BioGaia AB
Year-end report 2018

Press release, 7 February 2019

(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 31 December 2017).

Comments from the Managing Director:

"2018 was yet another year of strong growth for BioGaia. We achieved sales of SEK 742 million which represents growth of 16% excluding foreign exchange effects. Sales increased in all regions, EMEA, Asia Pacific and the Americas, and in both the Pediatrics and Adult Health segments. Our growth continues to outpace the market which is expected to grow by approximately 10% per year. As the new Managing Director, I am taking charge of a business with a positive trend – and with major potential," says Isabelle Ducellier, Managing Director BioGaia.

Fourth quarter 2018

Net sales amounted to SEK 209.7 million (170.1), an increase of 23% (excluding foreign exchange effects, 16%).

Net sales in the Pediatrics segment reached SEK 158.0 million (138.6), an increase of 14%.

Net sales in the Adult Health segment amounted to SEK 49.1 million (31.0), an increase of 58%.

Operating profit amounted to SEK 75.1 million (61.9), an increase of 21%. The company has a changed accounting standard as of 1 January 2018, which means that foreign exchange gains/losses attributable to forward contracts are recognized in operating profit (previously in financial items). These amounted to SEK 2.6 million (-2.8). With an unchanged standard, operating profit would have amounted to SEK 72.5 million (64.7), an increase of 12%.

Profit after tax was SEK 57.0 million (48.4), an increase of 18%.

Earnings per share totaled SEK 3.29 (2.79). No dilutive effects arose.

Cash flow amounted to SEK 26.9 million (65.5). The difference is due to increased working capital.

Key events in the fourth quarter of 2018

Isabelle Ducellier took over as the new Managing Director in November.

MetaboGen's first product became ready for safety study.

Key events after year-end 2018

No key events occurred after the end of the period.

Full year 2018

Net sales amounted to SEK 741.9 million (615.0), an increase of 21% (excluding foreign exchange effects, 16%).

Net sales in the Pediatrics segment reached SEK 596.5 million (492.6), an increase of 21%.

Net sales in the Adult Health segment amounted to SEK 141.7 million (116.2), an increase of 22%.

Operating profit amounted to SEK 277.4 million (233.0). Operating profit excluding revaluation of the former associate shareholding in MetaboGen, amounted to SEK 270.4 million (233.0), an increase of 16%. With an unchanged accounting standard (see comments on operating profit for the fourth quarter), operating profit, excluding the revaluation of MetaboGen, would have amounted to SEK 276.5 million (233.8), an increase of 18%.

Profit after tax was SEK 214.2 million (180.6), an increase of 19%. Excluding revaluation of the former associate shareholding in MetaboGen, profit after tax rose 15%.

Earnings per share totaled SEK 12.40 (10.42). No dilutive effects arose.

Cash flow amounted to SEK -22.9 million (63.5). The negative cash flow is due to the acquisition of MetaboGen, dividends and an increase in working capital. Cash and cash equivalents at 31 December 2018 amounted to SEK 285.0 million (305.9).

The Board proposes that the upcoming Annual General Meeting on 8 May 2019 approves an ordinary dividend according to the policy of SEK 4.05 (4.31) per share and an extraordinary dividend of SEK 5.95 (4.69) per share, amounting to a total dividend of SEK 10.00 (9.00) per share.

The Board further proposes that the upcoming Annual General Meeting approves a provision of SEK 3.2 million (2.7) to the "Foundation to prevent antibiotic resistance".

Teleconference: **Investors, analysts and the media are invited to take part in a teleconference on the year-end report to be held today 7 February 2019 at 09:30 CET with Managing Director Isabelle Ducellier. 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-q4-2018.

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

BioGaia AB (publ.)
Year-end report 2018

The Board of Directors and the Managing Director of BioGaia AB hereby present the year-end report for 2018.

MANAGING DIRECTOR'S COMMENTS

Full year 2018

2018 was yet another year of strong growth for BioGaia. We achieved sales of SEK 742 million which represents growth of 16% excluding foreign exchange effects. Sales increased in all regions, EMEA, Asia Pacific and the Americas, and in both the Pediatrics and Adult Health segments. Our growth continues to outpace the market which is expected to grow by approximately 10% per year. As the new Managing Director, I am taking charge of a business with a positive trend – and with major potential.

Fourth quarter

Sales for the fourth quarter of 2018 amounted to SEK 210 million, which was an increase of 23% (16% excluding foreign exchange effects) compared to the same period of last year.

Sales in the Pediatrics segment amounted to SEK 158 million, an increase of 14% (7% excluding foreign exchange effects) compared to the fourth quarter last year. The increase was driven by strong sales growth for BioGaia Protectis drops in all markets, but above all in the Americas, as well as favorable growth for BioGaia Protectis tablets.

Sales in the Adult Health segment increased by a full 58% (48% after foreign exchange effects), compared to the fourth quarter last year, to SEK 49 million. Sales of both BioGaia Prodentis oral health lozenges and BioGaia Protectis tablets showed strong growth. Sales of oral health products increased above all in Japan but also in several countries in Europe. Oral health lozenges are now sold in some 30 countries. It is also satisfactory to see that sales of BioGaia Protectis tablets are rising again after the weak third quarter. Sales increased in all regions but especially in EMEA and Asia Pacific. In Finland, competition remains intense but our partner there has a positive view of the market for the coming year. Sales of BioGaia Gastrus increased marginally during the quarter but we can see higher demand and launches in new countries continue.

Operating expenses increased by 20% during the quarter. The increase is mainly attributable to R&D costs where we are making considerable investments in new research projects, clinical studies and product development. We have also increased our investments in marketing activities. All these factors also create an increased personnel requirement. Since the fourth quarter of last year, we have increased the number of employees by 23 people, including three attributable to the acquisition of MetaboGen and ten in the subsidiary in Japan.

Due to the strong sales growth, operating profit increased, despite higher expenses, by 21% to SEK 75 million and the operating margin amounted to 36% (36). With unchanged accounting standards, operating profit would have amounted to SEK 73 million with an operating margin of 35% (38).

A number of launches of existing products in established markets took place during the quarter – see table on page 3.

Reflections on my first months at BioGaia

I took over as the new Managing Director at the beginning of November and during my first months at BioGaia I have visited some of our most important distributors around the world. I am impressed by their work in their markets, but there is much still to be done in particular regarding the launch of existing products in more countries and when it comes to consumer marketing. We will now look specifically at China and the USA where a large proportion of our sales already today take place via Alibaba in China and Amazon in the USA.

Another thing I have noted during my travels is the substantial demand for probiotic products and it is gratifying to see how this market is growing worldwide. With a growing older population, I also see higher demand for products that contribute to healthy aging.

Finally, I would like to thank BioGaia's employees for yet another fantastic year and I look forward with confidence to the years ahead.

Isabelle Ducellier
Managing Director BioGaia
7 February 2019

FINANCIAL PERFORMANCE IN THE FOURTH QUARTER OF 2018

Sales, fourth quarter

Consolidated net sales amounted to SEK 209.7 million (170.1) which is an increase of SEK 39.6 million (23%) (excluding foreign exchange effects, 16%) compared to the fourth quarter of last year.

Sales in the Pediatrics segment amounted to SEK 158.0 million (138.6), an increase of 14% (excluding foreign exchange effects, 7%). This was mainly due to higher sales of BioGaia Protectis drops which increased in all regions but primarily in the Americas. Sales of BioGaia Protectis tablets in the Pediatrics segment also increased during the quarter, mainly in the Americas and EMEA. Royalties from sales of Growing Up Milk with *Lactobacillus reuteri* Protectis for children older than one year to Nestlé decreased by SEK 10 million compared to the fourth quarter of the previous year. As already communicated, this is due to a reduction in the geographic scope of the agreement.

Sales in the Adult Health segment amounted to SEK 49.1 million (31.0), an increase of 58% (excluding foreign exchange effects, 48%). This was due to increased sales of BioGaia Prodentis oral health lozenges, primarily in Asia Pacific but also in EMEA, and increased sales of BioGaia Protectis tablets which rose in all regions but mainly in EMEA and Asia Pacific. Sales of BioGaia Gastrus tablets increased slightly during the quarter.

Gross margin, fourth quarter

The total gross margin for the quarter was 75% (77%). The gross margin for the Pediatrics segment was 76% (78%). The decrease is related to lower royalties. The gross margin for the Adult Health segment was 72% (71%). The increase is mainly due to increased sales in Japan where margins are higher.

Operating expenses and operating profit, fourth quarter

Operating expenses (selling, administrative and R&D expenses) rose by SEK 13.6 million (20%) compared to the fourth quarter of last year to SEK 83.0 million. The increase is due to higher personnel expenses, increased costs for research projects and clinical studies as well as marketing activities. Expenses also include a provision for the incentive program of SEK 4.5 million (3.0) (see below under Employees). Also included are expenses of SEK 2.2 million (1.0) for the subsidiaries BioGaia Pharma and MetaboGen (which has been consolidated in the Group since 6 April 2018).

Other operating expenses/income refer to exchange gains/losses on receivables and liabilities of an operating nature and amounted to SEK 0.5 million (-0.2). The company changed its accounting standard as of 1 January 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 2.6 million (-2.8).

Operating profit amounted to SEK 75.1 million (61.9), an increase of 21%. Operating margin was 36% (36%)**.** Excluding the effect of changed accounting standards, operating profit rose by 12% to SEK 72.5 million and the operating margin was 35% (38%).

Profit after tax and earnings per share, fourth quarter

Profit after tax amounted to SEK 57.0 million (48.4) an increase of SEK 8.6 million (18%). The effective tax rate was 24% (22%). The higher tax rate is due to a loss in the subsidiary MetaboGen where no deferred tax asset was recognized.

Earnings per share amounted to SEK 3.29 (2.79). No dilutive effects arose.

KEY EVENTS IN THE FOURTH QUARTER OF 2018

Launches in the fourth quarter

Distributor/licensee	Country	Product
HansaMed	Canada	BioGaia Prodentis lozenges
Sunflower	China	BioGaia Protectis drops with vitamin D, BioGaia Prodentis lozenges
Casen/Recordati	Spain	BioGaia Protectis tablets with new flavor (strawberry)
Everidis	USA	BioGaia Prodentis lozenges

Isabelle Ducellier took over as Managing Director

Isabelle Ducellier took over as Managing Director on 5 November 2018. Isabelle's latest position was General Secretary at the Swedish Childhood Cancer Fund. She previously held a number of senior positions within the Pernod Ricard Group for 20 years, in particular as CEO of Pernod Ricard Sweden.

MetaboGen's first product ready for safety study

BioGaia's subsidiary MetaboGen has achieved an important development goal. In October, the company announced that the first version of its next generation probiotic product is now ready to go into a safety study. During the quarter the ethical application for the first safety study on humans was approved and the clinical study is underway.

Two bacterial strains from the human microbiome, *Faecalibacterium prausnitzii* (DSM 32379) and *Desulfovibrio piger* (DSM 32187), have been chosen in this project. Because of the oxygen sensitive properties of the strains, MetaboGen has developed, and patented, a unique production technology that gives the bacteria a significantly better ability to survive in oxygen. This has been a crucial step in the product development and something that may potentially also be suitable for other similar strains.

Future products based on these strains are intended to be used in the management of metabolic diseases, such as type 2 diabetes, gestational diabetes and non-alcoholic fatty liver disease.

KEY EVENTS AFTER THE END OF THE FOURTH QUARTER

No key events occurred after the end of the period.

FINANCIAL PERFORMANCE FULL YEAR 2018

Sales, 2018

Consolidated net sales totaled SEK 741.9 million (615.0) which is an increase of SEK 126.9 million (21%) (excluding foreign exchange effects, 16%) compared to the previous year.

PEDIATRICS SEGMENT

Sales in the Pediatrics segment amounted to SEK 596.5 million (492.6) an increase of SEK 103.9 million (21%), (excluding foreign exchange effects, 17%). The increase was driven mainly by sales of BioGaia Protectis drops.

Sales of drops, which make up the bulk of sales, increased sharply in all regions. In EMEA sales rose in most countries but the increase was particularly strong in several countries in Eastern Europe, Spain, South Africa and France, in the Americas in the USA and Brazil, and in Asia Pacific primarily in China but also Indonesia, South Korea and India.

Sales of BioGaia Protectis tablets in the Pediatrics segment increased compared to the previous year above all in EMEA (mainly the Eastern European countries, Spain and France). In Asia Pacific and the Americas, sales were largely unchanged over the previous year.

Royalty revenues from the sale of Growing Up Milk with *Lactobacillus reuteri* Protectis for children over the age of one, decreased by approximately SEK 5 million compared to the previous year. As already communicated in earlier reports, BioGaia's royalty agreement with Nestlé expired at the end of the year. Nestlé has renegotiated the royalty agreement which restricted the number of markets compared with the previous agreement which applied worldwide. BioGaia's assessment is that the new agreement will lead to a reduction in royalty revenues of approximately SEK 40 million in 2019 compared to 2018.

Sales of culture, at low margins, for use in Nestlé's infant formula decreased compared to the previous year.

Royalty revenue from the collaboration agreement with Nestlé amounted to SEK 10.1 million (14.3). The collaboration agreement with Nestlé was signed in March 2014. Royalty revenue totals SEK 91.8 million and has been divided between the Pediatrics segment and Other Sales over the period 2014-2018. Through 31 December 2018, BioGaia has recognized total revenue of SEK 91.8 million, of which SEK 42.2 million in Other Sales and SEK 49.6 million in the Pediatrics segment.

ADULT HEALTH SEGMENT

Net sales in the Adult Health segment amounted to SEK 141.7 million (116.2), an increase of SEK 25.5 million (22%), (excluding foreign exchange effects, 16%) compared to the previous year.

Sales growth was mainly driven by oral health products which increased substantially compared to last year. Sales increased in Asia Pacific (Japan) and in EMEA (several countries). In the Americas, BioGaia Prodentis oral health lozenges have just been launched in the USA. At present, oral health lozenges are not sold in Latin America. The company is making active efforts to find additional distribution partners for the product.

Sales of BioGaia Protectis tablets also increased compared to the previous year. Sales rose in Asia Pacific, primarily Japan but also Hong Kong, while they decreased in EMEA. In EMEA sales increased in several markets including Belgium, Italy and Sweden but fell in Finland. In the Americas, sales increased slightly but remain at a low level.

Sales of BioGaia Gastrus tablets remain at a low level but increased sharply compared to last year. Sales rose in all regions in countries such as the USA, Spain, Japan, South Korea and Hong Kong. The company is making active efforts to find additional distribution partners for this product.

OTHER SALES

Other Sales amounted to SEK 3.7 million (6.3), a decrease of SEK 2.5 million (40%). No foreign exchange effects arose. Other sales included royalty revenue of SEK 0 million (3.5) relating to the collaboration agreement with Nestlé (see above under Pediatrics).

SALES BY GEOGRAPHIC MARKET

Sales in EMEA amounted to SEK 437.9 million (393.5), an increase of 11%. The increase was mainly attributable to the Pediatrics segment but the Adult Health segment also increased.

Sales in Asia Pacific amounted to SEK 130.1 million (95.5), an increase of 36%. The increase was more or less equally divided between the Pediatrics and Adult Health segments.

In the Americas, sales amounted to SEK 173.9 million (126.1), an increase of 38%. The increase was mainly attributable to the Pediatrics segment.

THE BIOGAIA BRAND

Of total finished consumer products (drops, tablets, oral health lozenges, oral rehydration solution, etc.) sold in 2018, 69% (69%) were sold under the BioGaia brand including co-branding.

Gross margin, 2018

Total gross margin was unchanged at 75% (75%).

Gross margin for Pediatrics amounted to 76% (77%). The slightly lower gross margin was due to lower royalty revenue during the year.

The gross margin for the Adult Health segment was 71% (67%). The increase was mainly due to higher sales in Japan where the margin is higher than in other markets.

Operating expenses, 2018

Operating expenses (selling, administrative and R&D expenses) amounted to SEK 280.5 million (224.9), an increase of 25%. During the year major marketing activities were carried out in a number of countries (including Italy, Brazil and Sweden). In addition, personnel expenses rose because of an increase in the number of employees and a one-time expense of SEK 3.1 million for the outgoing Managing Director. Expenses also include a provision to the incentive program of SEK 10.9 million (5.6) (see below under Employees). In addition, R&D costs increased due to research projects and a large number of ongoing clinical studies.

Furthermore, the Group includes two new companies since last year, BioGaia Pharma AB and MetaboGen AB. Expenses for these companies amounted to SEK 8.3 million (1.4).

Other operating expenses/income refers to exchange gains/losses on receivables and liabilities of an operating nature. These amounted to SEK -4.6 million (-4.7). The Group has changed an accounting standard (see below under New accounting standards) and with effect from 2018 (and including comparative figures for the previous year) recognizes 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 relating to forward exchange contracts of SEK 6.1 million (0.8). At 31 December 2018 the company had outstanding forward exchange contracts for EUR 14.1 million at an average exchange rate of SEK 10.08 and for USD 9.8 million at an average exchange rate of SEK 8.28. The actual exchange loss/gain depends on the exchange rate on the maturity dates of the contracts.

Share of profits of associates, 2018

MetaboGen was an associated company in BioGaia until 6 April 2018. The share of profits of associates refers to BioGaia's share (36%) of MetaboGen AB's profits up to 6 April 2018 and amounted to SEK -0.5 million (-0.8).

Operating profit and operating margin, 2018

Operating profit amounted to SEK 277.4 million (233.0). Operating profit, excluding revaluation of the former associate shareholding in MetaboGen, amounted to SEK 270.4 million (233,0), an increase of SEK 37.4 million (16%). The company changed an accounting standard with effect from 1 January 2018, which means that exchange gains/losses attributable to forward exchange contracts are recognized in operating profit or loss (previously in financial items). These amounted to SEK 6.1 million (0.8). With unchanged accounting standards, operating profit would have increased by 18%.

The operating margin amounted to 36% (38%). With unchanged accounting standards, the operating margin would amount to 37% (38%).

In a step acquisition all previous equity interests in the acquiree are adjusted to fair value and all gains or losses thus arising are recognized in profit or loss. As a result, 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% in the second quarter and thereby obtained a controlling interest in MetaboGen whereby this company was consolidated as a subsidiary with effect from 6 April 2018.

Profit after tax, 2018

Profit after tax amounted to SEK 214.2 million (180.6), an increase of SEK 33.6 million (19%). Excluding revaluation of the former associate shareholding in MetaboGen of SEK 7.0 million profit after tax increased by 15%.
The effective tax rate for the Group was 23% (22%).

Owing to the distribution and license agreement signed in Japan at the end of 2016, it will be possible to utilize a large share of the earlier loss carryforward in Japan in the Japanese company. The exclusivity fees relating to product rights will be recognized successively over the term of the agreement and a deferred tax asset was therefore recognized. At 31 December 2018 the deferred tax asset amounted to SEK 8.4 million (9.3). No deferred tax has been recognized for MetaboGen.

Earnings per share, 2018

Earnings per share amounted to SEK 12.40 (10.42). No dilutive effects arose.

Balance sheet, 31 December 2018

Total assets amounted to SEK 660,0 million (576.1). During the year cash and cash equivalents and equity decreased as a result of dividends, while inventories and trade receivables increased. The increase is due to higher sales. Furthermore, a surplus value due to the acquisition of MetaboGen increased total assets by SEK 51.2 million.

Cash flow, 2018

Cash flow amounted to SEK -22.9 million (63.6). Cash flow included dividends of SEK 158.7 million (130.0), as well as the net investment in MetaboGen of SEK 33.9 million (0). In addition, working capital increased by SEK 50.2 million mainly attributable to trade receivables and inventories due to increased sales. Cash and cash equivalents at 31 December 2018 amounted to SEK 285.0 million (305.9).

Investments in property, plant and equipment, 2018

Investments in property, plant and equipment amounted to SEK 13.5 million (26.6) of which the majority relates to the subsidiary BioGaia Production.

Parent Company, 2018

Net sales in the Parent Company amounted to SEK 705.8 million (587.9) and profit before tax was SEK 229.6 million (232.1). The financial performance of the Parent Company is in all material respects in line with that of the Group.

The result for the year includes an impairment recognized in the shares in the subsidiary CapAble of SEK 7.5 million. The figures for the previous year included 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 -46.5 million (55.1).

Subsidiary in Japan, 2018

Net sales in the Japanese subsidiary amounted to SEK 61.2 million (44.7). Operating profit for the Japanese operations amounted to SEK 7.0 million (3.1). The figure for the previous year included compensation for knowhow transfer from the agreement with Kabaya Ohayo.

Subsidiary BioGaia Production AB, 2018

BioGaia Production is a wholly owned subsidiary of BioGaia that manufactures the company's products, primarily drops.
Net sales amounted to SEK 104.2 million (81.7). Operating profit amounted to SEK 34.5 million (25,5).

Subsidiary CapAble AB, 2018

CapAble is owned 90.1% by BioGaia and 9.9% by CapAble's Managing Director. Net sales in CapAble amounted to SEK 1.7 million (1.9). Operating profit was SEK -0.6 million (-1.4).

Subsidiary BioGaia Pharma AB, 2018

In June 2017, 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. The company has no revenues. Operating profit for the period amounted to SEK -4.7 million (-1.4). The company has received a conditional shareholder contribution of SEK 8.0 million from the Parent Company, of which SEK 6.0 million in 2018.

Subsidiary MetaboGen AB, 2018

MetaboGen is a research-driven company that was founded in 2011 in Gothenburg. The company's founders include Professor Fredrik Bäckhed at the University of Gothenburg and Professor Jens B. Nielsen at Chalmers University of Technology. These researchers still work with the company. MetaboGen conducts research in the microbiome area including sequencing of all genes in the microflora, for example in the human intestine, to find previously unknown components and patterns in the microbial diversity and link this to health and disease.
BioGaia has owned 36% of the company since 2014. At the beginning of April 2018, an additional 26% of the company was acquired for SEK 11.7 million. Set milestones were achieved in the second quarter which led to new agreements with the University of Gothenburg and Chalmers University of Technology which give BioGaia and MetaboGen a more extensive and closer collaboration with the universities. At the beginning of July, BioGaia therefore acquired an additional 30% of MetaboGen's shares for SEK 27.8 million. BioGaia's shareholding thus amounts to 92%. BioGaia will also acquire the remaining 8% in the company within a three-year period. The additional purchase consideration can amount to a maximum of SEK 12 million depending on how many milestones are achieved.

Operating profit for MetaboGen starting from 6 April amounted to SEK -3.6 million.

EMPLOYEES

The number of employees in the Group at 31 December 2018 was 143 (120). The Group acquired 36 new employees during the year, of whom 16 in BioGaia AB, 1 in BioGaia Pharma, 6 in BioGaia Production, 10 in BioGaia Japan and 3 from the acquisition of MetaboGen. 13 people left the Group during the year.

The company has an incentive program for all employees in BioGaia AB and BioGaia Production based on the company's sales and profits. The maximum bonus amounts to 12% of salary. One-third of the bonus relates to a long-term incentive program where the employee is required to reinvest the yearly paid-out compensation (after tax) in BioGaia class B shares and hold these for at least three years. Maximum bonuses were achieved for 2018 and the costs of the incentive program amounted to SEK 10.9 million (5.6).

FUTURE OUTLOOK

BioGaia's goal is to create strong value growth and a good return for the shareholders. This will be achieved through a greater emphasis on the BioGaia brand, increased sales to both existing and new customers and a controlled cost level.

The long-term financial target is an operating margin (operating profit in relation to sales) of at least 34% 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 31 December 2018.

RELATED PARTY TRANSACTIONS

The Parent Company owns 100% of the shares in BioGaia Biologics Inc. USA, BioGaia Japan Inc., BioGaia Production 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 4 July 2018 BioGaia owns 92.4% of the former associated company MetaboGen AB.

Annwall & Rothschild Investment AB holds 740,668 class A shares and 509,332 class B shares, corresponding 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 and Jan Annwall. Peter Rothschild is Chairman of the Board of BioGaia AB. The only transaction that took place during the period was a dividend of SEK 9.00 per share.

LARGEST SHAREHOLDERS IN BIOGAIA AT 31 DECEMBER 2018 (Source: Euroclear)

		A shares, 000s	B shares 000s	Share capital SEK 000s	No. of votes 000s	Holding, %	Votes, %
1	Annwall & Rothschild Inv. AB	741	359	1,100	7,766	6.3%	32.4%
2	Swedbank Robur fonder		1,627	1,627	1,627	9.4%	6.8%
3	Fjärde AP-fonden		1,408	1,408	1,408	8.1%	5.9%
4	Öhman Bank S.A		1,164	1,164	1,164	6.7%	4.9%
5	State Street Bank & Trust co		713	713	713	4.1%	3.0%
6	David Dangoor		519	519	519	3.0%	2.2%
7	Banque Pictet &CiE		459	459	459	2.6%	1.9%
8	SSB and Trust company, Boston		413	413	413	2.4%	1.7%
9	State Street Bank & Trust com., Boston		390	390	390	2,2%	1.6%
10	BNY Mellon SA/NV (Former BNY)		332	332	332	1.9%	1.4%
	Other shareholders		9,211	9,211	9,211	53.1%	38.4%
	Total:	**741**	**16,596**	**17,336**	**24,002**	**100%**	**100%**

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 both in notes and elsewhere in the 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 (IFRIC) that have been endorsed by the European Commission for application in the EU. Unless otherwise stated below, the accounting standards applied for the Group and the Parent Company are consistent with those used in preparation of the most recent annual report. The Parent Company presents its financial statements in accordance with RFR 2, Accounting for Legal Entities, and the Annual Accounts Act, and applies the same accounting and valuation policies as in the most recent annual report.

New accounting standards

The accounting standards applied concur with those set out in the 2017 Annual Report with the exception of those applying to "Financial instruments" (IFRS 9 replaces IAS 39) and "Revenue from Contracts with customers" (IFRS 15 replaces IAS 18 och IAS 11).

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 31 December 2018 the reserve amounted to SEK 0.5 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.

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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 becomes 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 give 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 means 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 a 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 an 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
Step 2. Identify the performance obligations in the contract
Step 3. Determine the transaction price
Step 4. Allocate the transaction price to each performance obligation
Step 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, other revenues 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

BioGaia applies IFRS 16 Leases with effect from 1 January 2019. BioGaia has carried out a review of all leasing and rental contracts.
BioGaia has chosen the simplified transition method which means that on the date of initial application the right of use is set at an amount that corresponds to the lease liability. The right of use assets on the initial application date amount to SEK 24.8 million and leases with the highest materiality are rental contracts for the offices in Stockholm and Lund which amount to SEK 8.5 million and SEK 11.2 million respectively and expire in 2021 and 2026 respectively. At 1 January 2019 the company's assets will increase by SEK 24,8 million, liabilities by SEK 27.0 million and equity will decrease by SEK 2.2 million.

Exchange rate differences

Most of the company's sales are denominated in foreign currency, primarily EUR but also USD and JPY. With unchanged exchange rates, compared with the previous year, net sales would have been SEK 27.5 million lower in 2018. Exchange rate differences affect both revenues and expenses.

Consolidated statements of comprehensive income

(Amounts in SEK 000s)	**Jan-Dec 2018**	Jan-Dec 2017	**Oct-Dec 2018**	Oct-Dec 2017
Net sales (Note 1)	**741,870**	615,003	**209,673**	170,148
Cost of sales	**-185,956**	-151,655	**-52,092**	-39,030
Gross profit	***555,914***	*463,348*	***157,581***	*131,118*
Selling expenses	**-153,109**	-127,115	**-46,259**	-39,649
Administrative expenses	**-27,653**	-22,063	**-6,886**	-6,031
Research and development expenses	**-99,742**	-75,700	**-29,822**	-23,743
Share of profit of subsidiaries	**-500**	-820	**-**	380
Revaluation of former associate shareholding (Note 2)	**7,004**	-	**-**	-
Other operating expenses/income	**-4,555**	-4,659	**494**	-186
Operating profit	***277,359***	*232,991*	***75,108***	*61,889*
Interest income	**641**	112	**367**	112
Financial expenses	**-405**	-192	**-204**	-38
Profit before tax	***277,595***	*232,911*	***75,271***	*61,963*
Deferred tax	**-909**	-1,094	**-216**	-1,094
Tax expense	**-62,453**	-51,253	**-18,102**	-12,517
PROFIT FOR THE PERIOD	**214,233**	180,564	**56,953**	48,352
Items that may be subsequently reclassified to profit or loss				
Gains/losses arising on translation of the statement of foreign operations	**-187**	565	**85**	-287
Comprehensive income for the period	**214,046**	181,129	57,038	48,065
Profit for the period attributable to:				
Owners of the Parent Company	**214,890**	180,564	57,048	48,352
Non-controlling interests	**-657**	0	**-95**	0
	214,233	180,564	**56,953**	48,352
Comprehensive income for the period attributable to:				
Owners of the Parent Company	**214,703**	181,129	**57,133**	48,065
Non-controlling interests	**-657**	0	**-95**	0
	214,046	181,129	**57,038**	48,065
Earnings per share				
Earnings per share (SEK) *)	**12.40**	10.42	**3.29**	2.79
Number of shares (thousands)	**17,336**	17,336	**17,336**	17,336
Average number of shares (thousands)	**17,336**	17,336	**17,336**	17,336

*) No dilutive effects arose.

CONSOLIDATED BALANCE SHEETS	**31 Dec**	31 Dec
Summary (amounts in SEK 000s)	**2018**	2017
ASSETS		
Property, plant and equipment	**105,935**	102,465
R&D projects in progress (note 2)	**45 850**	-
Goodwill (note 2)	**5,300**	-
Shares in associates	**-**	9,932
Deferred tax assets	**8,430**	9,339
Other non-current receivables	**43**	39
Total non-current assets	***165,558***	*121,775*
Current assets excl. cash and cash equivalents	**209,453**	148,481
Cash and cash equivalents	**284,962**	305,856
Total current assets	***494,415***	*454,337*
TOTAL ASSETS	**659,973**	576,112

EQUITY AND LIABILITIES		
Equity attributable to owners of the Parent Company	**504,982**	463,904
Non-controlling interests	**3,139**	-16
Total equity (Note 3)	**508,121**	463,888
Provision for deferred tax	**6,679**	778
Current liabilities	**145,173**	111,446
TOTAL LIABILITIES AND EQUITY	**659,973**	576,112

Other current liabilities include forward exchange contracts with a fair value of SEK 7.0 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.

CONSOLIDATED CASH FLOW STATEMENTS	**Jan-Dec**	Jan-Dec	**Oct-Dec**	Oct-Dec
Summary (amounts in SEK 000s))	**2018**	2017	**2018**	2017
Operating activities				
Operating profit	**277,359**	232,991	**75,108**	61,889
Depreciation/amortization	**7,546**	6,573	**1,931**	2,196
Unrealized gains/losses on forward exchange contracts	**6,098**	842	**-2,581**	2,825
Revaluation of former associate shareholding in MetaboGen (note 2)	**-7,004**	-	**0**	-
Other non-cash items	**1,497**	1,716	**2,053**	-529
	285,496	242,122	**76,511**	66,381
Paid tax	**-52,408**	-49,547	**-14,072**	-12,387
Interest received and paid	**240**	-157	**168**	-2
Cash flow from operating activities before changes in working capital	**233,328**	192,418	**62,607**	53,992
Changes in working capital	**-50,208**	30,197	**-32,903**	15,438
Cash flow from operating activities	***183,120***	*222,615*	***29,704***	*69,430*
Acquisition of property, plant and equipment	**-13,454**	-26,624	**-2,873**	-1,498
Sale of property, plant and equipment	**75**	-	**75**	-
Acquisition of subsidiary	**-33,922**	-	**-**	-
Reduction of non-current receivables	**-**	-19	**-**	-19
Cash flow from investing activities	***-47,301***	*-26,643*	***-2,798***	*-1,517*
Dividends	**-156,028**	-130,023	**-**	-
Provision to the Foundation to Prevent Antibiotic Resistance	**-2,700**	-2,400	**-**	-2,400
Formation of BioGaia Pharma	**-**	2	**-**	2
Cash flow from financing activities	***-158,728***	*-132,421*	***0***	*-2,398*
Cash flow for the period	**-22,909**	63,551	**26,906**	65,515
Cash and cash equivalents at the beginning of the period	**305,856**	243,069	**257,491**	240,154
Exchange differences in cash and cash equivalents	**2,015**	-764	**565**	187
Cash and cash equivalents at end of period	**284,962**	305,856	**284,962**	305,856

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-Dec 2018**	Jan-Dec 2017	**Oct-Dec 2018**	Oct-Dec 2017
Pediatrics	**596,457**	492,550	**157,981**	138,590
Adult Health	**141,680**	116,176	**49,103**	30,997
Other	**3,733**	6,277	**2,589**	561
Total	**741,870**	615,003	**209,673**	170,148
Gross profit by segment				
Pediatrics	**451,636**	378,936	**119,717**	108,499
Adult Health	**100,711**	78,173	**35,275**	22,096
Other	**3,567**	6,239	**2,589**	523
Total	**555,914**	463,348	**157,581**	131,118
Selling, administrative and R&D expenses	**-280,504**	-224,878	**-82,967**	-69,423
Share of profits of associates	**-500**	-820	**-**	380
Revaluation of former associate shareholding (Note 2)	**7,004**	-	**-**	-
Other operating expenses	**-4,555**	-4,659	**494**	-186
Operating profit	**277,359**	232,991	**75,108**	61,889
Net financial items	**236**	-192	**163**	-38
Profit before tax	**277,595**	232,799	**75,271**	61,851
Sales by geographic market				
Asia Pacific				
Pediatrics	**49,303**	31,236	**17,014**	14,819
Adult Health	**80,599**	63,993	**28,793**	20,407
Other	**172**	246	**0**	0
Total Asia Pacific	**130,074**	95,475	**45,807**	35,226
EMEA				
Pediatrics	**379,144**	338,716	**98,282**	104,117
Adult Health	**55,177**	49,394	**18,426**	10,358
Other	**3,555**	5,360	**2,589**	500
Total EMEA	**437,876**	393,470	**119,297**	114,975
Americas				
Pediatrics	**168,010**	122,598	**42,685**	19,654
Adult Health	**5,904**	2,789	**1,884**	232
Other	**6**	671	**0**	61
Total Americas	**173,920**	126,058	**44,569**	19,947
Total	**741,870**	615,003	**209,673**	170,148

Date of recognition Performance oblifations met on specific date (Product sales)	**Jan-Dec 2018**	Jan-Dec 2017	**Oct-Dec 2018**	Oct-Dec 2017
Pediatrics	**523,537**	410,099	**139,080**	109,664
Adult Health	**136,606**	106,902	**46,658**	30,612
Other	**2,005**	5,092	**1,827**	500
Total	**662,148**	522,093	**187,565**	140,776
Performance obligations met over time (Royalty)				
Pediatrics	**72,920**	82,451	**18, 901**	28,926
Adult Health	**5,074**	9,274	**2,445**	385
Other	**1,728**	1,185	**762**	61
Total	**79,722**	92,910	**22,108**	29,372
Total	**741,870**	615,003	**209,673**	170,148

NOTE 2 ACQUISITION OF SUBSIDIARY

On 6 April 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 company 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% in the second quarter and thereby obtained a controlling interest in MetaboGen, the company is consolidated as a subsidiary as of 6 April 2018.

There are no contractual obligations for additional purchase considerations, but an agreement was signed to acquire the remaining shares in MetaboGen in two steps provided certain milestones are achieved. During the second quarter the set milestones were achieved, which resulted in new agreements with the University of Gothenburg and Chalmers University of Technology. These agreements will give BioGaia and MetaboGen more extensive and closer collaboration with the universities. At the beginning of July, BioGaia therefore acquired a further 30% of the company for SEK 27.8 million. This has been recognized in equity as a transaction between owners with an effect on Equity attributable to owners of the Parent Company of SEK -14.6 million, as a result of a higher valuation of the acquisition of the further 30% of MetaboGen's shares.

BioGaia will also acquire the remaining 8% of the company within a three-year period. The additional purchase consideration 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 place.

Research on the microbiome is advancing very 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
R&D projects in progress	45,850
Goodwill	5,300
Provision to deferred tax	-5,763
Consideration transferred	**11,688**

Revenue and profit attributable to the acquired company

The acquisition was carried out on 6 April 2018 and the acquired company has contributed net sales of SEK 0 million and a net loss of SEK 2.4 million. If the acquisition had taken place on 1 January 2018, management's assessment is that during the period 1 January – 31 December 2018 the acquired company would have contributed SEK 0 million to the Group's net sales and SEK -4.7 million to the Group's net profit.

R&D projects in progress

Work on the purchase price allocation was completed in the fourth quarter and according to the analysis SEK 45.8 million of the surplus value is attributable to R&D projects and SEK 5.3 million to Goodwill. Deferred tax has been taken into account.

MetaboGen has a number of R&D projects in progress. The company has made the assessment that when these are commercialized they 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 SEK 5.6 million. No other acquisition-related costs exist. During the third quarter BioGaia acquired a further 30% of the company for SEK 27.8 million, which has a total effect on cash flow of SEK 33.9 million.

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NOTE 3 SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Jan-Dec 2018	Jan-Dec 2017
Opening balance	**463,888**	415,180
Remeasurement under IFRS 9	**-313**	-
Open balance after change of accounting standard	**463,575**	415,180
Dividend	**-156,028**	-130,023
Provision to the Foundation to Prevent Antibiotic Resistance[1)]	**-2,700**	-2,400
Formation of BioGaia Pharma	**-**	2
Non-controlling interests related to the acquisition of MetaboGen	**17,062**	-
Transaction between owners related to further acquisition of shares in MetaboGen	**-27,834**	-
Comprehensive income for the period	**214,046**	181,129
Closing balance	**508,121**	463,888

1) Provision to the Foundation to Prevent Antibiotic Resistance was approved at the AGM and is in accordance with the Swedish Companies Act, Chapter 17 section 5 on donations for charitable purposes. Support for recognition of the provision in equity is found in the Conceptual Framework for Financial Reporting in the section Financial performance reflected by accrual accounting (1.17ff).

CONSOLIDATED KEY RATIOS

	Jan-Dec 2018	Jan-Dec 2017
Net sales, SEK 000s	**741,870**	615,003
Growth,%	**21%**	15%
Operating profit, SEK 000s	**277,359**	232,991
Profit after tax, SEK 000s	**214,233**	180,564
Return on		
- average equity	**44%**	41%
- average capital employed	**57%**	53%
Capital employed, SEK 000s	**514,800**	464,666
Number of shares, thousands [1)]	**17,336**	17,336
Average number of shares (thousands)	**17,336**	17,336
Earnings per share, SEK [1) 2)]	**12.40**	10.42
Equity per share, SEK [1)]	**29.13**	26.76
Equity/assets ratio	**77%**	81%
Operating margin	**37%**	38%
Profit margin	**37%**	38%
Average number of employees	**130**	115

1) No dilutive effects arose
2) Key ratio defined according to IFRS

Definition of key ratios

Key ratio	Definition/Calculation	Purpose
Return on equity	Profit attributable to the owners of the Parent Company in relation to 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	Profit before net financial items 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 average 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 margin (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 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 company's ability, in addition to cash and liquid assets, to meet the requirements of business operations.
Growth	Sales for the period less sales for the corresponding period of the previous year 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 average number of shares outstanding (definition according to IFRS).	EPS measures how much of net profit is available for payment to 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 corporate income tax rate.

Definition of key ratios, continued

Return on average equity	Jan-Dec 2018	Jan-Dec 2017
Profit attributable to owners of the Parent Company (A)	214,890	180,564
Equity attributable to owners of the Parent Company	504,982	463,904
Average equity attributable to owners of the Parent Company (B)	484,443	439,551
Return on equity (A/B)	44%	41%

Return on average capital employed

	Jan-Dec 2018	Jan-Dec 2017
Operating profit	277,359	232,991
Financial income	641	112
Profit before net financial items + financial income (A)	278,000	233,103
Total assets	659,973	576,112
Interest-free liabilities	-145,173	-111,446
Capital employed	514,800	464,666
Average capital employed (B)	490,279	440,089
Return on capital employed (A/B)	57%	53%

Equity/assets ratio	31 Dec. 2018	31 Dec. 2017
Equity (A)	508,121	463,888
Total assets (B)	659,973	576,112
Equity/assets ratio (A/B)	77%	81%

Operating margin	Jan-Dec 2018	Jan-Dec 2017
Operating profit (A)	277,359	232,991
Net sales (B)	741,870	615,003
Operating margin (A/B)	37%	38%

Change in sales by segment (including and excluding foreign exchange effects)

		Pediatrics		Adult Health		Other		Total	
		Jan-Dec 2018	Oct-Dec 2018	Jan-Dec 2018	Oct-Dec 2018	Jan-Dec 2018	Oct-Dec 2018	Jan-Dec 2018	Oct-Dec 2018
Description									
A	Previous year's net sales according to the average rate	492,550	138,590	116,176	30,997	6,277	561	615,003	170,148
B	Net sales for the year according to the average rate	596,457	157,981	141,680	49,103	3,733	2,589	741,870	209,673
C	Recognized change (B-A)	103,907	19,391	25,504	18,106	-2,544	2,028	126,867	39,525
	Percentage change (C/A)	21%	14%	22%	58%	-41%	361%	21%	23%
D	Net sales for the year according to the previous year's average rate (D)	575,392	148,589	135,243	46,013	3,733	2,589	714,368	197,191
E	Foreign exchange effects (C-F)	21,065	9,392	6,437	3,090	0	0	27,502	12,482
	Percentage change (E/A)	4%	7%	6%	10%	0%	0%	4%	7%
F	Organic change (D-A)	82,842	*9,999*	19,067	15,016	-2,544	2,028	99,365	27,043
	Organic change percent (F/A)	17%	7%	16%	48%	-41%	361%	16%	16%

Average key exchange rates	Jan-Dec 2018	Oct-Dec 2018	Jan-Dec 2017	Oct-Dec 2017
EUR	10.26	10.32	9.63	9.79
USD	8.69	9.04	8.54	8.31
JPY	7.87	8.01	7.61	7.37

Key exchange rates on closing date	31 Dec. 2018	31 Dec. 2017
EUR	10.28	9.57
USD	8.97	8.11
JPY	8.12	7.21

Change of accounting standard (for more information see above)

Effects on assets, 1 January 2018

Category	IAS 39 Recognized at 31 Dec 2017 Fair value through profit or loss	IAS 39 Recognized at 31 Dec 2017 Loans and trade receivables	Remeasurement due to IFRS 9	IFRS 9 Recognized at 1 Jan 2018 Business model Other	IFRS 9 Recognized at 1 Jan 2018 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

Effects on the income statement due to change of accounting standard

	Jan-Dec 2017 according to IAS 39	Reclassification	Jan-Dec 2017 according to new accounting standard
Other operating expenses	-3,817	-842	-4,659
Net financial items	-922	842	-80

	Oct-Dec 2017 according to IAS 39	Reclassification	Oct-Dec 2017 according to new accounting standard
Other operating income/expenses	2,639	-2,825	-186
Net financial items	-2,751	2,825	74

	Jan-Dec 2018 according to IAS 39	Reclassification	Jan-Dec 2018 according to new accounting standard
Other operating income/expenses	1,542	-6,097	-4,555
Net financial items	-5,861	6,097	236

	Oct-Dec 2018 according to IAS 39	Reclassification	Oct-Dec 2018 according to new accounting standard
Other operating income/expenses	-2,088	2,582	494
Net financial items	2,745	-2,582	163

Pledged assets and contingent liabilities	**GROUP**		**PARENT COMPANY**	
	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 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-Dec	Jan-Dec
(Amounts in SEK 000s)	2018	2017
Net sales	705,762	587,937
Cost of sales	-219,991	-177,578
Gross profit	485,771	410,359
Selling expenses	-130,219	-102,332
Administrative expenses	-23,547	-20,227
R&D expenses	-91,834	-74,032
Other operating expenses	-4,625	-4,648
Operating profit	235,546	209,120
Impairment loss on shares in subsidiary	-7,465	-1,427
Reversal of earlier impairment of receivable in subsidiary	-	26,180
Net financial items	1,480	-1,751
Profit before tax	229,561	232,122
Tax	-53,962	-45,502
PROFIT FOR THE PERIOD	175,599	186,620

PARENT COMPANY BALANCE SHEET	31-Dec	31-Dec
	2018	2017
ASSETS		
Property, plant and equipment	5,218	4,076
Shares in group companies	109,902	54,570
Shares in associates	-	12,001
Non-current receivables from subsidiaries	45,835	55,835
Total non-current assets	*160,955*	*126,482*
Current assets excl. cash and cash equivalents	188,052	127,674
Cash and cash equivalents	224,732	270,050
Total current assets	*412,784*	*397,724*
TOTAL ASSETS	573,739	524,206
EQUITY AND LIABILITIES		
Equity	450,102	433,231
Interest-free current liabilities	123,637	90,975
TOTAL LIABILITIES AND EQUITY	573,739	524,206

PARENT COMPANY CASH FLOW STATEMENT	Jan-Dec	Jan-Dec
	2018	2017
Operating activities		
Operating profit	235,546	209,120
Depreciation	950	515
Other non-cash items	-1,851	897
Forward exchange contracts	6,098	-1,337
Tax paid	-48,100	-46,698
Interest received and paid	1,480	1,078
Cash flow from operating activities before changes in working capital	194,123	163,575
Changes in working capital	-44,381	6,510
Cash flow from operating activities	149,742	170,085
Acquisition of property, plant and equipment	-2,093	-3,897
Sale of property, plant and equipment	75	-
Acquisition of financial assets	-45,523	-2,049
Repayment of loan from subsidiary	10,000	23,352
Cash flow from investing activities	-37,541	17,406
Dividend	-156,028	-130,023
Provision to Foundation to Prevent Antibiotic Resistance	-2,700	-2,400
Cash flow from financing activities	-158,728	-132,423
Cash flow for the period	-46,527	55,068
Cass and cash equivalents at beginning of the period	270,050	215,880
Exchange rate differences in cash and cash equivalents	1,209	-898
Cash and cash equivalent at end of the period	224,732	270,050

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY		
(Amounts in SEK 000s)	Jan-Dec	Jan-Dec
	2018	2017
Opening balance	433,231	379,034
Dividend	-156,028	-130,023
Provision to Foundation to Prevent Antibiotic Resistance	-2,700	-2,400
Profit for the period	175,599	186,620
Closing balance	450,102	433,231

FINANCIAL CALENDAR

7 February 2019, 09:30 CET	Teleconference with Managing Director Isabelle Ducellier. To take part in the conference, please see https://www.biogaia.com/investors/financial-calendar/ for telephone numbers. The teleconference can also be followed at https://tv.streamfabriken.com/biogaia-q4-2018
Last week of March 2019	Annual Report 2018
8 May 2019, 08:00 CET	Interim Management Statement 1 January – 31 March 2019
8 May 2019, 16:00 CET	AGM at Kapitel 8, Klara strand, Klarabergsviadukten 90, Stockholm
8 August 2019, 8:00 CET	Interim Report 1 January – 30 June 2019
23 October 2019, 8:00 CET	Interim Management Statement 1 January- 30 September 2019
6 February 2020, 8:00 CET	Year-end report 2019

The Board of Directors and the Managing Director hereby confirm that this interim report provides a true and fair overview of the Parent Company's and the Group's operations, financial position and performance, and describes material risks and uncertainties facing the Parent Company and the Group.

Stockholm, 7 February 2019

Peter Rothschild
Chairman of the Board

Ewa Björling
Board member

David Dangoor
Board member

Peter Elving
Board member

Inger Holmström
Board member

Anthon Jahreskog
Board member

Brit Stakston
Board member

Isabelle Ducellier
Managing Director

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

Introduction
We have reviewed the accompanying condensed interim financial statements of BioGaia AB (publ) at 31 December 2018 and for the twelve-month period then ended. The Board of Directors and the 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, 7 February 2019

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 143 employees, of whom 122 are based in Sweden (Stockholm, Lund, Eslöv and Gothenburg), two in the USA, one in Singapore and 18 in Japan.

Business model

BioGaia works 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. Revenue is also earned from the sale of bacterial cultures to be used in licensee products (such as infant formula and dairy products), as well as royalties 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 *Lactobacillus 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.

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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, 202 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on around 17,200 individuals of all ages.

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:
26 November 2018 Sale of shares in BioGaia AB
19 November 2018 Isabelle Ducellier takes over as Managing Director of BioGaia
24 October 2018 BioGaia AB, Interim management statement 1 January – 30 September 2018

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