	-
Cash flow from financing activities	-124,311	-70,511	0	-
Cash flow for the period	14,007	15,060	41,625	7,106
Cash and cash equivalents at beginning of period	226,882	210,666	201,554	219,803
Exchange difference in cash and cash equivalents	2,180	1,156	-110	-27
Cash and cash equivalents at end of period	243,069	226,882	243,069	226,882



CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in SEK 000s)

	Jan-Dec	Jan-Dec
	2016	2015
At beginning of period	395,833	344,591
Dividends	-86,682	-86,355
Distribution of shares in IBT*)	-122,144	-
New share issue, warrants	-	15,844
Comprehensive income for the period	228,173	121,753
At end of period	415,180	395,833

*) The size of the dividend has been adjusted to reflect the average trading price on 29 March 2016 (the listing date).
A corresponding adjustment has been made in the consolidated statement of comprehensive income on the line "profit for the period from discontinued operations".

REPORTING BY SEGMENT – GROUP

(Amounts in SEK 000s)

	Jan-Dec	Jan-Dec	Oct-Dec	Oct-Dec
	2016	2015	2016	2015
Revenue by segment – business units				
Paediatrics	433,028	389,561	119,236	76,604
Adult Health	85,274	74,667	15,880	20,041
Other	16,394	19,013	3,634	7,746
Total	534,696	483,241	138,750	104,391

	Jan-Dec	Jan-Dec	Oct-Dec	Oct-Dec
	2016	2015	2016	2015
Gross profit by segment – business units				
Paediatrics	318,811	266,391	91,810	52,605
Adult Health	52,917	51,907	8,642	13,229
Other	16,079	18,286	3,600	7,529
Total	387,807	336,584	104,052	73,363

	Jan-Dec	Jan-Dec	Oct-Dec	Oct-Dec
	2016	2015	2016	2015
Revenue by geographical market				
Europe	348,175	284,729	85,799	71,143
USA and Canada	40,222	35,231	13,324	10,861
Asia	61,963	52,130	15,149	13,883
Rest of the World	84,336	111,151	24,478	8,504
Total	534,696	483,241	138,750	104,391



Profit from discontinued operations (distribution)	Jan-Dec	Jan-Dec	Oct-Dec	Oct-Dec
(Amounts in SEK 000s)	2016	2015	2016	2015
Net sales	-	-	-	-
Selling expenses	-	-2,600	-	-
Research and development expenses	-5,101	-17,974	-	-4,472
Other operating income/expenses	-61	-41	-	17
<i>Operating profit</i>	-5,162	-20,615	-	-4,455
Financial expenses	-2	-9	-	-1
Difference between fair value of IBT's shares and the carrying amount	73,099	-	-	-
<i>Profit for the period before tax</i>	67,935	-20,624	-	-4,456
Tax relief due to group contributions	-	4,532	-	975
<i>Profit for the period after tax</i>	67,935	-16,092	-	-3,481

Assets attributable to discontinued operations

(Amounts in SEK 000s)	31 Dec 2016	31 Dec 2015
Intangible assets	-	16,225
Current assets excl. cash and cash equivalents	-	1,488
Cash and cash equivalents	-	44,411
Total assets	-	62,124
Liabilities attributable to discontinued operations		
Trade payables	-	518
Accrued expenses	-	7,079
Other current liabilities	-	138
Total liabilities	-	7,735

Cash flow from discontinued operations:

(Amounts in SEK 000s)	Jan-Dec	Jan-Dec
	2016	2015
Operating activities	-6 781	-30 895
Investing activities	-	-10 150
<i>Total cash flow</i>	-6 781	-41 045



CONSOLIDATED KEY RATIOS	Jan-Dec	Janec
	2016	2015
Net sales, SEK 000s ¹⁾	534,696	483,241
Operating profit, SEK 000s ¹⁾	199,437	172,799
Profit after tax, SEK 000s ¹⁾	159,349	137,383
Return on		
- average equity	56%	33%
- average capital employed ¹⁾	49%	48%
Capital employed, SEK 000s	415,512	396,184
Number of shares, thousands ²⁾	17,336	17,336
Average number of shares, thousands	17,336	17,309
Earnings per share in continuing operations, SEK ¹⁾	9.19	7.94
Earnings per share, SEK ³⁾	13.13	7.01
Diluted earnings per share, SEK	13.13	4.57
Equity per share, SEK	23.95	22.87
Diluted equity per share, SEK	23.95	22.87
Equity/assets ratio	85%	84%
Operating margin ¹⁾	37%	36%
Profit margin ¹⁾	37%	37%
Average number of employees ¹⁾	107	98

- 1) Excluding discontinued operations (distribution of IBT)
2) No dilutive effect arose during the period
3) The ratios are defined according to IFRS

Definition of key ratios

The company presents certain financial ratios in the interim report that are not defined according to IFRS. The company is of the opinion that these performance measures provide valuable supplementary information to investors and the company's management since they enable evaluation and benchmarking of the company's performance. Since not all companies calculate financial ratios in the same manner, these are not always comparable to the performance measures used by other companies. Consequently, these financial ratios should not be seen as a replacement for performance measures that are defined according to IFRS. The following key ratios are not defined according to IFRS unless otherwise stated.

Average number of shares: Weighted average number of shares during a certain period.

Capital employed: Total assets less interest-free liabilities.

Earnings per share: Profit attributable to owners of the Parent Company divided by the average number of shares (definition according to IFRS).

Earnings per share in continuing operations: Profit from continuing operations attributable to owners of the Parent Company divided by the average number of shares.

Equity/assets ratio: Shareholders' equity divided by total assets.

Equity per share: Shareholders' equity attributable to the owners of the Parent Company divided by the number of shares.

Growth: Sales for the current year less sales for the previous year divided by sales for the previous year.

Net financial items: The result from financial income and financial expenses.

Operating margin: Operating profit in relation to net sales.

Operating profit: Sales less cost of goods sold, selling expenses, administrative expenses, R&D expenses and other operating expenses plus other operating income.

Profit margin: Profit before tax in relation to net sales.

Return on capital employed: Profit before financial items plus financial income divided by average capital employed.

Return on equity: Profit attributable to the owners of the Parent Company divided by average shareholders' equity attributable to the owners of the Parent Company.

Reconciliation against IFRS

	Jan-Dec	Jan-Dec
	2016	2015 ¹⁾
Operating profit	199,437	172,799
Financial income	1,429	5,437
Profit before financial items plus financial income	200,866	178,236
Total assets	488,978	473,178
Interest-free liabilities	-73,466	-76,994
Capital employed	415,512	396,184
Average capital employed	405,848	370,492
Return on capital employed	49%	48%

	Paediatrics		Adult Health				Other				Total					
	Jan-Dec		Oct-Dec		Jan-Dec		Oct-Dec		Jan-Dec		Oct-Dec		Jan-Dec		Oct-Dec	
	2016	%	2016	%	2016	%	2016	%	2016	%	2016	%	2016	%	2016	%

Change in sales by segment

Organic growth	39,064	10%	38,162	50%	7,506	10%	-5,900	-29%	-2,619	-14%	-4,112	-53%	43,951	9%	28,150	27%
Foreign exchange effects	4,403	1%	4,470	6%	3,101	4%	1,739	9%	-	-	-	-	7,504	2%	6,209	6%
Reported change	43,467	11%	42,632	56%	10,607	14%	-4,161	-21%	-2,619	-14%	-4,112	-53%	51,455	11%	34,359	33%



RESULTATRÄKNINGAR MODERBOLAGET

(Amounts in SEK 000s)

	Jan-Dec 2016	Jan-Dec 2015
Net sales	518,307	470,612
Cost of goods sold	-164,201	-157,364
<i>Gross profit</i>	354,106	313,248
Selling expenses	-90,308	-78,480
Administrative expenses	-19,119	-16,360
Research and development expenses	-64,203	-54,072
Other operating income	6,002	1,789
<i>Operating profit</i>	186,478	166,125
Impairment loss on receivable from subsidiary	-7,208	-8,233
Anticipated dividends from subsidiaries	-	20,600
Impairment loss on shares in subsidiary	-3,577	-22,974
Net financial items	4,416	10,109
Profit before tax	180,109	165,627
Tax expense	-43,156	-34,847
PROFIT FOR THE PERIOD	136,953	130,780

PARENT COMPANY BALANCE SHEETS

	31 Dec 2016	31 Dec 2015
ASSETS		
Property, plant and equipment	694	860
Shares in group companies	51,133	132,938
Shares in associates	12,000	8,000
Non-current receivables from subsidiaries	55,835	55,835
<i>Total non-current assets</i>	119,662	197,633
Current assets excl. cash and cash equivalents	131,954	119,300
Cash and cash equivalents	215,880	173,077
<i>Total current assets</i>	347,834	292,377
TOTAL ASSETS	467,496	490,010
EQUITY AND LIABILITIES		
Equity	379,034	410,569
Interest-free current liabilities	88,462	79,441
TOTAL EQUITY AND LIABILITIES	467,496	490,010



<u>PARENT COMPANY CASH FLOW STATEMENTS</u>	Jan-Dec	Jan-Dec
	2016	2015
<u>Operating activities</u>		
Operating profit	186,478	166,125
Depreciation/amortization	449	560
Other non-cash items	-1,944	-947
Gain/losses on realized foreign exchange contracts	-2,082	2,203
Paid tax	-40,637	-47,296
Interest received and paid	1,895	821
Cash flow from operating activities before changes in working capital	144,159	121,466
Changes in working capital	-12,333	5,920
Cash flow from operating activities	131,826	127,386
Acquisition of property, plant and equipment	-283	-60
Acquisition of financial assets	-4,000	-67,800
Payment of loan to subsidiary	-	-18,873
Cash flow from investing activities	-4,283	-86,733
Dividends	-86,682	-86,355
New share issue, warrant programme	-	15,844
Cash flow from financing activities	-86,682	-70,511
Cash flow for the period	40,861	-29,858
Cash and cash equivalents at beginning of period	173,077	201,988
Exchange difference in cash and cash equivalents	1,942	947
Cash and cash equivalents at end of period	215,880	173,077

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

(Amounts in SEK 000s)

	Jan-Dec	Jan-Dec
	2016	2015
At beginning of year	410,569	350,300
Distribution of shares in IBT	-81,806	-
Dividends	-86,682	-86,355
Issue of warrants	-	15,844
Profit for the period	136,953	130,780
At end of period	379,034	410,569

Pledged assets and contingent liabilities

	GROUP		PARENT COMPANY	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Floating charges	2,000	2,000	2,000	2,000
Blocked funds for building for TwoPac AB	253	690	-	-
Total	2,253	2,690	2,000	2,000
Contingent liabilities	None	None	None	None



RELATED PARTY TRANSACTIONS

The Parent Company holds 100% of the shares in BioGaia Biologics Inc. USA, BioGaia Japan Inc, TwoPac AB and Tripac AB. The Parent Company holds 90.1 % of the shares in CapAble AB.

On 29 March 2016, the shares in IBT were distributed to BioGaia's shareholders (see above).

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

RELATED PARTY TRANSACTIONS – PARENT COMPANY (amounts in SEK 000s)

The following transactions have taken place with BioGaia Japan

	Jan-Dec 2016	Jan-Dec 2015
Interest income	1,195	942
Purchase of services	-807	-
Loan provided	-	-4,052
Sale of goods	8,283	11,455
Marketing contributions rendered	-6,672	-10,727

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

	Jan-Dec 2016	Jan-Dec 2015
<i>Current transactions with related parties</i>		
Current receivables from BioGaia Japan	9,751	-
Current liabilities to BioGaia Japan	-795	-
	8,956	-

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

	Jan-Dec 2016	Jan-Dec 2015
Interest income	584	683
Loan provided	-	-15,844
Sale of services	100	-
Purchase of services	-2,300	-1,601
Purchase of goods	-68,031	-50,561

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

	Jan-Dec 2016	Jan-Dec 2015
Non-current receivables from TwoPac AB (incl. subsidiary)	55,835	55,835
<i>Current transactions with related parties</i>		
Current receivables from TwoPac AB	169	178
Current liabilities to TwoPac AB	-8,170	-8,481
	-8,001	-8,303

No significant transactions have taken place with other related companies.



FINANCIAL CALENDAR

10 February 2017	Teleconference at 9:30 a.m. with Managing Director Axel Sjöblad. To take part in the conference, please see www.biogaia.com/agenda . The teleconference can also be followed at: https://wonderland.videosync.fi/biogaia-q4-report-2016
3 May 2017	Interim management statement, 1 January – 31 March 2017
3 May 2017	Annual General Meeting, 5:00 p.m. at Lundqvist & Lindqvist Conference, Klarabergsviadukten 90, in Stockholm. Shareholders who wish to have a matter dealt with at the AGM must submit a request by 17 March 2017 to the Board Chairman, David Dangoor, BioGaia AB, Box 3242, SE-103 64 STOCKHOLM, or by e-mail to the company's Secretary of the Board, Per-Erik Andersson at pea@biogaia.se .
18 August 2017	Interim report 1 January – 30 June 2017
25 October 2017	Interim management statement, 1 January – 30 September 2017

The annual report for 2016 is expected to be published on BioGaia's website www.biogaia.se in the last week of March 2017.

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

Stockholm, 10 February 2017

David Dangoor
Board Chairman

Jan Annwall
Board member

Ewa Björling
Board member

Stefan Elving
Board member

Inger Holmström
Board member

Anthon Jahreskog
Board member

Brit Stakston
Board member

Paula Zeilon
Board member

Axel Sjöblad
Managing Director

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

Introduction

We have reviewed the accompanying condensed interim financial statements of BioGaia AB (publ) at 31 December 2016 and for the twelve-month period then ended. The Board of Directors and Managing Director are responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with the Standard on Review Engagements ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISA (International Standards on Auditing) and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion based on an audit.

Conclusion

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

Stockholm, 10 February 2017

Deloitte AB

Birgitta Lööf
Authorized Public Accountant



BioGaia AB

The company

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

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

BioGaia has 109 employees, of whom 40 are based in Stockholm, 31 in Lund, 28 in Eslöv, one in Raleigh, USA and nine in Hiroshima, Japan.

Business model

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

The products are sold through nutrition and pharmaceutical companies in 90 countries worldwide. BioGaia holds patents for the use of *Lactobacillus reuteri* and certain packaging solutions in all major markets.

The BioGaia brand

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

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

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

Research and clinical studies

BioGaia's strains of *Lactobacillus reuteri* are some of the world's most well researched probiotics, especially in young children. To date, 163 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on around 14,000 individuals of all ages. The results have been published in 143 articles in scientific journals.

Studies have been performed on:

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

REPORTING OF CLINICAL STUDIES

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

Latest press releases from BioGaia:

2017-01-13 BioGaia's probiotic to be launched in Thailand

2016-12-07 BioGaia associated MetaboGen starts study on Intrahepatic Cholestasis of Pregnancy with Ferring

2016-12-05 BioGaia signs major distribution and licence agreements with partner in Japan

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Margareta Hagman, Executive Vice President, BioGaia AB, telephone +46 8-555 293 00

