BioGaia

BioGaia AB **Press Release, 17 August 2018**

Interim report January 1 – June 30, 2018

(Figures in parentheses and comparative figures in the text refer to the corresponding period of last year. The comparative figures in the balance sheet refer to December 31, 2017).

Comments from the Managing Director:

"Our second quarter performance was very strong, with growth of 29% (26%, after foreign exchange effects) compared to the same quarter of last year. Thanks to solid growth in both the Pediatrics and Adult Health segments, we achieved sales of over SEK 200 million for the first time ever. Geographically, growth was strong across all three regions, EMEA, Asia Pacific and the Americas. At the same time, we would like to communicate that we foresee significantly lower royalty revenues from Nestlé as a consequence of the ongoing negotiations of our royalty agreement which terminates at the end of the year" says Sebastian Schröder, Acting Managing Director of BioGaia.

Second quarter 2018

Net sales amounted to SEK 200.9 million (156.0), an increase of 29% (excluding foreign exchange effects, 26%).

Net sales in the Pediatrics segment reached SEK 168.5 million (132.1), an increase of 28%.

Net sales in the Adult Health segment amounted to SEK 32.1 million (23.0), an increase of 39%.

Operating profit, excluding revaluation of the former associate shareholding in MetaboGen, was SEK 72.9 million (61.2), an increase of 19%. The company has changed an accounting standard as of 1 January 2018, which means that foreign exchange gains/losses attributable to forward contracts are recognized in operating profit or loss (previously in financial items). These amounted to SEK -4.6 million (+1.5). With an unchanged standard, operating profit would have increased by 30%.

Profit after tax was SEK 62.8 million (47.2), an increase of 33%. Excluding revaluation of the former associate shareholding in MetaboGen, profit after tax was up by 18%.

Earnings per share totaled SEK 3.62 (2.72). No dilutive effects arose.

The period's cash flow was SEK -133.9 million (-117.3). Cash flow includes dividends of SEK 156.0 million (130.0).

January 1 – June 30, 2018

Net sales amounted to SEK 357.5 million (297.2), an increase of 20% (no material dilutive effects arose).

Net sales in the Pediatrics segment reached SEK 300.2 million (242.8), an increase of 24%.

Net sales in the Adult Health segment amounted to SEK 56.5 million (49.5), an increase of 14%.

Operating profit, excluding revaluation of the former associate shareholding in MetaboGen, was SEK 129.1 million (117.3), an increase of 10%. The company has changed an accounting standard as of 1 January 2018, which means that foreign exchange gains/losses attributable to forward contracts are recognized in operating profit or loss (previously in financial items). These amounted to SEK -13.6 million (+1.8). With an unchanged standard, operating profit would have increased by 24%.

Profit after tax was SEK 105.9 million (90.1), an increase of 18%. Excluding revaluation of the former associate shareholding in MetaboGen, profit after tax was up by 10%.

Earnings per share totaled SEK 6.14 (5.20). No dilutive effects arose.

The period's cash flow was SEK -94.1 million (-39.8). Cash and cash equivalents at June 30, 2018, amounted to 215.5 million (305.9).

Key events in the second quarter of 2018

BioGaia invests further in MetaboGen and increases its holding to 62%. (See also "Key events after the end of the second quarter".)

Axel Sjöblad, former Managing Director, leaves his post. Isabelle Ducellier will be the new Managing Director with effect from 5 November 2018.

A study showing that *Lactobacillus reuteri* reduces bone loss in older women is published in the highly reputed [Journal of Internal Medicine.]

Key events after the end of the second quarter

BioGaia´s royalty agreement with Nestlé, from the sales of growing up milk with *Lactobacillus reuteri* for children over one year, will be terminated at the end of the year. Nestlé has communicated that they wish to limit the scope of the agreement, which then would result in significantly lower royalty revenue.

BioGaia invests an additional 30% in MetaboGen for SEK 27.8 million. The shareholding in MetaboGen now amounts to 92%.

Teleconference: **Investors, analysts and the media are invited to take part in a teleconference on the interim report that will be held today, August 17, 2018, at 9:30 a.m. with Acting Managing Director Sebastian Schröder.**
To participate in the teleconference, please see https://www.biogaia.com/investors/financial-calendar/ for telephone numbers.
The teleconference can also be followed at: https://tv.streamfabriken.com/biogaia-q2-2018

BioGaia AB (publ.)
Interim report January 1 – June 30, 2018

The Board of Directors and the Managing Director of BioGaia AB hereby present the interim report for January 1 – June 30, 2018.

MANAGING DIRECTOR'S COMMENTS

Our second quarter performance was very strong, with growth of 29% (excluding foreign exchange effects, 26%) compared to the same quarter of last year. Thanks to solid growth in both the Pediatrics and Adult Health segments, we achieved sales of over SEK 200 million for the first time ever. At the same time, we would like to communicate that we foresee significantly lower royalty revenues from Nestlé as a consequence of the ongoing negotiations of our royalty agreement which terminates at the end of the year. Our cooperation with Nestlé continues to be very good and there are a number of ongoing negotiations regarding additional product sales.

Sales in the Pediatrics segment amounted to SEK 168.5 million, an increase of 28% (25% after foreign exchange effects) compared to the same quarter of last year. This was driven by powerful sales growth for our probiotic drops in all markets. In the Adult Health segment, sales rose by 39% (36% after foreign exchange effects), compared to the second quarter of last year, to SEK 32.1 million. This was attributable to robust sales growth for our oral health products, especially in Japan but also in a number of countries in the EMEA region.

Geographically, growth was strong across all three regions, EMEA, Asia Pacific and the Americas.

Operating expenses were up in the past quarter due to increased investment in marketing activities, personnel, clinical studies and product development in line with our plan. Furthermore, these expenses also include costs connected to the change of Managing Director and stronger marketing support to our partner in Italy. The reason for the marketing support is that during the year we will not be able to produce the number of easy dropper tubes (the new package for drops that was launched in 2016) required to meet demand and will therefore temporarily return to sales of our glass bottles in Italy.

Thanks to strong sales operating profit, excluding revaluation of the former associate shareholding in MetaboGen, increased in spite of higher expenses, by 19% to SEK 72.9 million. If we also exclude the effect of changed accounting standard the operating profit increased by 30% to SEK 77.5 million and operating margin was then 39% (38).

During the quarter we made a strategic acquisition of our former associated company MetaboGen. BioGaia already held 36% of the company and at the beginning of April raised its stake to 62%, making us the majority shareholder in the company. This led to a revaluation of the previous associate shareholding with a positive effect on the result of SEK 7.0 million. Just after the end of the second quarter we acquired an additional 30% of MetaboGen, after which the holding now amounts to 92%. The gut microbiome, defined as the combined genetic expression of all microorganisms in the intestinal tract, is a hot field of research and MetaboGen's activities therefore lie entirely within the BioGaia Group's area of operations. BioGaia's core business, together with the subsidiary BioGaia Pharma and now also MetaboGen, gives us a solid platform from which to maintain our position at the leading edge of probiotic research.

At the end of June, a study showing that *Lactobacillus reuteri* reduces bone loss in older women was published. The study has gained attention in both the Swedish and international press. Based on the positive results, we are continuing our work in this interesting area.

BioGaia regularly participates in international conventions and congresses. In the past quarter we were exhibitors at ESPGHAN (European Society for Pediatric Gastroenterology, Hepatology and Nutrition) in Geneva, Switzerland, and PPP (Probiotics, Prebiotics in Pediatrics) in Bari, Italy, among other events.

We moved to a new office in Lund and established a sales office in Singapore (to replace the earlier sales office in Shanghai).

BioGaia received the distinction "Great Place to Work", for which we are very pleased.

As previously announced, we have also taken the initiative to form a foundation (The Foundation to Prevent Antibiotic Resistance) that will support the fight against antibiotic resistance by providing financial support to preventive measures. The foundation will start up activities after the summer.

During the quarter we launched a new digital training platform to further strengthen the collaboration with existing and new opinion leaders.

In the spring we launched a few of our products under the BioGaia brand in Sweden, and these are now available in several pharmacy chains.

In the second quarter, former Managing Director Axel Sjöblad resigned from his post. In June the Board decided to appoint Isabelle Ducellier as the new Managing Director of BioGaia. Isabelle will take up duties on 5 November 2018.

Sebastian Schröder, Acting Managing Director
August 17, 2018

FINANCIAL PERFORMANCE IN THE SECOND QUARTER OF 2018

Sales, second quarter

Consolidated net sales amounted to SEK 200.9 million (156.0), which is an increase of SEK 44.9 million (29%) (excluding foreign exchange effects, 26%) compared to the second quarter of last year.

Sales were driven among other things by growth in the Pediatrics segment, where sales rose by 28% (excluding foreign exchange effects, 25%) to SEK 168.5 million. This was mainly due to higher sales of BioGaia Protectis drops, which increased in all markets but particularly in several countries.

In the Adult Health segment, sales were up by 39% (excluding foreign exchange effects, 36%) to SEK 32.1 million. This is mainly attributable to higher sales of Prodentis oral health products, primarily in Asia Pacific but also several countries in the EMEA region. Sales of Protectis gut health tablets in the Adult Health segment also increased during the quarter.

Gross margin, second quarter

The total gross margin for the quarter was 76% (75%). Gross margin for the Pediatrics segment was 76% (77%) and gross margin for the Adult Health segment was 72% (66%). The increase is mainly explained by sales growth in Japan, where the margins are higher.

Operating expenses and operating profit, second quarter

Operating expenses (selling, administrative and R&D expenses) rose by SEK 20.4 million (36%) compared to the second quarter of last year, to SEK 76.4 million. The increase is due to several factors. In the second quarter, major marketing activities were carried out in a number of countries (including Italy and Sweden). In addition, personnel expenses have increased due to a higher number of employees and the quarter contained a one-time expense of SEK 3.1 million for the outgoing Managing Director. These expenses also included a provision for the incentive plan of SEK 5.0 million (1.5) (see below under Employees). Furthermore, R&D costs have risen in connection with a large number of clinical studies now underway and that expenses of SEK 3.1 million (0) for the new subsidiaries, BioGaia Pharma and MetaboGen are included.

During the quarter BioGaia raised its holding in MetaboGen from 36% to 62%. In a step acquisition, all previous equity interests in the acquiree are adjusted to fair value and all gains and losses thus arising are recognized in profit or loss. As a result of this, a gain of SEK 7.0 million is recognized in operating profit regarding the previous associate shareholding in MetaboGen. Since BioGaia increased its holding to 62% and thereby obtained a controlling interest in MetaboGen, the company is consolidated as a subsidiary as of 6 April 2018.

Other operating expenses/income refer to exchange gains/losses on receivables and liabilities of an operating nature and amounted to SEK -2.7 million (0). The company changed its accounting standard as of January 1, 2018, after which all exchange gains/losses attributable to forward exchange contracts are recognized in other operating expenses/income (previously in financial items). These amounted to SEK -4.6 million (+1.5).

Operating profit, excluding revaluation of the former associate shareholding in MetaboGen, amounted to SEK 72.9 million (61.2), an increase of 19%. The operating margin, excluding revaluation of the former associate shareholding in MetaboGen, was 36% (39%). Also excluding the effect of changed accounting standard the operating profit increased by 30% to SEK 77.5 million and operating margin was then 39% (38).

Profit after tax and earnings per share, second quarter

Profit after tax was SEK 62.8 million (47.2), an increase of SEK 15.6 million (33%). Excluding revaluation of the former associate shareholding in MetaboGen, profit after tax was SEK 55.8 million (47.2), an increase of 18%. The effective tax rate was 21% (23%).

Earnings per share amounted to SEK 3.62 (2.72). No dilutive effects arose during the period.

KEY EVENTS IN THE SECOND QUARTER OF 2018

Launches in the second quarter

Distributor/licensee	Country	Product
Age D'or	Singapore	BioGaia Protectis ORS (oral rehydration solution)
Ascendis	South Africa	Protectis tablets with a new flavor (apple), Prodentis oral health lozenges, drops with vitamin D.

Management changes at BioGaia

At the end of May it was announced that after more than two years as Managing Director BioGaia, Axel Sjöblad had agreed with the Board of Directors to end his employment with the company as of 30 June 2018.

In June it was announced that that the Board had decided to appoint Isabelle Ducellier as the new Managing Director of BioGaia with effect from 5 November 2018. Isabelle is currently a member of the Board of BioGaia and General Secretary of the Swedish Childhood Cancer Fund. Previously, Isabelle Ducellier has held a number of senior international positions within the Pernod Ricard Group for 20 years, mainly in sales and marketing. She completed her career there as CEO and board member of Pernod Ricard Sweden and successfully led the integration of Vin & Sprit AB into the group. After that, she has been a partner and consultant at McKinsey Sweden, among other things in the fields of advanced digital marketing, mergers and acquisitions. In addition to a master's degree in International Marketing, Isabelle has completed Executive MBA programs at both Harvard and INSEAD.

Sebastian Schröder is Acting Managing Director until Isabelle takes up duties.

BioGaia invests further in MetaboGen

BioGaia decided to acquire additional shares in the associated company MetaboGen AB and in early April invested SEK 11.7 million in shares in the company. BioGaia's holding thus increased from 36% to 62% and BioGaia became the majority shareholder.

At the beginning of July, BioGaia acquired a further 30% of the shares in MetaboGen (for more information see under "Key events after the end of the second quarter").

Research on the microbiome is developing very rapidly and drug companies are making major investments in this area. Through the investment in MetaboGen, BioGaia can maintain its strong position in the field of probiotic research. BioGaia will initiate a number of research projects in MetaboGen. The cost of these projects is estimated at around SEK 22 million and the projects will be implemented over a three-year period. In addition, operations and developments that are already taking place in the company today are estimated to cost approximately SEK 10 million per year, if no license agreements with third parties are made.

Publication of study showing that Lactobacillus reuteri reduces bone loss in older women

As reported by BioGaia in November 2017, a randomized, double-blind, placebo-controlled study in 90 older women showed that supplementation with the probiotic strain *Lactobacillus reuteri* ATCC PTA 6475 reduced bone loss compared to placebo. The study was published online in June in Journal of Internal Medicine.

KEY EVENTS AFTER THE END OF THE SECOND QUARTER OF 2018

BioGaia´s royalty agreement with Nestlé will be terminated at the end of the year

BioGaia´s royalty agreement with Nestlé, from the sales of growing up milk with *Lactobacillus reuteri* for children over one year, will be terminated at the end of the year. Nestlé has communicated that they wish to limit the scope of the agreement, which then would result in significantly lower royalty revenue. There are also a number of ongoing negotiations regarding additional product sales.

BioGaia invests further in MetaboGen AB

At the beginning of July, BioGaia acquired an additional 30% of the shares in MetaboGen for SEK 27.8 million, after which its holding amounts to 92%. Furthermore, BioGaia will acquire the remaining 8% of the company within a three-year period. The additional purchase price can amount to a maximum of SEK 12 million, depending on how many milestones are achieved.

FINANCIAL PERFORMANCE January 1 – June 30, 2018

Sales, first half of 2018

Consolidated net sales amounted to SEK 357.5 million (297.2), which is an increase of SEK 60.3 million (20%) (no material foreign exchange effects arose) compared to the same period of last year. For the past 12-month period, sales amounted to SEK 675.3 million (562.0), an increase of 20% (excluding foreign exchange effects, 22%).

PEDIATRICS SEGMENT

Sales in the Pediatrics segment increased by 24%, (excluding foreign exchange effects, 23%) to SEK 300.2 million in the first half of the year. The increase was driven mainly by sales of BioGaia Protectis drops. For the past 12-month period, sales in the Pediatrics segment rose by 19% (excluding foreign exchange effects, 21%).

Sales of drops, which make up the bulk of sales, were up in all regions - in EMEA (across most of the region but primarily in Eastern European countries, France, Italy and Spain), in the Americas (primarily the USA) and in Asia Pacific (China, Indonesia and India). For the past 12-month period, the powerfully positive sales trend for the drops continued.

Sales of BioGaia Protectis tablets in the Pediatrics segment increased compared to the same period of last year, particularly in the Americas (primarily Brazil) and EMEA (primarily Spain), while sales in Asia Pacific declined slightly. For the past 12-month period, sales growth for tablets in the Pediatrics segment was good.

Royalty revenue from the sale of growing up milk with *Lactobacillus reuteri* Protectis for children over the age of one year increased marginally compared to the corresponding period of last year. For the past 12-month period, sales growth was solid. As mentioned above, BioGaia´s royalty agreement with Nestlé will be terminated at the end of the year. Nestlé has communicated that they wish to limit the scope of the agreement, which then would result in significantly lower royalty revenue.

Sales of culture, at low margins, for use in Nestlé's infant formula decreased according to plan compared to the same period of last year and for the past 12-month period.

Royalty revenue from the collaboration agreement with Nestlé amounted to SEK 5.4 million (8.5). The collaboration agreement with Nestlé was signed in March 2014. Royalty revenue totaling SEK 91.8 million is divided between the Pediatrics segment and Other Sales over the period 2014-2018. Up to June 30, 2018, BioGaia has recognized SEK 87.1 million of this revenue, of which SEK 42.2 million in Other Sales and SEK 44.9 million in the Pediatrics segment. The remaining revenue of SEK 4.7 million will be recognized as revenue in the Pediatrics segment during 2018.

ADULT HEALTH SEGMENT

Net sales in the Adult Health segment amounted to SEK 56.5 million (49.5), an increase of SEK 7.0 million (14%) (excluding foreign exchange effects,13%) compared to the same period of last year. Revenue for the first half of 2017 included compensation from the agreement with Kabaya Ohayo in Japan for knowhow, education and preparations for the launch. Adjusted for this revenue, sales were up by 34%. For the past 12-month period, sales in the Adult Health segment rose by 40% (excluding foreign exchange effects, 43%).

Sales growth was driven by oral health products, which increased substantially compared to the same period of last year. Sales were up in Asia Pacific (Japan) and in EMEA (several countries). No oral health products are sold in the Americas at present. The company is working actively to find additional distribution partners for the products. For the past 12-month period, development was very positive.

Sales of BioGaia Protectis tablets decreased slightly compared to the same period of last year. Sales declined in Asia Pacific (Hong Kong) and the EMEA (Finland) but rose in Japan and Sweden. In the Americas, sales of tablets increased but remain at a low level. For the past 12-month period, sales development was very good.

Sales of BioGaia Gastrus gut health tablets remain at a very low level but rose compared to the same period of last year. Sales increased in all regions, in countries such as the USA, Japan, Spain and Hong Kong. The company is working actively to find additional distribution partners for this product. For the past 12-month period, development was good.

OTHER SALES
Other sales amounted to SEK 0.8 million (4.8), an increase of SEK 4.0 million (83%). No foreign exchange effects arose. Other sales included royalty revenue of SEK 0 million (3.5) from the collaboration agreement with Nestlé (see above under Pediatrics).

SALES BY GEOGRAPHIC MARKET
Sales in EMEA amounted to SEK 221.5 million (192.2), up by 15%. The increase was mainly attributable to the Pediatrics segment. For the past 12-month period, sales rose by 13%.

Sales in Asia Pacific amounted to SEK 47.9 million (37.7), an increase of 27%. The increase was mainly attributable to the Pediatrics segment but Adult Health also showed growth. For the past 12-month period, sales rose by 58%.

In the Americas, sales amounted to SEK 88.1 million (67.3), an increase of 31% that was mainly attributable to Pediatrics (for more information see above). For the past 12-month period, sales improved by 20%.

THE BIOGAIA BRAND

Of total finished consumer products, (drops, gut health tablets, oral health lozenges, oral rehydration solution, etc.) sold in the first half of 2018, 67% (68%) were sold under the BioGaia brand, including co-branding.

Gross margin, first half
Total gross margin was unchanged at 75% (75%).

Gross margin for Pediatrics was unchanged at 76% (76%).

Gross margin for the Adult Health segment was 70% (69%). The increase is due to higher sales in Japan, where the margin is higher than in other markets. Revenue for the first half of last year included compensation from Kabaya Ohayo for knowhow, etc. (see above under "Adult Health segment"). Excluding this, gross margin for the previous year was 63%.

Operating expenses, first half

Operating expenses (selling, administrative and R&D expenses) amounted to SEK 131.7 million (104.5), an increase of 26%. Major marketing activities were carried out in a number of countries (Italy, Sweden, etc.) during the second quarter. In addition, personnel expenses have increased due to a higher number of employees and the quarter includes a one-time expense of SEK 3.1 million for the outgoing Managing Director. These expenses also include a provision for the incentive plan of SEK 5.0 million (1.5) (see below under "Employees"). Furthermore, R&D costs have risen in connection with a large number of clinical studies now underway.

Furthermore, the Group includes two new companies since the previous year, BioGaia Pharma AB and MetaboGen AB. The expenses for these amount to SEK 4.0 million (0).

Other operating expenses/income refer to exchange gains/losses on receivables and liabilities of an operating nature. These amounted to SEK -6.5 million (-0.7). The Group has changed its accounting standard (see below under New accounting standards) and with effect from 2018 (and including comparative figures for the previous year) reports exchange gains/losses on forward exchange contracts in operating profit or loss since the assessment is that they are attributable to operations. Other operating expenses/income include an exchange loss/gain relating to forward exchange contracts of SEK -13.6 million (+1.8). At June 30, 2018, the company had outstanding forward contracts for EUR 15.1 million at an average exchange rate of 9.86 and for USD 8.6 million at an average exchange rate of 8.12. The actual exchange loss/gain depends on the exchange rate on the maturity date of the contracts.

Share of profits of associates, first half

Prior to April 6, 2018, MetaboGen was an associated company in BioGaia. The share of profits of associates refers to BioGaia's share (36%) of MetaboGen AB's profits up to April 6, 2018 and amounted to SEK -0.5 million (-1.0).

Operating profit and operating margin, first half

Operating profit, excluding revaluation of the former associate shareholding in MetaboGen, amounted to SEK 129.1 million (117.3), an increase of SEK 11.8 million (10%) after a change of accounting standard (see below under "New accounting standard"). Operating margin was 36% (39%). With an unchanged accounting standard, operating profit would have amounted to SEK 142.7 million (115.5), an increase of 24%, and operating margin would have been 40% (39%).

In a step acquisition, all previous equity interests in the acquiree are adjusted to fair value and all gains and losses thus arising are recognized in profit or loss. As a result of this, a gain of SEK 7.0 million is recognized in operating profit regarding the previous associate shareholding in MetaboGen. Since BioGaia increased its holding to 62% and thereby obtained a controlling interest in MetaboGen, the company is consolidated as a subsidiary as of April 6, 2018.

Profit after tax, first half

Profit after tax was SEK 105.9 million (90.1), an increase of SEK 15.8 million (18%). The effective tax rate for the Group was 22% (23%).

Owing to the new distribution and license agreement that was signed in Japan at the end of 2016 (see annual reports for 2016 and 2017), it will be possible to utilize a large share of the earlier loss carryforward in Japan 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 June 30, 2018, the deferred tax asset amounted to SEK 8.6 million. The Group thus has no loss carryforwards for which no deferred tax is recognized.

Earnings per share, first half

Earnings per share amounted to 6.14 (5.20). No dilutive effects arose during the period.

Balance sheet, 30 June 2018

Total assets amounted to SEK 591.1 million (576.1). In the first half of the year, cash and cash equivalents decreased as a result of dividends, see below under "Cash flow", while inventories and accounts receivable increased. The increase is due to growth in sales.

Cash flow, first half

Cash flow amounted to SEK -94.1 million (-39.8). This cash flow includes dividends of SEK 158.7 million (130.0) and the net investment in MetaboGen of SEK 6.1 million (0). Cash and cash equivalents at June 30, 2018, amounted to SEK 215.5 million (305.9).

Investments in property, plant and equipment, first half

Investments in property, plant and equipment amounted to SEK 8.0 million (19.4), of which the majority refers to the subsidiary BioGaia Production.

Parent Company, first half

Net sales in the Parent Company amounted to SEK 339.0 million (290.6) and profit before tax was SEK 109.1 million (131.5). The figure for the previous year includes the reversal of a previously impaired receivable on a loan to the subsidiary in Japan of SEK 23.3 million since the subsidiary repaid part of the loan in the first quarter of 2017. Cash flow amounted to SEK -103.4 million (-34.8).

Subsidiary in Japan, first half

Net sales in the Japanese subsidiary amounted to SEK 24.5 million (13.6) in the first half of 2018. Operating profit for the Japanese subsidiary was SEK 3.7 million (7.4). The figure for the previous year includes compensation for knowhow, etc. (see above under "Adult Health Segment") from the agreement with Kabaya Ohayo.

Subsidiary BioGaia Production AB, first half

BioGaia Production is a wholly owned subsidiary of BioGaia that manufactures products, primarily drops.

Operating profit was SEK 22.4 million (12.9).

Subsidiary CapAble AB, first half

CapAble is owned 90.1% by BioGaia and 9.9% by CapAble's Managing Director. Net sales in CapAble amounted to SEK 0.7 million (1.0). Operating profit was SEK -0.8 million (-0.5).

Subsidiary BioGaia Pharma AB, first half

In June BioGaia announced that the company had established a subsidiary, BioGaia Pharma, to take advantage of the opportunities to develop drugs identified in the R&D activities conducted as part of the company's normal operations. BioGaia Pharma is owned 96% by BioGaia and 4% by the company's Managing Director. Operating profit for the first half of 2018 amounted to SEK -2.7. The company has received shareholder contributions of SEK 6.0 million from the Parent Company, of which SEK 4.0 million in the first half of 2018.

Subsidiary MetaboGen AB

MetaboGen is a research-driven 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. MetaboGen conducts research on metagenomics, the research-intensive and rapidly expanding area covering sequencing of all genes in the microbiome, for example in the human intestine, to find previously unknown components and patterns in the microbial diversity and link this to health and disease.

Since the beginning of April BioGaia owned 62% of the company (see above) and acquired additional shares at the beginning of July, after which BioGaia's holding amounts to 92%. Previously, the holding in MetaboGen was recognized in shares in associates.

Operating profit for MetaboGen starting from April 6, 2018, amounted to SEK -1.3 million.

EMPLOYEES

The number of employees in the Group at June 30, 2018, was 125 (120). The company has an incentive plan for all employees based on the company's sales and profit, where the maximum bonus is equal to 12% of salary. A third of the bonus refers to a long-term incentive plan where the employee is required reinvest the yearly paid-out compensation (after tax) in BioGaia class B shares and hold these for at least three years. The company has accrued expenses for the incentive plan amount of SEK 5.0 million for the first half of 2018.

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 predominantly under the BioGaia brand, successful clinical trials and an expanding distribution network that covers a large share of the key markets, BioGaia's future outlook remains bright.

SIGNIFICANT RISKS AND UNCERTAINTIES; GROUP AND PARENT COMPANY

Significant risks and uncertainties are described in the administration report of the annual report for 2017, on pages 40 and 41 and in Notes 28 and 29. No significant changes in these risks and uncertainties are assessed to have taken place at June 30, 2018.

ACCOUNTING POLICIES

This interim report has been prepared for the Group in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act, and for the Parent Company in accordance with the Swedish Annual Accounts Act. Disclosures according to IAS 34 Interim Financial Reporting are provided both in notes and elsewhere in the interim report.

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations from the International Financial Reporting Interpretations Committee (IFRIC) that have been approved by the European Commission for application in the EU. The accounting policies applied by the Group and the Parent Company are consistent, unless otherwise stated below, with the accounting policies applied in preparation of the most recent annual report. The Parent Company prepares its financial statements in accordance with RFR 2 Accounting for Legal Entities, and the Swedish Annual Accounts Act, and applies the same accounting policies and valuation methods as in the most recent annual report.

New accounting standards

IFRS 9

The Group has reviewed its financial assets and liabilities and assessed that the effects of IFRS 9 on the consolidated financial statements at 1 January 2018 amounts to SEK 0.3 million. According to IFRS 9 entities shall recognize a reserve that corresponds to expected credit losses within the next 12 months. This means that BioGaia's trade receivables are written down at initial application of IFRS 9. In assessment of the credit risk, incurred credit losses and an adjustment for expected future losses provide the basis for the reserve. BioGaia has no incurred credit losses. Default rate shall be evaluated each quarter.

The adjustment relates to a reserve for uncertainty in trade receivables and has been recognized in changes in equity. At 30 June the reserve amounted to SEK 0.4 million. The difference compared to 1 January 2018 is recognized in profit or loss. The Group has also changed policy from recognition of all derivatives in net financial items to recognition based on the item they hedge. Changes in value in relation to operating receivables, liabilities and derivatives are recognized in operating profit or loss while changes in value of financial receivables, liabilities and derivatives are recognized in net financial items. Forward contract hedges are recognized at fair value through profit or loss in accordance with the items they hedge. This means the company's exchange gains and losses relating to forward exchange contracts are recognized in operations with effect from 1 January 2018.

New accounting standards for financial instruments are provided below.

Financial instruments

Financial instruments recognized in the statement of financial position include on the assets side cash and cash equivalents, trade receivables, other current receivables and currency derivatives to the extent these have a positive fair value. On the liabilities side, there are trade payables, other current liabilities, loans and currency derivatives to the extent these have a negative fair value. The category to which the Group's financial assets and liabilities belong is specified in the note Financial assets and liabilities – classification and measurement of fair value.

Recognition and derecognition from the statement of financial position

A financial asset or liability is recognized in the statement of financial position when the company become party to the contractual terms of the instrument. A receivable, except trade receivables, is recognized when the company has performed and a contractual obligation exists for the counterparty to pay, even if no invoice has yet been sent. Trade receivables are recognized in the statement of financial position when an invoice has been sent. Liabilities, except trade payables, are recognized when the counterparty has performed and a contractual obligation to pay exists, even if an invoice has not yet been received. Trade payables are taken up when an invoice is received. A financial asset is derecognized from the statement of financial position when the contractual rights are realized, expire or the company has relinquished control. The same applies to part of a financial asset. A financial liability is derecognized from the statement of financial position when the contractual obligations are met or otherwise extinguished. The same applies to part of a financial liability. No currency derivatives or other financial assets and liabilities are offset in the statement of financial position since the terms for offsetting are not met. Acquisition and disposal of financial assets are recognized on the transaction date. The transaction date is the day the company undertakes to acquire or dispose of the asset.

Classification and measurement

Financial assets are classified on the basis of the business model in which the asset is held and its cash flow characteristic. If the financial asset is held within the framework of a business model whose objective is collecting contractual cash flows and the financial assets at identified dates gives rise to cash flows that are solely payments of principal and interest on the principal, the asset is recognized at amortized cost.

If the financial asset is held in a business model whose objective can be achieved both by collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal at identified dates, the asset is recognized at fair value through other comprehensive income.

All other business models where the purpose is speculation, held for trading or where the cash flow characteristic excludes other business models result in recognition at fair value through profit or loss.

Amortized cost and effective interest method

Amortized cost for a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus the cumulative amortization using the effective interest method of any difference between that principal and the outstanding principal, adjusted for any impairment. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjustment for any loss allowance.

Financial liabilities

Financial liabilities are recognized at amortized cost using the effective interest method or at fair value through profit or loss.

Financial liabilities at amortized cost

Loans and other financial liabilities, e.g. trade payables, are included in this category. Liabilities are measured at amortized cost.

Financial liabilities at fair value through profit or loss

This category consists of financial liabilities held for trading. This category includes the Group's derivatives with negative fair value.

Impairment

Effective from 1 January 2018 the Group recognizes a loss allowance for expected credit losses on a financial asset measured at amortized cost or fair value through other comprehensive income, for a lease receivable or for a contract receivable. At each closing date, the Group shall recognize in profit or loss the change in expected credit losses since the initial recognition date.

For trade receivables, contract assets and lease receivables there is a simplified model which mean that the Group recognizes directly expected credit losses for the remaining term of the assets. The expected credit losses for these financial assets are calculated with the aid of a provision matrix which is based on historical events, current conditions and forecasts for future economic conditions and the time value of the money if applicable. For all other financial assets the Group shall measure a loss allowance to an amount that corresponds to 12 months' expected credit losses. For financial instruments for which significant increase in credit risk has occurred since the initial recognition date, an allowance is recognized based on credit losses for the entire term to maturity of the asset.. Equity instruments are not subject to these impairment rules.

IFRS 15

BioGaia has conducted a review of the Group's current policies for revenue recognition and compared these with IFRS 15. IFRS 15 means that revenue is recognized when control is transferred to a purchaser compared with the current method that is based on risks and rewards. The analysis of the introduction of IFRS 15 has been based on a detailed review of BioGaia's revenue streams. BioGaia has chosen to apply the modified retrospective method for transfer to IFRS 15. According to IFRS 15 this means that BioGaia recognized the combined effect of initial application of this standard as a adjustment to the opening balance of retained earnings for the financial year that includes the initial date of application, i.e. 1 January 2018 for BioGaia. This means that IFRS 15 is only applied retrospectively for contracts that are not completed at 1 January 2018. BioGaia has chosen to apply this practical solution to all contract changes that take place before the date of initial application (i.e. 1 January 2018) to not retroactively recalculate the contract for these contract changes.
After its completed analysis, BioGaia assesses that the effect on the consolidated financial statements will not have an impact on BioGaia's consolidated financial statements for 2018.

IFRS 15 includes a new model for revenue recognition (the five-step model) that is based on when control of a good or service is transferred to the customer. The basic principle is that an entity recognizes revenue to differentiate between the transfer of promised goods or services to customers and an amount that reflects the compensation to which the entity is expected to be entitled in exchange for such goods or services.
Step 1. Identify the contract with a customer
Steg 2. Identify the performance obligations in the contract
Steg 3. Determine the transaction price
Steg 4. Allocate the transaction price to each performance obligation
Steg 5. Recognize revenue when a performance obligation is satisfied
Revenue is recognized on the basis of the amount specified in a contract with a customer and does not include any amounts received on account of a third party. BioGaia recognizes revenue when the Group transfers control of a product or service to a customer. Details of these new requirements and BioGaia's revenue streams are provided below.

Revenue recognition

BioGaia's revenues mainly comprise sales of goods. No commitment for BioGaia remains after delivery since BioGaia does not provide customers with any extended guarantees or the option to return. Control is transferred to the customer when the good is placed at the disposal of the purchaser. In addition to the sales of goods the other revenue consist of royalties or exclusivity rights linked to product distribution in a defined market/territory. These contracts include obligations over time and revenue is recognized in pace with fulfilment of BioGaia's performance obligations. The transaction price, i.e. the compensation BioGaia expects to receive in exchange for the goods and services is in most cases fixed and therefore easy to determine. Variable compensation exists in individual cases often in combination with minimum levels relating to compensation which simplifies assessment of the transaction price. In summary, the transfer to IFRS 15 will result in no change in BioGaia's accounting as regards the timing of revenue recognition.

IFRS 16

IFRS 16 is effective from 1 January 2019. At this stage the Group cannot quantify the effect on the Group's financial statements.

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 with the corresponding period last year, net sales would have been SEK 4.6 million lower for the second quarter and SEK 2,1 million lower for the first six months.

Consolidated statements of comprehensive income

Summary (amounts in SEK 000s)	**Jan-June 2018**	Jan-June 2017	**Apr-June 2018**	Apr-June 2017	Jan-Dec 2017	July 2017-June 2018	July 2016-June 2017
Net sales (note 1)	**357,524**	297,179	**200,879**	156,046	615,003	675,348	561,978
Cost of sales	**-89,768**	-73,772	**-48,889**	-38,385	-151,655	-167,651	-143,239
Gross profit	***267,756***	*223,407*	***151,990***	*117,661*	*463,348*	*507,697*	*418,739*
Selling expenses	**-72,328**	-59,132	**-42,217**	-32,300	-127,115	-140,311	-117,679
Administrative expenses	**-14,580**	-10,878	**-8,860**	-6,043	-22,063	-25,765	-21,044
Research and development expenses	**-44,756**	-34,467	**-25,351**	-17,648	-75,700	-85,989	-68,975
Shares of profit of associates	**-500**	-1,000	**0**	-500	-820	-320	-1,661
Revaluation of former associate shareholding (note 2)	**7,004**	-	**7,004**	-	-	7,004	-
Other operating income/expenses	**-6,536**	-655	**-2,657**	15	-4,659	-10,540	1,027
Operating profit	***136,060***	*117,275*	***79,909***	*61,185*	*232,991*	*251,776*	*210,407*
Interest income	**274**	-	**1**	-	112	386	106
Financial expenses	**-405**	-130	**-365**	-19	-192	-467	-132
Profit before tax	***135,929***	*117,145*	***79,545***	*61,166*	*232,911*	*251,695*	*210,381*
Deferred tax	**-693**	-	**-533**	-	-1,094	-1,787	10,433
Tax expense	**-29,328**	-27,079	**-16,260**	-13,986	-51,253	-53,502	-48,711
PROFIT FOR THE PERIOD	**105,908**	90,066	**62,752**	47,180	180,564	196,406	172,103
Items that may be subsequently reclassified to profit or loss							
Gains/losses arising on translation of the statements of foreign operations	**-318**	433	**4**	518	565		
Comprehensive income for the period	**105,590**	90,499	62,756	47,698	181,129		

	Jan-June 2018	Jan-June 2017	**Apr-June 2018**	Apr-June 2017	Jan-Dec 2017
Profit for the period attributable to:					
Owners of the Parent Company	**106,387**	90,066	62,752	47,180	180,564
Non-controlling interests	**-479**	0	**0**	0	0
	105,908	90,066	**62,752**	47,180	180,564
Comprehensive income for the period attributable to:					
Owners of the Parent Company	**106,069**	90,499	**62,756**	47,698	181,129
Non-controlling interests	**-479**	0	**0**	0	0
	105,590	90,499	**62,756**	47,698	181,129
Earnings per share					
Earnings per share (SEK)	**6.14**	5.20	**3.62**	2.72	10.42
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	**June 30,**	Dec 31,	June 30,
Summary (amounts in SEK 000s)	**2018**	2017	2017
ASSETS			
Property, plant and equipment	**107,098**	102,465	99,075
Intangible assets (note 2)	**52,242**	-	-
Shares in associates	**-**	9,932	9,752
Deferred tax asset	**8,646**	9,339	10,220
Other non-current receivables	**43**	39	41
Total non-current assets	***161,174***	*121,775*	*119,088*
Current assets excl. cash and cash equivalents	**207,625**	148,481	157,793
Cash and cash equivalents	**215,477**	305,856	202,582
Total current assets	***423,102***	*454,337*	*360,375*
TOTAL ASSETS	**591,131**	576,112	479,463
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent Company	**410,932**	463,904	375,672
Non-controlling interests	**16,567**	-16	-16
Total equity (note 3)	**427,499**	463,888	375,656
Provision for deferred tax	**7,633**	778	332
Current liabilities	**155,999**	111,446	103,475
TOTAL LIABILITIES AND EQUITY	**591,131**	576,112	479,463

CONSOLIDATED CASH FLOW STATEMENTS	**Jan-June**	Jan-June	**Apr-June**	Apr-June	Jan-Dec
Summary (amounts in SEK 000s)	**2018**	2017	**2018**	2017	2017
Operating activities					
Operating profit	**136,060**	115,487	**79,909**	59,665	232,991
Depreciation/amortization	**3,735**	2,769	**1,890**	1,462	6,573
Unrealized gains/losses on forward exchange contracts	**13,645**	-1,788	**5,043**	-1,520	842
Revaluation of former associate shareholding in MetaboGen	**-7,004**	-	**-7,004**	-	-
Other non-cash items	**-2,514**	1,625	**-1,630**	988	1,716
	143,922	118,093	**78,208**	60,595	242,122
Paid tax	**-25,533**	-24,774	**-12,901**	-12,387	-49,547
Interest received and paid	**-132**	-131	**-293**	-20	-157
Cash flow from operating activities before changes in working capital	**118,257**	93,188	**65,014**	48,188	192,418
Changes in working capital	**-39,500**	16,450	**-28,884**	-22,733	30,197
Cash flow from operating activities	***78,757***	*109,638*	***36,130***	*25,455*	*222,615*
Acquisition of property, plant and equipment	**-8,044**	-19,432	**-5,221**	-12,779	-26,624
Acquisition of subsidiary	**-6,087**	-	**-6,087**	-	-
Reduction of non-current receivables	**-**	-	**-**	-	-19
Cash flow from investing activities	***-14,131***	*-19,432*	***-11,308***	*-12,779*	*-26,643*
Dividends	**-156,028**	-130,023	**-156,028**	-130,023	-130,023
Provision to the Foundation to Prevent Antibiotic Resistance	**-2,700**	-	**-2,700**	-	-2,400
Formation of BioGaia Pharma	**-**	-	**-**	-	2
Cash flow from financing activities	***-158,728***	*-130,023*	***-158,728***	*-130,023*	*-132,421*
Cash flow for the period	**-94,102**	-39,817	**-133,906**	-117,347	63,551
Cash and cash equivalents at beginning of period	**305,856**	243,069	**347,871**	320,617	243,069
Exchange differences in cash and cash equivalents	**3,723**	-670	**1,512**	-688	-764
Cash and cash equivalents at end of period	**215,477**	202,582	**215,477**	202,582	305,856

Other current liabilities include foreign exchange contracts with a fair value of SEK 14.6 million. All forward exchange contracts are attributable to level 2 of the fair value hierarchy. The fair values of other receivables, cash and cash equivalents, trade payables and other liabilities are estimated to be equal to their carrying amounts (amortized cost) due to the short maturity.

NOTE 1 REPORTING BY SEGMENT - GROUP

The Executive Management has analyzed the Group's internal reporting system and established that the Group's operations are governed and evaluated based on the following segments:

- **Pediatrics segment** (drops, gut health tablets, oral rehydration solution (ORS) and cultures to be used ingredients in licensee products (such as infant formula), as well as royalty revenue for pediatric products.)
- **Adult Health segment** (gut health tablets, oral health lozenges and cultures as an ingredient in a licensee's dairy products).
- **Other segment** (Smaller segments such as revenue from packaging solutions.)

For the above segments BioGaia reports revenue and gross profit, which are monitored regularly by the Managing Director (who is regarded as the chief operating decision maker) together with the Executive Management. There is no monitoring of the company's total assets against the segments' assets.

Revenue by segment (SEK 000s)	**Jan-June 2018**	Jan-June 2017	**Apr-June 2018**	Apr-June 2017	Jan-Dec 2017	July 2017 -June 2018	July 2016-June 2017
Pediatrics	**300,221**	242,842	**168,486**	132,063	492,550	549,929	461,085
Adult Health	**56,536**	49,527	**32,101**	23,022	116,176	123,185	87,974
Other	**767**	4,810	**292**	961	6,277	2,234	12,919
Total	**357,524**	297,179	**200,879**	156,046	615,003	675,348	561,978
Gross profit by segment							
Pediatrics	**227,325**	184,340	**128,493**	101,547	378,936	421,921	348,443
Adult Health	**39,677**	34,257	**23,218**	15,153	78,173	83,593	57,416
Other	**754**	4,810	**279**	961	6,239	2,183	12,880
Total	**267,756**	223,407	**151,990**	117,661	463,348	507,697	418,739
Selling, administrative and R&D expenses	**-131,664**	-104,477	**-76,428**	-55,991	-224,878		
Share of profits of associates	**-500**	-1,000	**0**	-500	-820		
Revaluation of former associate shareholding	**7,004**	-	**7,004**	-	-		
Other operating expenses	**-6,536**	-655	**-2,657**	15	-4,659		
Operating profit	**136,060**	117,275	**79,909**	61,185	232,991		
Net financial items	**-131**	-130	**-364**	-19	-80		
Profit before tax	**135,929**	117,145	**79,545**	61,166	232,911		
Revenue by geographic market and segment							
Asia Pacific							
Pediatrics	**20,548**	11,711	**13,246**	6,169	31,237		
Adult Health	**27,265**	25,714	**15,342**	9,769	63,992		
Other	**98**	226	**61**	113	246		
Total Asia Pacific	**47,911**	37,651	**28,649**	16,051	95,475		
EMEA							
Pediatrics	**194,154**	165,305	**104,579**	84,954	338,716		
Adult Health	**26,705**	22,575	**15,609**	12,345	49,395		
Other	**663**	4,366	**225**	849	5,359		
Total EMEA	**221,522**	192,246	**120,413**	98,148	393,470		
Americas							
Pediatrics	**85,519**	65,826	**50,661**	40,940	122,597		
Adult Health	**2,566**	1,237	**1,150**	907	2,789		
Other	**6**	219	**6**	-	672		
Total Americas	**88,091**	67,282	**51,817**	41,847	126,058		
Total	**357,524**	297,179	**200,879**	156,046	615,003		
Date of recognition							
Performance obligations met on specific date	**320,767**	250,401	**182,179**	135,798			
Performance obligations met over time	**36,757**	46,778	**18,690**	20,248			
Total	**357,524**	297,179	**200,869**	156,046			

NOTE 2 ACQUISITION OF SUBSIDIARY

On April 6, 2018, BioGaia acquired 26% of MetaboGen AB for SEK 11.7 million. The purchase consideration was paid in cash. BioGaia already held 36% of the MetaboGen and recognized it as an associated company. In a step acquisition, all previous equity interests in the acquiree are adjusted to fair value and all gains and losses thus arising are recognized in profit or loss. As a result of this, a gain of SEK 7.0 million is recognized in operating profit regarding the previous associate shareholding in MetaboGen. Since BioGaia increased its holding to 62% and thereby obtained a controlling interest in MetaboGen, the company is consolidated as a subsidiary as of April 6, 2018.

There are no contractual obligations for additional purchase consideration, but an agreement was signed to acquire the remaining shares in MetaboGen in two steps. BioGaia acquired a further 30% of the company at the beginning of July for SEK 27.8 million. The accounting effect of this transaction will be reported in the q3 report.

BioGaia will also acquire the remaining 8% of the company within a three-year period. The additional purchase price can amount to a maximum of SEK 12 million depending on the number of milestones achieved.

MetaboGen was founded in 2011 by Professor Fredrik Bäckhed at the University of Gothenburg and Professor Jens B. Nielsen at Chalmers University of Technology, together with GU Ventures, which commercializes research results and develops companies with ties to the University of Gothenburg. The company is domiciled in Gothenburg, Sweden. Aside from assignments for BioGaia, MetaboGen collaborates with the pharmaceutical company Ferring and holds a number of patents and patent applications in the microbiome area. The company has a laboratory in Gothenburg where development of new probiotic strains takes.

Research on the microbiome is advancing rapidly and pharmaceutical companies are making major investments in this area. Through the investment in MetaboGen, BioGaia will be able to maintain its strong position in the field of probiotic research.

Net assets in the acquired company on the acquisition date (SEK 000s)

Property, plant and equipment	364
Current assets	261
Cash and Cash equivalents	5,600
Trade payables and other operating liabilities	-6,426
Net identifiable assets and liabilities	-201
Less non-controlling interests	-17,062
Less fair value of previously held equity interests	-16,436
Ongoing research and development projects	52,242
Less provision for deferred tax	-6,855
Consideration transferred	**11,688**

Revenue and profit attributable to the acquired company

The acquisition was carried out on April 6, 2018, and the acquired company has contributed net sales of SEK 0 million and a net loss of SEK of -1.3 million. If the acquisition had taken place on January 1, 2018, management's assessment is that the during the period from January 1 to June 30, 2018, the acquired company would have contributed of SEK 0 million to the Group's net sales and SEK -2.3 million to the Group's net profit.

Ongoing research and development projects

Work on the purchase price allocation will be completed in the third quarter, but according to the analysis carried out to date, the entire surplus value is preliminarily attributable to ongoing research and development projects. Provision for deferred tax has been accounted for. MetaboGen ha a number of research and development projects currently underway. The company has made the assessment that when they are commercialized, these will have a useful life of at least 10 years.

Cash flow impact

The effect on the Group's cash flow consists of the paid purchase consideration of SEK 11.7 million and acquired cash and cash equivalents of 5.6 million. No other acquisition-related expenses exist.

NOTE 3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Summary (amounts in SEK 000s)	**Jan-June 2018**	Jan-June 2017	Jan-Dec 2017
Opening balance	**463,888**	415,180	415,180
Dividend	**-156,028**	-130,023	-130,023
Provision to the Foundation to Prevent Antibiotic Resistance	**-2,700**	-	-2,400
Formation of BioGaia Pharma	**-**	-	2
Recalculation due to IFRS 9	**-313**	-	-
Minority holding in MetaboGen	**17,062**	-	-
Comprehensive income for the period	**105,590**	90,499	181,129
Closing balance	**427,499**	375,656	463,888

BioGaia®
Probiotics grounded in evolution
Driven by science

CONSOLIDATED KEY RATIOS

	Jan-June 2018	Jan-June 2017	Jan-Dec 2017
Net sales, SEK 000s	**357,524**	297,179	615,003
Growth, %	**20%**	10%	15%
Operating profit, SEK 000s	**136,060**	117,275	232,991
Profit after tax, SEK 000s	**105,908**	90,066	180,564
Return on			
- average equity	**24%**	23%	41%
- average capital employed	**30%**	30%	53%
Capital employed, SEK 000s	**435,132**	375,988	464,666
Number of shares, thousands [1]	**17,336**	17,336	17,336
Number of shares, thousands	**17,336**	17,336	17,336
Earnings per share, SEK [1] [2]	**6.14**	5.20	10.42
Equity per share, SEK [1]	**23.70**	21.67	26.76
Equity/assets ratio	**72%**	78%	81%
Operating margin	**38%**	39%	38%
Profit margin	**38%**	39%	38%
Average number of employees	**124**	113	115

1) No dilutive effect arose during the period
2) Key ratio defined according to IFRS

Definition of key ratios

Key ratios	Definition/Calculation	Purpose
Return on equity	Profit attributable to the owners of the Parent Company divided by average equity attributable to the owners of the Parent Company.	Return on equity is used to measure profit generation, over time, given the resources attributable to the owners of the Parent Company.
Return on capital employed	Operating profit plus financial income as a percentage of average capital employed.	Return on capital employed is used to analyze profitability, based on the amount of capital used.
Equity per share	Equity attributable to the owners of the Parent Company divided by the number of shares.	Equity per share measures the company's net value per share and indicates whether a company will increase the shareholders' wealth over time.
Operating profit (EBIT margin)	Operating profit expressed as a percentage of net sales.	The operating profit margin is used to measure operational profitability.
Equity/assets ratio	Equity at the end of the period as a percentage of total assets.	A traditional measure to show financial risk expressed as the share of total assets financed by the shareholders. Shows the company's stability and ability to withstand losses.
Capital employed	Total assets less interest-free liabilities.	Capital employed measures the total amount of investment needed to keep a company running and includes both equity and debt.
Growth	Sales for the current peirod less sales for the previous period divided by sales for the previous period.	Shows the company's realized sales growth over time.
Earnings per share (EPS)	Profit for the period attributable to the owners of the Parent Company divided by the number of shares (definition according to IFRS).	EPS measures how much of net profit is available for payment to the shareholders as dividends per share.
Profit margin	Profit before tax in relation to net sales.	This key ratio makes it possible to compare profitability regardless of the corporate income tax

Definition of key ratios, cont'd.

Return on capital employed	**Jan-June 2018**	Jan-June 2017	Jan-Dec 2017
Operating profit	**136,060**	117,275	232,991
Financial income	**274**	-	112
Profit before financial items + financial income (A)	**136,334**	117,275	233,103
Total assets	**584,276**	479,463	576,112
Interest-free liabilities	**-155,999**	-103,475	-111,446
Capital employed	**428,277**	375,988	464,666
Average capital employed (B)	**446,472**	395,750	440,089
Return on capital employed (A/B)	**31%**	30%	53%

Return on equity	**Jan-June 2018**	Jan-June 2017	Jan-Dec 2017
Profit attributable to owners of the Parent Company (A)	**106,387**	90,066	180,564
Equity attributable to owners of the Parent Company	**410,932**	375,672	463,904
Average equity attributable to owners of the Parent Company (B)	**437,418**	395,435	439,551
Return on equity (A/B)	**24%**	23%	41%

Definition of key ratios, cont'd.

Equity/assets ratio	June 30, 2018	June 30, 2017	Dec 31, 2017
Equity (A)	**427,499**	375,656	463,888
Total assets (B)	**584,276**	479,463	576,112
Equity/assets ratio (A/B)	**73%**	78%	81%

Operating margin	Jan-June 2018	Jan-June 2017	Jan-Dec 2017
Operating profit (A)	**136,060**	117,275	232,991
Net sales (B)	**357,524**	297,179	615,003
Operating margin (A/B)	**38%**	39%	38%

Change in sales by segment (including foreign exchange effects)

		Pediatrics		Adult Health		Other		Total	
		Jan-June 2018	Apr-June 2018	Jan-June 2018	Apr-June 2018	Jan-June 2018	Apr-June 2018	Jan-June 2018	Apr-June 2018
	Description								
A	The previous year's net sales according to the average rate	242,842	132,063	49,527	23,022	4,810	961	297,179	156,046
B	Net sales for the year according to the average rate	300,221	168,486	56,536	32,101	767	292	357,524	200,879
C	Reported change (B-A)	57,379	36,423	7,009	9,079	-4,043	-669	60,345	44,833
	Percentage change (C/A)	24%	28%	14%	39%	-84%	-70%	20%	29%
D	Net sales for the year according to the previous year's average rate (D)	298,583	164,664	56,030	31,339	767	292	355,380	196,295
E	Foreign exchange effects (C-F)	1,638	3,822	506	762	0	0	2,144	4,584
	Percentage change (E/A)	1%	3%	1%	3%	0%	0%	1%	
F	Organic change (D-A)	55,741	*32,601*	6,503	8,317	-4,043	-669	58,201	40,249
	Organic change percent (F/A)	23%	25%	13%	36%	-84%	-70%	20%	26%

Average key exchange rates	Jan-June 2018	April-June 2018	Jan-June 2017	April-June 2017	Jan-Dec 2017
EUR	10.14	10.33	9.59	9.69	9.63
USD	8.38	8.67	8.86	8.80	8.54
JPY	7.71	7.94	7.88	7.91	7.61

Key exchange rates on closing date	June 30, 2018	Dec 31, 2017	June 30, 2017
EUR	10.42	9.85	9.67
USD	8.96	8.23	8.47
JPY	8.10	7.31	7.56

Change of accounting standard (for more information, see above at page 7)

Effects on assets, January 1, 2018

Category	IAS 39 Recognized at Dec 31, 2017			IFRS 9 Recognized at January 1, 2018	
	Fair value through profit or loss	Loans and trade receivables	Recalculation due to IFRS 9	Business model Other	Business model Hold to Collect
Trade receivables [1]		80,101	-313		79,788
Short-term investments [1]	5,000			5,000	
Cash and cash equivalents [1]	305,856				305,856,

1) Hold to collect.

Effects on the income statement due to change of accounting standard

	2017 according to Annual Report	Reclassification	2017 according to new accounting standard
Other operating expenses	-3,817	-842	-4,659
Net financial items	-922	842	-80

	Jan-June 2017 according to IAS 39	Reclassification	Jan-June 2017 according to new accounting standard
Other operating expenses	-2,443	1,788	-655
Net financial items	1,658	-1,788	-130

	April-June 2017 according to IAS 39	Reclassification	April-June 2017 according to new accounting standard
Other operating expenses	-1,505	1,520	15
Net financial items	1,501	-1,520	-19

	Jan-June 2018 according to IAS 39	Reclassification according to IFRS 9	Jan-June 2018 according to new accounting standard
Other operating income/expenses	7,109	-13,645	-6,536
Net financial items	-13,776	13,645	-131

	April-June 2018 according to IAS 39	Reclassification according to IFRS 9	April-June 2018 according to new accounting standard
Other operating income/expenses	1,942	-4,599	-2,657
Net financial items	-4,963	4,599	-364

Pledged assets and contingent liabilities	**GROUP**		**PARENT COMPANY**	
	June 30, 2018	Dec 31, 2017	**June 30, 2018**	Dec 31, 2017
Floating charges	**2,000**	2,000	**2,000**	2,000
Total	**2,000**	2,000	**2,000**	2,000
Contingent liabilities	**None**	None	**None**	None

PARENT COMPANY INCOME STATEMENT	**Jan-June**	Jan-June	Jan-Dec
Summary (amounts in SEK 000s)	**2018**	2017	2017
Net sales	**339,095**	290,573	587,937
Cost of sales	**-110,100**	-89,232	-177,578
Gross profit	**228,995**	201,341	410,359
Selling expenses	**-58,922**	-48,113	-102,332
Administrative expenses	**-13,433**	-10,003	-20,227
Research and development expenses	**-41,297**	-34,575	-74,032
Other operating expenses	**-6,613**	-650	-4,648
Operating profit	**108,730**	108,000	209,120
Impairment loss on shares in subsidiary	**-**	-	-1,427
Reversal of previous impairment loss on receivable in subsidiary	**-**	23,351	26,180
Net financial items	**357**	151	-1,751
Profit before tax	**109,087**	131,502	232,122
Tax expense	**-24,567**	-23,924	-45,502
Profit for the period	**84,520**	107,578	186,620

PARENT COMPANY BALANCE SHEET	**June 30, 2018**	June 30, 2017	Dec 31, 2017
ASSETS			
Property, plant and equipment	**5 218**	1 220	4 076
Investments in group companies	**82,259**	51,181	54,570
Investments in associates	**-**	12,001	12,001
Non-current receivables from subsidiaries	**45,835**	55,835	55,835
Total non-current assets	***133,312***	*120,237*	*126,482*
Current assets excluding cash and cash equivalents	**177,041**	136,788	127,674
Cash and cash equivalents	**169,787**	180,410	270,050
Total current assets	***346,828***	*317,198*	*397,724*
Total assets	**480,140**	437,435	524,206
EQUITY AND LIABILITIES			
Equity	**359,023**	356,589	433,231
Interest-free current liabilities	**121,117**	80,846	90,975
TOTAL EQUITY AND LIABILITIES	**480,140**	437,435	524,206

PARENT COMPANY CASH FLOW STATEMENT	**Jan-June 2018**	Jan-June 2017	Jan-Dec 2017
Operating activities			
Operating profit	**108,730**	108,000	209,962
Amortization/depreciation	**438**	209	515
Other non-cash items	**-3,100**	624	897
Unrealized forward exchange contracts	**13,645**	-2,954	-1,337
Tax paid	**-23,349**	-23,349	-46,698
Interest received and paid	**357**	152	1,078
Cash flow from operating activities before changes in working capital	**96,721**	82,682	164,417
Changes in working capital	**-34,089**	-10,072	5,668
Cash flow from operating activities	**62,632**	72,610	170,085
Acquisition of property, plant and equipment	**-1,581**	-735	-3,897
Acquisition of financial assets	**-15,688**	-49	-2,049
Repayment of loans from subsidiaries	**10,000**	23,352	23,352
Cash flow from investing activities	**-7,269**	22,568	17,406
Dividend	**-156,028**	-130,023	-130,023
Provision to Foundation to Prevent Antibiotic Resistance	**-2,700**	-	-2,400
Cash flow from financing activities	**-158,728**	-130,023	-132,423
Cash flow for the period	**-103,365**	-34,845	55,068
Cash and cash equivalents at beginning of period	**270,050**	215,880	215,880
Exchange difference in cash and cash equivalents	**3,102**	-625	-898
Cash and cash equivalents at end of period	**169,787**	180,410	270,050

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

(Amounts in SEK)	**Jan-June 2018**	Jan-June 2017	Jan-Dec 2017
Opening balance	**433,231**	379,034	379,034
Dividend	**-156,028**	-130,023	-130,023
Provision to Foundation to Prevent of Antibiotic Resistance	**-2,700**	-	-2,400
Profit for the period	**84,520**	107,578	186,620
Closing balance	**359,023**	356,589	433,231

RELATED PARTY TRANSACTIONS

The Parent Company owns 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 owns 90.1% of the shares in CapAble AB and 96% of the shares in BioGaia Pharma AB. With effect from April 6, 2018, BioGaia owns 62% of the former associated company MetaboGen AB (see above under "Key events in the second quarter").

Annwall & Rothschild Investment AB owns 740,668 class A shares and 509,332 class B shares, which is equal to 7.2% of the share capital and 33% of the voting rights in BioGaia AB. Annwall & Rothschild Investment AB is owned by Peter Rothschild, Group President of BioGaia AB, and Jan Annwall, a member of the Board of BioGaia AB. The only transaction that took place during the period was the payment of a dividend of SEK 9.00 per share.

FINANCIAL CALENDAR

17 August 2018, 9:30	Teleconference with Acting Managing Director Sebastian Schröder. To participate in the teleconference, please see https://www.biogaia.com/investors/financial-calendar/ for telephone numbers. The teleconference can also be followed at https://tv.streamfabriken.com/biogaia-q2-2018.
24 October 2018, 8:00	Interim management statement January 1 – September 30, 2018
7 February 2019, 8:00	Year-end report 2018
March 2019	Annual report 2018
8 May 2019, 8:00	Interim management statement January 1 – March 31, 2019
8 May, 2019, 16:00	Annual General Meeting in Stockholm
8 August 2019, 8:00	Interim report January 1 – June 30, 2019

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

Stockholm, August 17, 2018

Peter Rothschild **Board Chairman**	**Ewa Björling** **Board member**	**David Dangoor** **Board member**
Isabelle Ducellier **Board member**	**Peter Elving** **Board member**	**Inger Holmström** **Board member**
Anthon Jahreskog **Board member**	**Brit Stakston** **Board member**	**Sebastian Schröder** **Acting 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 June 30, 2018, 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, August 17, 2018

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* in combination with unique packaging solutions that make it possible to create probiotic products with a long shelf life.

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

BioGaia has 125 employees, of whom 114 are based in Sweden (Stockholm, Lund and Eslöv), two in the USA, one in Singapore and eight in Japan.

Business model

BioGaia is working with three international networks within the areas of research, production and distribution.

BioGaia's revenue comes mainly from the sale of drops, gut 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 approximately 100 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 *Lactobaciluus 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, 184 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on around 15,500 individuals of all ages. The results have been published in 159 articles in scientific journals.

Studies have been performed on:

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

Latest press releases from BioGaia:

2018-07-04	BioGaia invests further in MetaboGen
2018-06-26	Now published: *Lactobacillus reuteri* reduced bone loss in older women
2018-05-23	BioGaia appoints new Managing Director

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