

BioGaia AB Interim report 1 January – 30 June 2017

(The figures in brackets and comparative figures in the text refer to the same period of last year. The comparative figures in the balance sheet refer to 31 December 2016.)



Comments from the Managing Director:

“Sales in the second quarter of 2017 reached SEK 156 million, which is an increase of 15% compared to the same period of last year. The strong second quarter, when sales to our important market Brazil gained new momentum, meant that for the first six months we achieved sales of SEK 297 million, a gross margin of 75% and an operating profit of SEK 115 million. We are on the right track and continue with the implementation of our strategic initiatives. I am also very pleased that in the quarter we established the subsidiary BioGaia Pharma AB to take advantage of the opportunities to develop drugs identified in the R&D activities conducted as part of our core business,” says Axel Sjöblad, Managing Director of BioGaia AB.

Second quarter 2017

Net sales amounted to SEK 156.0 million (136.0), an increase of 15% (excluding foreign exchange effects, 10%).

Net sales in the Pediatrics segment reached SEK 132.1 million (106.7), an increase of 24%.

Net sales in the Adult Health segment amounted to SEK 23.0 million (25.7), a decrease of 11%.

Operating profit was SEK 59.7 million (53.4), an increase of 12%.

Profit after tax was SEK 47.2 million (38.6), an increase of 22%.

Earnings per share totalled SEK 2.72 (2.22). No dilutive effects arose during the period.

The period's cash flow was SEK -117.3 million (-75.0).

Key events in the second quarter of 2017

BioGaia's oral health probiotic to be launched in three new markets.

BioGaia sets up subsidiary for the development of probiotic drugs.

1 January – 30 June 2017

Net sales amounted to SEK 297.2 million (269.9), an increase of 10% (excluding foreign exchange effects, 6%).

Net sales in the Pediatrics segment reached SEK 242.8 million (214.8), an increase of 13%.

Net sales in the Adult Health segment amounted to SEK 49.5 million (46.8), an increase of 6%.

Operating profit was SEK 115.5 million (104.7)¹⁾, an increase of 10%.

Profit after tax was SEK 90.1 million (77.3)¹⁾, an increase of 17%.

Earnings per share totalled SEK 5.20 (4.46)¹⁾. No dilutive effects arose during the period.

The period's cash flow was SEK -39.8 million (-35.4)¹⁾. Cash and cash equivalents at 30 June 2017 amounted to SEK 202.6 million (243.1).

1) Excluding the former subsidiary Infant Bacterial Therapeutics (IBT) AB, which was distributed to the shareholders in March 2016.

Teleconference: Investors, analysts and the media are invited to a teleconference 18 August 2017, at 9:30 a.m. CET. The presentation will be held by Managing Director Axel Sjöblad. To participate in the teleconference, please see telephone numbers at www.biogaia.com/investors/agenda/. The teleconference can also be followed at <https://tv.streamfabriken.com/biogaia-q2-2017>.

This information is information that BioGaia AB is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact person set out above, at 18 August 2017 kl 8:00 a.m. CET.



BioGaia AB (publ.)

Interim report 1 January – 30 June 2017

The Board of Directors and the Managing Director of BioGaia AB hereby present the interim report for 1 January – 30 June 2017. A description of the company's operations is provided on page 13.

MANAGING DIRECTOR'S COMMENTS

Sales for the second quarter of 2017 reached SEK 156 million (136), which was an increase of 15% compared to the same period of last year.

The sales increase was mainly due to strong development in the Asia Pacific and Americas regions. In Asia, sales were up by 13% and I am pleased that the positive trend in Japan and Hong Kong continues and that we are once again receiving orders from South Korea, although sales there have not yet met our expectations. Sales in the Americas increased by 74%. It was particularly satisfying to once again see strong performance in Brazil and continued good development in Canada.

Sales in EMEA rose by 1%. This modest increase was mainly driven by Eastern Europe and South Africa, which partly compensated for the weak sales to Italy. As previously mentioned, in Italy we are seeing the consequences of both inventory build-up and the merger of sales organizations following Recordati's acquisition of our earlier distributor Italmichici.

The Pediatrics segment grew by 24%, a positive trend driven by very strong sales of drops and continued growth in royalty revenue from Nestlé. In the Adult Health segment, our sales were down by 11%. This is not satisfactory and means that we are intensifying our efforts to find new distribution partners for our products in this segment.

The strong second quarter means that we after six months have achieved sales of SEK 297 million (an increase of 10% compared to the first half of last year) and a gross margin of 75% (71%). After the first half of the year, our operating expenses amounted to SEK 104 million. This is an increase by 17% compared to the same period of last year, and is mainly attributable to higher personnel, marketing and R&D expenses in line with our strategic plan. Operating profit rose by 10% to SEK 115 million, which resulted in an operating margin (EBIT) of 39% (39%).

BioGaia is on the right track and we continue with the implementation of our strategic initiatives. Internally, this means that we are moving forward with efforts to develop and strengthen our organization. Externally, this means that our roll-out of EasyDropper – our new drop package with improved dosing – is continuing and that we are seeking additional distribution partners for Prodentis and Gastrus. We are also working onward to expand our network of opinion-leaders and researchers and to increase our presence in our strategic markets.

In June we established our subsidiary BioGaia Pharma AB to take advantage of the opportunities to develop drugs identified in the R&D activities conducted as part of our core business, and which do not fit into the regulatory categories we normally use. We believe there is large potential to find interesting projects that can be further developed and then licensed to pharmaceutical companies.

Finally, I am delighted that we have signed three new exclusive agreements for Prodentis oral health lozenges; with Hansamed Ltd for sales in Canada, with BioCulture for sales in the Philippines, and with MTC Pharma Co Ltd for sales in Vietnam.

Axel Sjöblad, 18 August 2017

FINANCIAL PERFORMANCE SECOND QUARTER 2017

Net sales, second quarter

Consolidated net sales amounted to SEK 156.0 million (136.0) which is an increase of SEK 20.0 million (15%) (excluding foreign exchange effects, 10%) compared to the second quarter of last year.

Sales were driven by growth in the Pediatrics segment, where sales in the quarter rose by 24% (excluding foreign exchange effects, 18%) to 132.1 million. This was mainly attributable to higher sales of drops (primarily to Brazil) and increased royalty revenue from Nestlé for the use of *Lactobacillus reuteri* in Growing Up Milk for children over the age of one year.

In the Adult Health segment, sales were down by 11% (excluding foreign exchange effects, -14%) to SEK 23.0 million. Growth in revenue from the new agreements in Japan was not sufficient to offset the drop in revenue from digestive tablets and oral health lozenges.

Other sales amounted to SEK 1.0 (3.6) million, a decrease of SEK 2.6 million that is explained by lower revenue from the collaboration agreement with Nestlé (for more information see below under "Other sales, January – June").

Gross margin, second quarter

The total gross margin for the quarter was 75% (72%), an increase that was driven by the Pediatrics segment, where the gross margin reached 77% (73%). This is due to increased royalty revenue for the use of *Lactobacillus reuteri* in Growing Up Milk for children over the age of one year (with a 100% margin), higher sales of drops, and lower sales of bacteria cultures for infant formula with very low margins.

The gross margin for the Adult Health segment was 66% (63%). The increase is explained by revenue attributable to the new agreements in Japan.

Operating expenses and operating profit, second quarter

Operating expenses rose by 18% compared to the second quarter of last year to SEK 56.0 million. This is mainly due to higher personnel expenses but also to increased costs for marketing activities and clinical studies.

Operating profit (EBIT) was SEK 59.7 million (53.4), up by 12% (excluding foreign exchange effects, 2%). Operating margin was 38% (39%).

Profit after tax and earnings per share, second quarter

Profit after tax was SEK 47.2 million (38.6), an increase of SEK 8.6 million (23%). The tax rate was 23% (26%).

Earnings per share amounted to SEK 2.72 (2.22). No dilutive effects arose during the period.



KEY EVENTS IN THE SECOND QUARTER

Launches in the second quarter

Distributor/licensee	Country	Product
Abbott	Thailand	Drops and Protectis digestive health tablets with lemon flavor
Abbott	Mexico	Protectis digestive health tablets with lemon flavor
BioCulture	The Philippines	Prodentis oral health lozenges
Nestlé	Australia	Drops
Phillips Pharma	Kenya	Drops

BioGaia's oral health probiotic to be launched in three new markets

In April BioGaia announced the signing of three new exclusive agreements for Prodentis oral health lozenges, with Hansamed Ltd for sales in Canada, with BioCulture for sales in the Philippines and with MTC Pharma Co Ltd for sales in Vietnam. All three partners will sell Prodentis under the BioGaia brand. BioCulture launched in the second quarter and the other two companies plan to launch in the second half of 2017.

BioGaia sets up subsidiary for the development of probiotic drugs

In June BioGaia announced that the company had established a subsidiary, BioGaia Pharma AB, to take advantage of the opportunities to develop drugs that are identified in the R&D activities conducted as part of the company's normal operations.

Since the foundation of BioGaia the company has focused its development efforts on the regulatory categories dietary supplements and food for special medical purposes. For certain target segments, these categories are limiting and in some cases BioGaia also lacks distribution channels for pipeline products. For this reason, the Board has decided to also develop probiotic drugs through BioGaia Pharma.

Drug candidates will primarily be developed to be licensed to appropriate partners at relatively early stages and BioGaia's capital commitment is therefore initially limited. If capital requirements were to increase significantly, the assessment is that external funding is possible.

FINANCIAL PERFORMANCE, 1 JANUARY – 30 JUNE 2017

Consolidated net sales amounted to SEK 297.2 million (269.9), which is an increase of SEK 27.3 million (10%) (excluding foreign exchange effects, 6%) compared to the same period of last year.

Sales by segment

PEDIATRICS SEGMENT, JANUARY – JUNE

Net sales in BioGaia's core area Pediatrics amounted to SEK 242.8 (214.8) million, an increase of SEK 28.0 million (13%) (excluding foreign exchange effects, 9%). For the past rolling 12-month period, sales were up by 21% (excluding foreign exchange effects, 18%). This growth was driven mainly by higher sales of drops and increased royalty revenue from Nestlé for the use of *Lactobacillus reuteri* in Growing Up Milk for children older than one year.

Sales of drops, which make up the bulk of sales, rose primarily in the Americas and above all in Brazil, but also in Canada and Mexico. In Asia, sales of drops were unchanged. Sales in EMEA were down, which was attributable to Italy. As previously mentioned, our distributor there was acquired by Recordati, which has had a temporary negative impact on sales as a result of the earlier inventory build-up and the merger of sales organizations. For the past 12-month period, the positive sales trend for drops continued.

Royalty revenue from Nestlé for the use of *Lactobacillus reuteri* Protectis in Growing Up Milk for children older than one year rose sharply compared to the same period of last year and for the past 12-month period.

Sales of Protectis digestive health tablets were largely unchanged compared to the same period of last year. Tablet sales grew well in the EMEA, were unchanged in Asia Pacific and decreased in the Americas. For the past 12-month period, tablet sales showed good growth.

Sales of culture at low margins for use in infant formula declined compared to the same period of last year and for the past 12-month period, which is according to the plan from 2012 when Nestlé acquired the rights to this product and now produces the culture itself to a greater extent.

Royalty revenue from the collaboration agreement with Nestlé in the Pediatrics segment amounted to SEK 8.5 million (4.9). For more information, see below under "Other sales".

ADULT HEALTH SEGMENT, JANUARY – JUNE

Net sales in the Adult Health segment amounted to SEK 49.5 million (46.8), an increase of 2.7 million (6%) (excluding foreign exchange effects, 3%). For the past rolling 12-month period, sales were up by 11% (excluding foreign exchange effects, 6%).

The increase in sales for Adult Health is mainly due to revenue attributable to the new agreements signed in December 2016 with Kabaya Ohayo Holding in Japan. The revenue consists partly of compensation for knowhow, education and preparations for the launch and, starting in the second quarter, also exclusivity fees that will be recognized successively over the term of the agreement. The entire exclusivity fee was paid at the beginning of 2017.

Sales of Protectis digestive health tablets decreased somewhat compared to the same period of last year. Sales were up in Asia Pacific but declined in EMEA (Italy and South Africa). In the Americas, Protectis digestive health tablets are not yet sold in the Adult Health segment but the launch is planned in Colombia. For the past 12-month period, tablet sales showed good development.



Sales of oral health products were down compared to the same period of last year. Sales rose in Asia Pacific but fell in other markets. Sales also decreased for the past 12-month period and the company is working actively to find additional distribution partners for the product.

Sales of Gastrus digestive health tablets remain very low and declined slightly in the first six months compared to the previous year. The company is working actively to find additional distribution partners for the product.

OTHER SALES, JANUARY – JUNE

Other sales amounted to SEK 4.8 million (8.3), a decrease of SEK 3.5 million (42 %). No foreign exchange effects arose during the period.

Other sales include royalty revenue of SEK 3.5 million (7.0) from the collaboration agreement that was signed with Nestlé in March 2014. The royalty revenue amounts to a total of SEK 91.8 million for the period 2014-2017 and is distributed between the segments Pediatrics 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 30 June 2017, BioGaia had recognized revenue of SEK 75.9 million, of which SEK 42.2 million in other sales and SEK 33.7 million in the Pediatrics segment. The assessment is that the remaining revenue of SEK 15.9 million will be recognized during 2017 in the Pediatrics segment.

SALES BY GEOGRAPHIC MARKET, JANUARY – JUNE

Starting with this interim report, sales are reported according to the geographic markets EMEA (Europa, Middle East, Africa), Asia Pacific (Asia, excluding Middle East, and Oceania) and the Americas (North and South America). Previously, sales were reported by geographic market according to the following regions: Europe, Asia, USA and Canada and Rest of the World.

Sales in EMEA amounted to SEK 192.3 million (196.2), a decrease of 2%. For the past 12-month period, sales rose by 14%.

Sales in Asia Pacific amounted to SEK 37.6 million (26.5), an increase of 42%. For the past 12-month period, sales were up by 33%.

In the Americas sales amounted to SEK 67.3 million (47.2), an increase of 43%. For the past 12-month period, sales declined by 20%.

THE BIOGAIA BRAND, JANUARY – JUNE

Of total finished consumer products, (drops, digestive health tablets, oral health lozenges, oral rehydration solution, etc.), 68% (57%) were sold under the BioGaia brand, including co-branding, in the first half of 2017.

Gross profit, January – June

Gross profit amounted to SEK 223.4 million (192.5), which is an increase of SEK 30.9 million (16%) compared to last year. The total gross margin was 75% (71%).

Gross margin for the Pediatrics segment was 76% (72%). This is due to higher royalty revenue for the use of bacteria culture in Growing Up Milk for children over the age of one year (with a 100% margin), increased sales of drops, and lower sales of cultures for infant formula with a very low margin.

Gross margin for the Adult Health segment was 69% (64%). The increase is due to the new agreements in Japan (see above under "Adult Health Segment").

Operating expenses, January – June

Operating expenses (selling, administrative and R&D expenses) amounted to SEK 104.5 (89.6)¹⁾ million, an increase of 17%. For the past 12-month period, operating expenses rose by 24%.

The increase is mainly attributable to higher R&D and selling expenses. This is due primarily to increased personnel and marketing expenses and higher costs for research projects and clinical studies.

Other operating expenses/income refer to exchange gains/losses on receivables and liabilities of an operating nature. These amounted to SEK -2.4 million (2.3).

Share in profit of associates, January – June

Share in profit of associates refers to BioGaia's share of profit (36%) in Metabogen ABs and amounted to SEK -1.0 (-0.5) million.

Operating profit (EBIT) and EBIT margin, January – June

Operating profit was SEK 115.5 (million 104.7)¹⁾, an increase of SEK 10.8 million (10%) (excluding foreign exchange effects, 3%). The operating margin was 39% (39%)¹⁾. For the past 12-month period, operating profit rose by 22%.

Financial items and profit before tax, January – June

Profit before tax was SEK 117.1 million (102.8)¹⁾, an increase of SEK 14.3 million (14%). Net financial items include a foreign exchange gain/loss of SEK 1.8 (-3.1) million on forward exchange contracts. At 30 June 2017 the company had outstanding forward exchange contracts for EUR 13.9 million at an average exchange rate of SEK 9.55 and USD 5.6 million at an average exchange rate of SEK 8.75. The actual exchange gain/loss depends on the exchange rate on the maturity date of the contracts.

Profit after tax, January – June

Profit after tax was SEK 90.1 million (77.3)¹⁾, an increase of SEK 12.8 million (16%). The tax rate for the Group was 23% (25%). Owing to the new distribution and license agreement that was signed in Japan at the end of 2016 (see annual report for 2016), a large share of the earlier loss carryforward in Japan will be utilized in the Japanese company. In the Group, the exclusivity fees will be recognized successively over the term of the agreement and a deferred tax asset was therefore recognized in 2016. At 30 June 2017 the deferred tax asset amounted to SEK 10.2 million. The Group thus has no loss carryforwards for which no deferred tax is recognized.

Earnings per share, January – June

Earnings per share amounted to SEK 5.20 (4.46)¹⁾. No dilutive effects arose during the period.

Cash flow, January – June

Cash flow amounted to SEK -39.8 million (-35.4)¹⁾. This cash flow includes dividends of SEK 130.0 million (86.7) and investments of SEK 19.4 million (2.7) in property, plant and equipment (primarily at the production facility in Eslöv, where a new laboratory has been built). The cash flow also includes payment of exclusivity fees pertaining to the new license and distribution agreement in Japan that was signed in December 2016. These fees will be recognized successively over the term of the agreement. Cash and cash equivalents at 30 June 2017 amounted to SEK 202.6 million (243.1).



Investments in property, plant and equipment, January – June

Investments in property, plant and equipment amounted to SEK 19.4 million (2.7), of which the majority refers to the subsidiary BioGaia Production (formerly TwoPac).

Investments in capitalized development expenditure amounted to SEK 0.0 million (0.0).

Parent Company, January – June

Net sales in the Parent Company amounted to SEK 290.6 million (262.7) and profit before tax was SEK 131.5 million (97.1). Cash flow in the Parent Company was SEK -34.8 million (-42.6).

Subsidiary in Japan, January – June

Net sales in the wholly owned subsidiary in Japan reached SEK 13.6 million (10.3). Operating profit for the Japanese business was SEK 7.4 million (-0.5) (including revenue from Kabaya from the agreement signed at the end of 2016 – see above under “Revenue in the Adult Health segment”).

Subsidiary BioGaia Production (formerly TwoPac AB), January – June

BioGaia Production is a wholly owned subsidiary to BioGaia that manufactures and develops products, primarily drops, exclusively for BioGaia. Net sales amounted to SEK 40.1 million (35.1). Operating profit was SEK 12.9 million (9.0).

Subsidiary CapAble AB, January – June

CapAble is owned 90.1% by BioGaia and 9.9% by CapAble's President. Net sales in CapAble amounted to SEK 1.0 million (0.0). Operating profit was SEK -0.5 million (-1.8).

EMPLOYEES

The number of employees in the Group at 30 June 2017 was 115 (109).

SIGNIFICANT RISKS AND UNCERTAINTIES; GROUP AND PARENT COMPANY

Significant risks and uncertainties are described in the administration report of the annual report for 2016, on pages 40 and 41 and in Notes 29 and 30. No significant changes in these risks and uncertainties are assessed to have taken place at 30 June 2017.

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. Disclosures in accordance with IAS 34 are provided in both notes and in other parts of this interim report.

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 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.

The company applies IFRIC 17, which means that the distribution of the subsidiary IBT, in 2016, was reported 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 was recognized in the income statement. The profit in the income statement for 2016 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 2016. A number of new standards and interpretations have been published but are not yet effective.

Exchange rate differences

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 10.5 million lower for the 6-month period and SEK 6.6 million lower for the quarter. Changes in foreign exchange rates affect both income and expenses. With unchanged exchange rates, operating profit for the period would have been SEK 7.9 lower (SEK 5.1 million for the quarter). Expenses arise mainly in SEK but also in JPY, EUR and USD.

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 a sustainable operating margin (operating profit in relation to sales) of at least 34% 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.

1) Excluding the former subsidiary Infant Bacterial Therapeutics (IBT) AB which was distributed to the shareholders in March 2016.



Consolidated statements of comprehensive income

(Amounts in SEK 000s)

	Jan-Jun 2017	Jan-Jun 2016	April-Jun 2017	April-Jun 2016	Jan-Dec 2016	Jul 2016- Jun 2017	Jul 2015- Jun 2016
Net sales	297,179	269,897	156,046	136,044	534,696	561,978	480,272
Cost of goods sold	-73,772	-77,422	-38,385	-38,343	-146,889	-143,239	-142,604
<i>Gross profit</i>	223,407	192,475	117,661	97,701	387,807	418,739	337,668
Selling expenses	-59,132	-49,561	-32,300	-26,450	-108,108	-117,679	-94,417
Administrative expenses	-10,878	-10,727	-6,043	-5,138	-20,893	-21,044	-19,606
Research and development expenses	-34,467	-29,287	-17,648	-15,666	-63,795	-68,975	-53,238
Shares of profit of associates	-1,000	-523	-500	-290	-1,184	-1,661	-588
Other operating income/expenses	-2,443	2,325	-1,505	3,248	5,610	842	3,037
<i>Operating profit</i>	115,487	104,702	59,665	53,405	199,437	210,222	172,856
Interest income	-	1,323	-	1,313	1,429	106	1,386
Foreign exchange gains/losses, forward exchange contracts	1,788	-3,082	1,520	-2,541	-4,685	185	-2,193
Financial expenses	-130	-120	-19	-85	-122	-132	-216
<i>Profit before tax</i>	117,145	102,823	61,166	52,092	196,059	210,381	171,833
Deferred tax	-	-	-	-	10,433	10,433	-
Tax expense	-27,079	-25,511	-13,986	-13,525	-47,143	-48,711	-43,610
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	90,066	77,312	47,180	38,567	159,349	172,103	128,223
Discontinued operations (Distribution of IBT)							
PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS	-	67,935	-	-	67,935		
PROFIT FOR THE PERIOD	90,066	145,247	47,180	38,567	227,284		
Items that may be reclassified subsequently to profit or loss							
Gains/losses arising on translation of the financial statements of foreign operations	433	1,328	518	1,669	889		
Comprehensive income for the period	90,499	146,575	47,698	40,236	228,173		
Profit for the period from continuing operations attributable to:							
Owners of the Parent Company	90,066	77,312	47,180	38,567	159,349		
Non-controlling interests	0	0	0	0	0		
	90,066	77,312	47,180	38,567	159,349		
Profit for the period attributable to:							
Owners of the Parent Company	90,066	145,531	47,180	38,567	227,568		
Non-controlling interests	0	-284	0	0	-284		
	90,066	145,247	47,180	38,567	227,284		
Comprehensive income for the period attributable to:							
Owners of the Parent Company	90,499	146,859	47,698	40,236	228,457		
Non-controlling interests	0	-284	0	0	-284		
	90,499	146,575	47,698	40,236	228,173		
Earnings per share							
Earnings per share in continuing operations (average number of shares), SEK	5,20	4,46	2,72	2,22	9,19		
Earnings per share including discontinued operations (average number of shares), SEK	5,20	8,39	2,72	2,22	13,13		
Number of shares (thousands)	17,336	17,336	17,336	17,336	17,336		
Average number of shares (thousands)	17,336	17,336	17,336	17,336	17,336		



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 June	30 June	31 Dec
	2017	2016	2016
Summary (Amounts in SEK 000s)			
ASSETS			
Property, plant and equipment	99,075	83,230	82,430
Investments in associates	9,752	7,412	10,752
Deferred tax asset	10,220	-	10,433
Other non-current receivables	41	22	23
Total non-current assets	119,088	90,664	103,638
Current assets excl. cash and cash equivalents	157,793	173,350	142,271
Cash and cash equivalents	202,582	148,205	243,069
Total current assets	360,375	321,555	385,340
TOTAL ASSETS	479,463	412,219	488,978
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent Company	375,672	333,600	415,198
Non-controlling interests	-16	-18	-18
Total equity	375,656	333,582	415,180
Provision for deferred tax	332	351	332
Interest-free current liabilities	103,475	78,286	73,466
TOTAL EQUITY AND LIABILITIES	479,463	412,219	488,978

Current assets include forward exchange contracts with a fair value of SEK 1.5 million. All forward exchange contracts are attributable to level 2 of the fair value hierarchy.

CONSOLIDATED CASH FLOW STATEMENTS

	Jan-June	Jan-June	April-June	April-June	Jan-Dec
	2017	2016	2017	2016	2016
Summary (Amounts in SEK 000s)					
Operating activities					
Operating profit (including discontinued operations)	115,487	99,540	59,665	53,405	194,275
Depreciation/amortization (non-cash)	2,769	3,377	1,462	1,687	7,074
Other non-cash items	1,625	-718	988	-1,397	-1,885
Gains/losses on realized forward exchange contracts	119,881	102,199	62,115	53,695	199,464
Paid tax	-1,166	-587	-575	-297	-2,081
Interest received and paid	-24,774	-24,709	-12,387	-12,386	-43,381
Cash flow from operating activities before changes in working capital	-131	1,200	-20	1,226	1,305
Changes in working capital	93,810	78,103	49,133	42,238	155,307
Cash flow from operating activities	15,828	-30,889	-23,678	-29,381	-7,378
Acquisition of property, plant and equipment	109,638	47,214	25,455	12,857	147,929
Acquisition of financial assets	-19,432	-2,674	-12,779	-1,179	-5,611
Cash flow from investing activities	-	-	-	-	-4,000
Dividends	-19,432	-2,674	-12,779	-1,179	-9,611
Distribution of shares in IBT	-130,023	-86,682	-130,023	-86,682	-86,682
Cash flow from financing activities	-	-37,629	-	-	-37,629
Cash flow for the period	-130,023	-124,311	-130,023	-86,682	-124,311
Cash and cash equivalents at beginning of period	-39,817	-79,771	-117,347	-75,004	14,007
Exchange difference in cash and cash equivalents	243,069	226,882	320,617	221,494	226,882
Cash and cash equivalents at end of period	-670	1,094	-688	1,715	2,180
	202,582	148,205	202,582	148,205	243,069

Pledged assets and contingent liabilities

	GROUP		PARENT COMPANY	
	30 June	31 Dec	30 June	31 Dec
	2017	2016	2017	2016
Floating charges	2,000	2,000	2,000	2,000
Blocked funds for construction in TwoPac AB	253	253	-	-
Total	2,253	2,253	2,000	2,000
Contingent liabilities	None	None	None	None



CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in SEK 000s)	Jan-June 2017	Jan-June 2016	Jan-dec 2016
At beginning of period	415,180	395,833	395,833
Dividends	-130,023	-86,682	-86,682
Distribution of shares in IBT	-	-122,144	-122,144
Comprehensive income for the period	90,499	146,575	228,173
At end of period	375,656	333,582	415,180

REPORTING BY SEGMENT – GROUP

(Amounts in SEK 000s)

	Jan-June 2017	Jan-June 2016	April- June 2017	April- June 2016	Jan-Dec 2016	July 2016- June 2017	July 2015- June 2016
Revenue by segment							
Pediatrics	242,842	214,785	132,063	106,729	433,028	461,085	380,289
Adult Health	49,527	46,827	23,022	25,731	85,274	87,974	79,437
Other	4,810	8,285	961	3,584	16,394	12,919	20,546
Total	297,179	269,897	156,046	136,044	534,696	561,978	480,272

	Jan-June 2017	Jan-June 2016	April- June 2017	April- June 2016	Jan-Dec 2016	July 2016- June 2017	July 2015- June 2016
Gross profit by segment							
Pediatrics	184,340	154,708	101,547	77,955	318,811	348,443	266,647
Adult Health	34,257	29,758	15,153	16,162	52,917	57,416	51,252
Other	4,810	8,009	961	3,584	16,079	12,880	19,769
Total	223,407	192,475	117,661	97,701	387,807	418,739	337,668

	Jan-June 2017	Jan-June 2016	April- June 2017	April- June 2016	Jan-Dec 2016	July 2016- June 2017	July 2015- June 2016
Revenue by geographic market							
Asia Pacific	37,651	26,479	16,051	14,293	55,550	66,722	50,124
EMEA	192,246	196,179	98,148	97,643	376,439	372,506	328,035
Americas (North and South America)	67,282	47,239	41,847	24,108	102,707	122,750	102,113
Total	297,179	269,897	156,046	136,044	534,696	561,978	480,272

Profit from discontinued operations (distribution)

(Amounts in SEK 000s)

	Jan-June 2017	Jan-June 2016
Net sales	-	-
Selling expenses	-	-
Research and development expenses	-	-5,101
Other operating income/expenses	-	-61
Operating profit	-	-5,162
Financial expenses	-	-2
Difference between fair value of IBT's shares and the carrying amount	-	73,099
Profit for the period before tax	-	67,935
Tax relief due to group contributions	-	-
Profit for the period after tax	-	67,935

Cash flow from discontinued operations

(Amounts in SEK 000s)

	Jan-June 2017	Jan-June 2016
Operating activities	-	-6,781
Investing activities	-	-
Total cash flow	-	-6,781



CONSOLIDATED KEY RATIOS

The presented key ratios are central for understanding and evaluating BioGaia's operations and financial position.

	Jan- June 2017	Jan- June 2016	Jan-Dec 2016
Net sales, SEK 000s	297,179	269,897	534,696
Operating profit, SEK 000s ¹⁾	115,487	104,702	199,437
Profit after tax, SEK 000s ¹⁾	90,066	77,312	159,349
Return on			
- average equity ¹⁾	23%	21%	39%
- average capital employed ¹⁾	30%	29%	49%
Capital employed, SEK 000s	375,988	333,933	415,512
Number of shares, thousands ²⁾	17,336	17,336	17,336
Average number of shares, thousands	17,336	17,336	17,336
Earnings per share in continuing operations, SEK ¹⁾		4.46	9.19
Earnings per share, SEK ³⁾	5.20	8.39	13.13
Diluted earnings per share, SEK	5.20	8.39	13.13
Equity per share, SEK	21.67	19.24	23.95
Diluted equity per share, SEK	21.67	19.24	23.95
Equity/assets ratio	78%	81%	85%
Operating margin ¹⁾	39%	39%	37%
Profit margin ¹⁾	39%	38%	37%
Average number of employees ¹⁾	113	102	107

- 1) The figures for 2016 do not include discontinued operations (distribution of IBT)
2) No dilutive effect arose during the period
3) Key ratio 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-June 2017	Jan-June 2016	Jan-Dec 2016
Return on capital employed			
Operating profit	115,487	104,702	199,437
Financial income	1,788	1,323	1,429
Profit before financial items plus financial income	117,275	106,025	200,866
Total assets	479,463	412,219	488,978
Interest-free liabilities	-103,475	-78,286	-73,466
Capital employed	375,988	333,933	415,512
Average capital employed	395,750	365,059	405,848
Return on capital employed	30%	29%	49%
Return on equity			
Profit attributable to owners of the Parent Company	90,066	77,312	159,349
Equity attributable to owners of the Parent Company	375,672	333,600	415,198
Average equity attributable to owners of the Parent Company	395,435	364,726	405,525
Return on equity	23%	21%	39%

	Pediatrics		Adult Health				Other		Total							
	Jan-June 2017	April-June 2017	Jan-June 2017	April-June 2017	Jan-June 2017	April-June 2017	Jan-June 2017	April-June 2017	Jan-June 2017	April-June 2017	Jan-June 2017	April-June 2017				
Change in sales by segment																
Organic growth	18,820	9%	19,594	18%	1,435	3%	-3,583	-14%	-3,475	-42%	-2,623	-73%	16,780	6%	13,388	10%
Foreign exchange effects	9,237	4%	5,740	5%	1,265	3%	874	3%	-	-	-	-	10,502	3%	6,614	5%
Reported change	28,057	13%	25,334	24%	2,700	6%	-2,709	-11%	-3,475	-42%	-2,623	-13%	27,282	10%	20,002	15%

Foreign exchange effects reflect the foreign currency changes for the period compared with the same period of last year,



PARENT COMPANY INCOME STATEMENTS

(Amounts in SEK 000s)

	Jan-June 2017	Jan-June 2016	Jan-Dec 2016
Net sales	290,573	262,715	518,307
Cost of goods sold	-89,232	-86,424	-164,201
<i>Gross profit</i>	201,341	176,291	354,106
Selling expenses	-48,113	-40,931	-90,308
Administrative expenses	-10,003	-9,813	-19,119
Research and development expenses	-34,575	-29,303	-64,203
Other operating income	-2,438	2,320	6,002
<i>Operating profit</i>	106,212	98,564	186,478
Impairment loss on shares in subsidiary	-	-	-3,578
Reversal of receivable from subsidiary	23,351	-	-
Net financial items	1,939	-1,503	-2,791
Profit before tax	131,502	97,061	180,109
Tax expense	-23,924	-23,687	-43,156
PROFIT FOR THE PERIOD	107,578	73,374	136,953

PARENT COMPANY BALANCE SHEETS**ASSETS**

	30 June 2017	30 June 2016	31 Dec 2016
Property, plant and equipment	1,220	629	694
Shares in group companies	51,181	51,132	51,133
Shares in associates	12,001	8,000	12,000
Non-current receivables from subsidiaries	55,835	55,835	55,835
<i>Total non-current assets</i>	120,237	115,596	119,662
Current assets excl. cash and cash equivalents	136,788	156,236	131,954
Cash and cash equivalents	180,410	131,279	215,880
<i>Total current assets</i>	317,198	287,515	347,834
TOTAL ASSETS	437,435	403,111	467,496
EQUITY AND LIABILITIES			
Equity	356,589	315,455	379,034
Interest-free current liabilities	80,846	87,656	88,462
TOTAL EQUITY AND LIABILITIES	437,435	403,111	467,496



PARENT COMPANY CASH FLOW STATEMENTS

	Jan-June 2017	Jan-June 2016	Jan-Dec 2016
<u>Operating activities</u>			
Operating profit	106,212	98,564	186,478
Depreciation	209	232	449
Other non-cash items	624	-775	-1,944
Gain/losses on realized foreign exchange contracts	-1,166	-587	-2,082
Paid tax	-23,349	-23,249	-40,637
Interest received and paid	152	1,579	1,895
Cash flow from operating activities before changes in working capital	82,682	75,764	144,159
Changes in working capital	-10,072	-31,655	-12,333
Cash flow from operating activities	72,610	44,109	131,826
Acquisition of property, plant and equipment	-735	-	-283
Acquisition of financial assets	-49	-	-4,000
Repayment of loan to subsidiary	23,352	-	-
Cash flow from investing activities	22,568	0	-4,283
Dividends	-130,023	-86,682	-86,682
Cash flow from financing activities	-130,023	-86,682	-86,682
Cash flow for the period	-34,845	-42,573	40,861
Cash and cash equivalents at beginning of period	215,880	173,077	173,077
Exchange difference in cash and cash equivalents	-625	775	1,942
Cash and cash equivalents at end of period	180,410	131,279	215,880

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

(Amounts in SEK 000s)	Jan-June 2017	Jan-June 2016	Jan-Dec 2016
At beginning of year	379,034	410,569	410,569
Distribution of shares in IBT	-	-81,806	-81,806
Dividends	-130,023	-86,682	-86,682
Profit for the period	107,578	73,374	136,953
At end of period	356,589	315,455	379,034

RELATED PARTY TRANSACTIONS

The Parent Company holds 100% of the shares in BioGaia Biologics Inc, USA, BioGaia Japan Inc, BioGaia Production AB (formerly TwoPac AB) and Tripac AB,

The Parent Company also holds 90.1 % of the shares in CapAble AB and 96% of the shares in BioGaia Pharma AB,

Annwall & Rothschild Investment AB holds 740,668 class A shares and 759,332 class B shares, which is equal to 8.7% of the share capital and 34.1% of the votes in BioGaia AB, Annwall & Rothschild Investment AB is owned by Peter Rothschild, 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 7.50 per share,



FINANCIAL CALENDAR

18 August 2017	Teleconference at 9:30 a.m, with Managing Director Axel Sjöblad. To take part in the conference, please see www.biogaia.com/investors/agenda for telephone numbers. The teleconference can also be followed at https://tv.streamfabriken.com/biogaia-q2-2017 .
25 October 2017	Interim management statement, 1 January – 30 September 2017
8 February 2018	Year-end report 2017
25 April 2018	Interim management statement, 1 January – 31 March 2018
17 August 2018	Interim report 1 January – 30 June 2018

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

Stockholm, 18 August 2017

David Dangoor
Board Chairman

Jan Annwall
Board member

Ewa Björling
Board member

Stefan Elving
Board member

Margaretha Gadnell
Board member

Inger Holmström
Board member

Anthoñ Jahreskog
Board member

Brit Stakston
Board member

Axel Sjöblad
Managing Director

Auditor's report on the review of the interim financial information

Introduction

We have reviewed the accompanying condensed interim financial statements of BioGaia AB (publ) at 30 June 2017 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, 18 August 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 115 employees, of whom 104 are based in Sweden (Stockholm, Lund and Eslöv), two in the USA and nine in 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 some 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. On 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, 173 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on around 14,800 individuals of all ages. The results have been published in 146 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)

Latest press releases from BioGaia:

2017-06-21 BioGaia sets up subsidiary for development of probiotic drugs
2017-05-04 Annual General Meeting of BioGaia
2017-05-03 BioGaia AB – Interim management statement 1 January – 31 March 2017

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