

BioGaia®

ANNUAL REPORT 2017



“Continued growth!

AXEL SJÖBLAD, MANAGING DIRECTOR

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23 Research network extended further

28 A commitment to sustainability

Key events during

2017

QUARTER 1

Agreement with Abbott to sell BioGaia's products within pediatrics and gastroenterology in Thailand.

Agreement with Nestlé to sell BioGaia Protectis drops in Australia.

QUARTER 2

Three new agreements for BioGaia Prodentis tablets: with Hansamed for sales in Canada, with BioCulture for sales in the Philippines and with MTC Pharma for sales in Vietnam.

New subsidiary started, BioGaia Pharma, for the development of probiotic drugs.

COMPANY PRESENTATION

► Business mission

BioGaia conducts research and development to offer consumers clinically-proven, health-promoting, patented and user-friendly probiotic products.

► Positioning

Dietary supplements with clinically-tested, high-quality probiotics that are sold through pharmacies and similar retail outlets. In most markets the products are recommended by doctors or other healthcare professionals.

► Vision

BioGaia's vision is to be a ground-breaking leader in probiotics.

► Strategy

BioGaia's strategy is based on five cornerstones: **Growth, Customer Focus, Operational Efficiency, Innovation and Sustainability.**

► Values

- My personal engagement is vital for BioGaia's success.
- We are innovative and action oriented.
- We are business minded and deliver on our promises.
- We are honest, respectful and selfless in what we do and say.

► BioGaia's class B shares are listed on the Mid Cap segment of the Nasdaq OMX Nordic Stockholm exchange.

► Founded in 1990 by Peter Rothschild and Jan Anwall.

Annual General Meeting 2018

Wednesday, 25 April 2018, 4 p.m. at Lundqvist & Lindqvist, Klara Strand, Klarabergsviadukten 90 in Stockholm.

The Annual Report will be published on BioGaia's website www.biogaia.com and a printed version will be distributed to those who have ordered it. The Annual Report can be ordered from BioGaia's head office +46 8 555 293 00 or via info@biogaia.se. The year-end reports, annual reports and quarterly reports are published in Swedish and English. This is a translation of the Swedish version of the annual report. In the event of differences, the Swedish version shall prevail.





BioGaia's new laboratory at BioGaia Production in Eslöv, Sweden, inaugurated.

QUARTER 3

QUARTER 4

Study showing that *Lactobacillus reuteri* reduces bone loss in older women was presented.

Study showing that BioGaia's probiotic promotes growth and prevent recurring diarrhea was published.

Key events after the end of 2017

Two new meta-analyses confirm the effectiveness of BioGaia's drops in infant colic.

BioGaia Protectis tablets with vitamin D launched on the Swedish market.

Agreement with Abbott to sell BioGaia Protectis tablets in China.

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BioGaia's 2017 Sustainability Report is prepared according to the requirements for sustainability reporting in the Swedish Annual Accounts Act. See pages 28–33 and 40–41 (business risks and uncertainties).

A professional portrait of Axel Sjöblad, Managing Director of BioGaia. He is a middle-aged man with short, dark hair, smiling warmly at the camera. He is wearing a dark grey suit jacket over a light blue button-down shirt and a black belt with a silver buckle. The background is a bright, out-of-focus office interior with a window and a green plant on the left.

AXEL SJÖBLAD, MANAGING DIRECTOR BIOGAIA:

Our business model, where BioGaia is the hub in an international network within research, production and distribution, is the key to our success.

Another successful year

2017 was yet another successful year for BioGaia. With growth of 15 percent after foreign exchange effects, we were able to boost our sales by SEK 80 million and achieve an annual turnover of SEK 615 million. This continues our excellent trend of expanding our share of a market with anticipated annual growth of approximately 7 percent.

IN OUR MOST IMPORTANT REGION, EMEA, we grew by 5 percent. This despite our sales to Italy being markedly lower than previously due to our partner Recordati's acquisition of our former distributor Italcimici. It is therefore gratifying that, since the fourth quarter of 2017, Recordati has been ordering our products again and we can therefore expect a return to normal Italian volumes in 2018. Apart from Italy, our sales in EMEA developed favorably and I am particularly pleased with the positive trend in Eastern Europe, Finland, Sweden, Germany, France and Turkey.

In the Asia Pacific region we grew by 72 percent and it was very pleasing to see the positive development in Japan following the agreements we signed with Kabaya Ohayo Holding Inc. in December 2016. In addition to Japan, our sales to Hong Kong, South Korea and China also increased, and with the distribution network we have now built up in Asia Pacific I expect our positive development to continue in 2018.

In the Americas region we grew by 23 percent. Sales here are primarily driven by our partner Aché in Brazil which, following an inventory build-up that affected sales in 2016, is now ordering according to expectations. Mexico and Canada are also performing well. In the important US market, we signed new distribution agreements and intensified cooperation with our key partners. I expect to start seeing the results of this work in 2018.

With regard to our global partner Nestlé, the trend of them buying fewer cultures for infant formula continued at the same time as our royalties from milk powder for children over the age of one increased. We intensified our interaction with Nestlé during the year with the aim of finding new opportunities for cooperation as older agreements expire.

OPERATING PROFIT exceeded SEK 200 million for the first time and amounted to SEK 234 million. This is an increase of 17 percent which provides an operating margin of 38 percent. Our operating expenses rose by 17 percent in 2017. This increase was driven by R&D activities, marketing initiatives and personnel expenses in line with our strategic plan.

THE KEY TO OUR SUCCESS is our business model, where BioGaia is the hub in an international network within research, production and distribution. In the autumn of 2016 and in order to develop and strengthen the business model, we launched a strategy based on five cornerstones:

Growth, Customer Focus, Operational Efficiency, Innovation and Sustainability. A number of initiatives were then started within each area which shaped our efforts in 2017.

For **Growth**, the main focus has been on the expansion of our existing product portfolio both by signing agreements with new distributors and by launching additional products with existing distributors. Today our products are sold in 100 countries. In addition, our business development team has continued its collaboration with partners outside our current core business with the aim of being able to launch products in new areas for BioGaia in the future.

As regards **Customer Focus**, our aim to get closer to our distributors has resulted in the opening of a new Americas office in Miami, plans for an Asia Pacific office in Singapore, and intensified collaboration with a small number of strategic partners. We have also laid the foundation for a totally new educational platform, BioGaia Academy, where we will train doctors from around the world and thereby increase the number of well-educated opinion leaders.

In **Operational Efficiency**, we have reviewed our IT infrastructure and started implementation of a new ERP system. We have also strengthened the organization with regard to regulatory affairs, quality and purchasing.

For **Innovation**, we have worked on developing our clinical study program as well as our launch pipeline for the short, medium and long term. At present some sixty studies are underway initiated by us or our research partners. In addition, we have continued our collaboration with the R&D company MetaboGen, where we have a 36 percent holding, started the subsidiary BioGaia Pharma, which will take advantage of opportunities to develop drugs identified in our normal business, and invested in a new laboratory at BioGaia Production in Eslöv, Sweden.

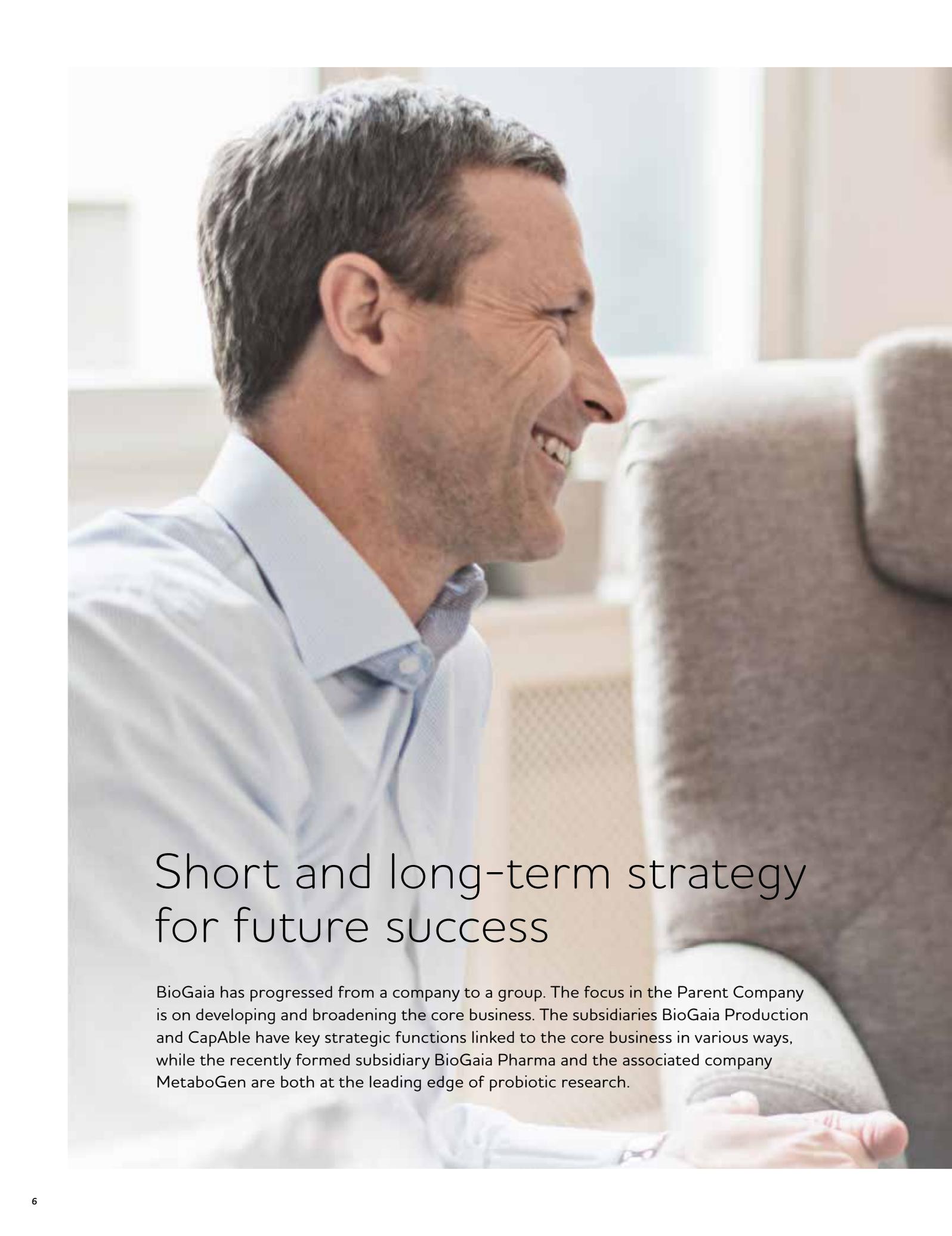
Within **Sustainability**, we have continued our efforts to fight antibiotic resistance. An independent foundation was started during the year that will grant funding to individuals or organizations conducting research or working to spread awareness within this critically important area. We have also created a clearer structure for how to highlight our most important sustainability issues and integrate sustainability initiatives in our operational activities.

WITH THE PROOF at hand, I can conclude that we have been highly successful in combining development initiatives with a focus on sales. I would like to thank our employees who during yet another year have combined hard work with tremendous enthusiasm and thereby contributed both to a fine performance in 2017 and a strong starting position for 2018.

Read more about our sustainability initiatives on page 28



Axel Sjöblad,
Managing Director BioGaia

A man with short dark hair, wearing a light blue button-down shirt, is shown in profile, laughing heartily. He is sitting in a grey upholstered armchair. The background is a bright, out-of-focus indoor setting with a window and a wooden table.

Short and long-term strategy for future success

BioGaia has progressed from a company to a group. The focus in the Parent Company is on developing and broadening the core business. The subsidiaries BioGaia Production and CapAble have key strategic functions linked to the core business in various ways, while the recently formed subsidiary BioGaia Pharma and the associated company MetaboGen are both at the leading edge of probiotic research.



PETER ROTHSCHILD, GROUP PRESIDENT:

BioGaia is at the leading edge of probiotic research

When BioGaia was founded 28 years ago, probiotics were a comparatively unknown concept. We at BioGaia talked about good and bad bacteria and tried to convince the world at large that the good bacteria could be used to improve people's health. Today probiotics are a fairly accepted concept, among consumers as well, and the talk now is about something called the microbiome which is the collective name for all genes in the gastrointestinal tract.

The background to this is that differences have been seen in the microbiome of healthy and ill people for a number of serious diseases such as diabetes, autism and liver disease. The correlation is not totally clear but in recent years an entirely new area of research has emerged to try and understand cause and effect as well as find ways to influence the microbiome in the "right" direction.

WHAT ARE WE at BioGaia doing to be part of this rapid development? Three years ago we invested in the company MetaboGen which was founded by two prominent researchers within this area, Fredrik Bäckhed and Jens Nielsen. In partnership with them we have entered this highly interesting area which should give us a basis on which to create new products that can address a variety of illnesses.

BIOGAIIA'S PRODUCTS ARE USUALLY sold as dietary supplements. We conduct our research and development work, however, without taking into account the regulatory category to which a possible future product might belong. It is important to find future products where studies on people prove that they work and are clinically relevant. It is therefore important that BioGaia, regardless of regulatory category, can in some way commercialize the product in question. This is why we formed BioGaia Pharma, whose mission is to take care of product ideas we consider should be developed into drugs in order to be able to make medical claims or have a different price level.



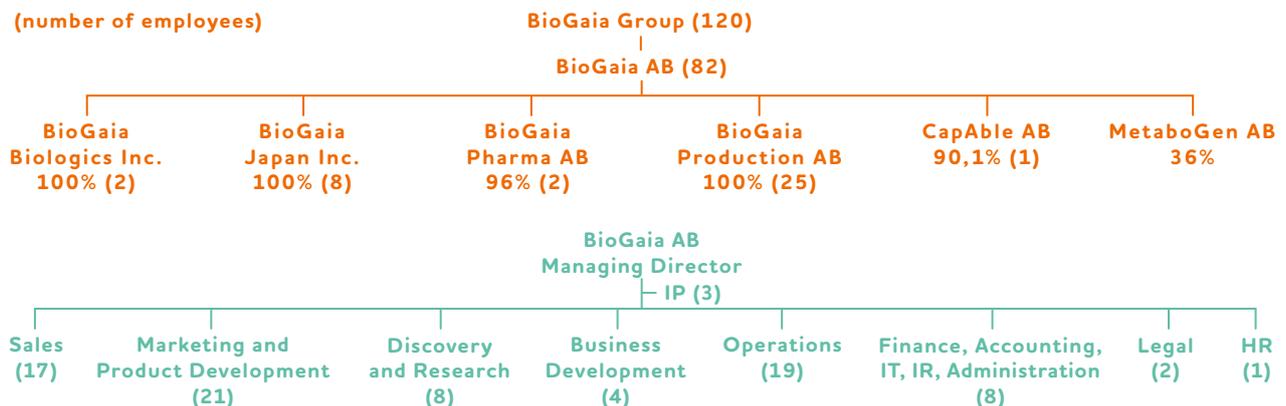
BioGaia Pharma will not itself develop drugs but will bring together a scientific base that makes it possible to license the product to a pharmaceutical company. Through the previously spun-off company IBT, which develops a drug for premature babies, we have shown that it is possible to find candidates for such projects.

With BioGaia, BioGaia Pharma and the cooperation with MetaboGen we are well placed to benefit from new methods and the knowledge that has emerged in recent years.

BioGaia Production, formerly TwoPac, manufactures almost half of BioGaia's products, has GMP approval from the Swedish Medical Products Agency, and a highly efficient manufacturing unit. This is of course valuable since it increases our gross margins by a number of percentage points. Of far greater importance, however, is the company's strategic know-how which we can use to develop even better and more sustainable products.

CapAble, which markets the Life Top Straw and Life Top Cap packaging solutions (also for other companies' bacteria cultures) complements BioGaia's range of high-quality, innovative probiotic products.

IN RECENT YEARS BioGaia has developed from a probiotics company offering dietary supplements and food for special medical purposes to a company that can work with the entire microbiome in all regulatory categories.



AXEL SJÖBLAD, MANAGING DIRECTOR:

The successful business model remains unchanged

Our business model will remain unchanged in the future but our goal is to continuously develop and strengthen it through new research, additional resources and a broader offering.

This means that in 2018 we will continue with several initiatives under the five main areas in our strategy: **Growth, Customer Focus, Operational Efficiency, Innovation and Sustainability.**

Within **Growth**, work on expansion of our existing product portfolio will continue. In Pediatrics, our most important segment, our aim is that existing partners will launch more of BioGaia's products, while within Adult Health we will continue to sign agreements with new distributors.

TO STRENGTHEN the BioGaia brand we will both support selected partners and continue the rollout of our new graphic profile. The goal is that this project, which reached half of our partners in 2017, will be completed by mid-2019. In 2017, almost 70 percent of our finished products were sold under BioGaia's brand or co-branded and our aim is to further increase this figure in 2018.

WE WILL ALSO continue to develop our strategic collaboration with selected partners outside our present core business as well as evaluating possible acquisitions of strains, products and companies.

Within **Customer Focus** 2018 will be an exciting year for BioGaia's organization. Through two new regional offices, in Miami and Singapore, we will ensure our ambition to support our partners through a better presence.

Our new educational platform, BioGaia Academy, will also be launched during the year. This is an important part of



our efforts to develop the network of opinion leaders within probiotics.

In **Operational Efficiency** the main focus in 2018 will be on the installation of an upgraded ERP system.

OUR INVESTMENTS within **Innovation** will continue. IP and research remain the core of BioGaia's operations. In our new laboratory in Eslöv, Sweden, in collaboration with external players such as the Research Institutes of Sweden (RISE), Lund University and the Swedish University of Agricultural Sciences (SLU), we will further develop our knowledge about our strains.

IN ADDITION, through the new BioGaia Group structure, we will extend the collaboration with MetaboGen and open up opportunities for new drug candidates through BioGaia Pharma. With a broader pipeline in place, our future goal is to launch four products per year.

Within **Sustainability** in addition to work with the independent foundation, we will continue to work with the ambitions and goals we set in 2017 within our other chosen sustainability areas: products and production, the supply chain and attractive employer. Read more on page 28.

VISION

BioGaia's vision is to be a ground-breaking leader in probiotics

BUSINESS MISSION

BioGaia conducts research and development to offer consumers clinically-proven, health-promoting, patented and user-friendly probiotic products

STRATEGIC DRIVERS

Growth | Customer Focus | Operational Efficiency | Innovation | Sustainability

VALUES

My personal engagement is vital for BioGaia's success

We are innovative and action-oriented

We are business minded and deliver on our promises

We are honest, respectful and selfless in what we do and say

DAVID DANGOOR, BOARD CHAIRMAN:

BioGaia has a strong strategic and leading position within its core area.



Strong position with continued exciting potential

For BioGaia, 2017 was yet another year of impressive growth and a very strong financial result by any standard. The increased focus on sales, close customer contacts and the underlying brilliant business model led to a new, impressive record year. And future prospects remain very bright with continued growth in our established markets and good geographical expansion opportunities for our product portfolio in both existing and new markets.

BIOGAIA CONTINUES its ongoing focus on sales and profit growth as well as delivering a good return to shareholders. We are also managing to do this without sacrificing research, product development and strategic initiatives in related fields, most recently through the newly-formed BioGaia Pharma. An earlier similar investment, in IBT, resulted among other things in a spin-off and IPO. We see potential for several new ground-breaking products in the future. Our portfolio of bacterial strains continues to show convincing results in independent studies for applications for our existing products. We also see promising results for potential new applications. Finally, it can be noted that the company is debt-free.

BIOGAIA WAS A PIONEER in the probiotics market and focused at an early stage in high-margin products within segments where a leading and highly profitable position could be established. A position that has been defended well through a combination of continued good, independent research results, positive consumer experience and our now global brand.

Due to our strong distribution network and loyalty in many markets worldwide, the company has good opportunities

to offset negative economic and other effects in one or two markets with probable positive effects in others. I would like to take this opportunity to highlight another strong competitive advantage within BioGaia, namely its leadership and the entire company team. Employee turnover has been very low over the years and many people have worked successfully in the company for many years.

THE GOOD RESULTS, combined with having been a successful pioneer within a new area with products that help people – probiotics – and a continued clearly exciting future, make it highly enjoyable and stimulating to work with BioGaia. Added to this there is also the corporate culture and vision which the company's founder, Peter Rothschild, established so brilliantly and which now continues under Axel Sjöblad. BioGaia cares about its consumers, distribution partners, associated physicians, researchers and investors. BioGaia also accepts social responsibility based on its expertise. This is exemplified by our initiative against antibiotic resistance and the establishment of a foundation with expertise within this area.

Over the years we have talked a lot about expansion and the great trust shown in our brand. This provides a sound platform for new product launches. BioGaia has a strong strategic and leading position within its core area, but the probiotics market is large and continues to show strong growth. This indicates a continued highly promising development for BioGaia.

David Dangoor,
Board Chairman BioGaia

BIOGAIA CREATES VALUE

Developments in society and global change affect how people view health as well as opportunities for doing business. In close collaboration with researchers, suppliers and distributors BioGaia acts to manage these challenges and opportunities in a way that maximizes value creation for stakeholders.

5 trends that affect BioGaia

Increased focus on preventive health and self-care

Health awareness is increasing globally and sectors such as organic food and dietary supplements are expected to continue to see strong growth. Consumers are also increasingly seeking information about preventive healthcare, on the Internet and through other channels.

New generation of consumers

Stakeholders will increasingly assess companies from a sustainability perspective. Consumers for example will want to know where the products come from and whether they have been produced in an ethical and sustainable manner.

Shift in purchasing power

The focus for global growth has changed. Several of the E7 countries (China, India, Brazil, Russia, Mexico,

Indonesia and Turkey) are expected to move up the value chain.

Demographic changes

As the world's population grows and ages, demands within the healthcare sector will also increase. In the next few years the main growth in the global population will take place in Africa, Asia (excluding Japan), Latin America and the Caribbean.

Modern and mobile technology

Technological development, and an increasing number of people – above all in emerging markets – gaining access to the Internet and mobile phones is driving a development where consumers are willing and able to accept greater responsibility for their own health.

Results are published in 159 articles in scientific journals and 14 doctoral theses.



CONSUMERS

BioGaia contributes to improved well-being with probiotic bacteria that make a difference to digestive and oral health. The products are safe and clinically tested, of high quality and sold in smart packages.



DISTRIBUTION PARTNERS

BioGaia builds long-term and close partner relationships with distributors who are in place where the products are sold. BioGaia supports distributors within sales and marketing.



RESEARCHERS

BioGaia collaborates with researchers at more than 50 universities and clinics in a unique, global network. All studies must have ethical approval and BioGaia encourages researchers to publish their results but otherwise has no influence on the studies.



SUPPLIERS

A high and consistent product quality is ensured through long-term and close relationships with a small number of suppliers. In addition, development and improvement work is carried out in close collaboration with suppliers.



EMPLOYEES

BioGaia offers its employees a stimulating workplace with a culture in which each individual has an opportunity to develop and influence his or her work situation. A good balance between work and leisure lays the foundation for the long-term health of employees.



SHAREHOLDERS

Through good risk management, controlled costs, and integrated sustainability initiatives, BioGaia will increase shareholder value and continue its profitable growth through its strong business model.

Contribution to sustainable development

BioGaia's business mission is based on making a successful contribution for improved health and well-being for people with digestive or oral health problems. Probiotics can also be used as preventive measures, to strengthen the immune system, which can help reduce the use of antibiotics and thus lessen the risk of antibiotic resistance.

BioGaia has an active sustainability commitment in the fight against antibiotic resistance.

Expectations on companies to accept responsibility and contribute to the sustainable development of society are increasing. There are also demands for clear communication with structured and visible sustainability initiatives.

The UN's 2030 Agenda, with 17 Sustainable Development Goals (SDGs) was adopted on 1 January 2016. The SDGs where BioGaia contributes and has the best possibility to influence are "Good health and well-being" and "Responsible consumption and production".



Good health and well-being



Responsible consumption and production



BioGaia position



has a unique in the market

1 BACTERIA WITH
HUMAN ORIGINS

4 SCIENTIFICALLY-BASED
CLAIMS

2 WIDE RANGE OF
PRODUCTS IN SMART
PACKAGES

5 PARTNERSHIP
WITH STRONG LOCAL
DISTRIBUTORS

3 FLEXIBLE BUSINESS
MODEL WITH THREE
GLOBAL NETWORKS

6 A COMMITMENT TO
SUSTAINABILITY

1

BACTERIA WITH
HUMAN ORIGINS



In the beginning was bacteria

Life consists of so much more than we can see with the naked eye. What we usually understand about our bodies is human cells that form different organs such as skin, hair and internal organs such as the liver and heart. What we do not notice, on the other hand, is all the 40–100 trillion microorganisms that live in us and on us.

LIFE ON EARTH started about 4.5 billion years ago and for a large part of this time only two types of single-celled microorganisms existed, archaea and bacteria. One of several theories as to how multicellular organisms arose is that at a decisive point in history these two single-celled organisms merged and formed an eukaryotic organism. This eukaryotic organism is the source of all animals and plants present on Earth today.

This should mean that in addition to all the microorganisms that we carry today and live in symbiosis with, our so-called microbiota, every cell in the human body contains “remnants” of the bacteria which at the dawn of time merged with an archaea cell. So these bacteria are the actual foundation of human life.

RESEARCH IN RECENT YEARS has also shown that these microorganisms, and in particular bacteria, are also highly significant for our health. In the same way as we cannot survive without air and water, we cannot live without our bacteria. They help to break down the food we eat and enable good nutrient uptake. They train and strengthen our immune system and produce various substances needed by the body. Studies have also shown that the bacteria in our intestines communicate with the brain and affect our mood and mental health.

To feel well we need a sufficient number of bacteria but also a sufficiently large variation, in our microbiota. Some specific microorganisms are more associated with health and well-being than others. Research has shown that bacteria that naturally belong in the human gut “speak the right language” and are therefore better able to create balance and help keep us healthy.

LACTOBACILLUS REUTERI IS A BACTERIUM that has the human gastrointestinal tract as its natural habitat. Through evolution *Lactobacillus reuteri* has adapted to the specific conditions found in the human gastrointestinal tract. But changed lifestyles over the past 50 years, with a substantial increase in the use of antibiotics, stress and obsessive hygiene, have had a negative impact on our bacteria. *Lactobacillus reuteri* is one of the bacteria that has decreased and today many of us do not have high enough levels.

This was illustrated in a study by Inés Martínez and Jens Walter at the University of Alberta in Canada, where they compared the microbiota of an indigenous population with a group of people with a western lifestyle. They found that *Lactobacillus reuteri* is far more prevalent among tribes in Papua New Guinea, who still live in harmony with nature, than among the population of the USA.

CAN A REGULAR intake of *Lactobacillus reuteri* be a way to compensate for the adverse effects our modern lifestyle has on our health?

We at BioGaia think so. We want to contribute to better health in the world by offering clinically-proven and user-friendly probiotic products.

A microorganism is a living organism that is about one micrometer long. Bacteria, fungi, yeast, algae and viruses are all examples of microorganisms.

The microbiota consists of the some 40–100 trillion microorganisms that live in and on our bodies. It exists as a separate organ and has many important functions.

A eukaryote is an organism that has one or several complex cells. Animals and plants are examples of eukaryotes.

2

WIDE RANGE OF
PRODUCTS IN
SMART PACKAGES



Consumer products in smart packages

The strategy of focusing on consumer products sold under our own brand is unchanged and the goal is to continuously raise the proportion of BioGaia-branded products. Key to this strategy is that the products have consistent high quality, are safe to use and are manufactured in a responsible manner.

A new brand platform was developed in 2016 with the aim of strengthening the BioGaia brand. A new graphic profile was created which is now being implemented by partners around the world. The goal is for all partners using BioGaia's brand to have adopted the new design by mid-2019.

BIOGAIA'S PRODUCTS ARE SOLD in 100 countries. Pediatrics accounts for just over 80 percent of total sales and Adult Health for approximately 19 percent. Other revenue accounts for one percent. BioGaia Protectis drops are still the largest product with sales in some 75 countries.

Other important products in the Pediatrics area are BioGaia Protectis tablets, drops with vitamin D and oral rehydration solution. The most common areas of use for children and infants are colic, constipation and diarrhea. In Adult Health, tablets for gut health and oral health are the largest products. The primary indications for these products are general digestive health, constipation and, within oral health, gingivitis, periodontitis and fungal infections.

THE CORE OF BioGaia's business is clinically-tested, health-promoting, patented and user-friendly probiotic products. Product responsibility, from research to end customer, is key for BioGaia.

BIOGAIA CONTINUOUSLY reviews existing packages and evaluates various alternatives to reduce environmental impact, including renewable material. However, it is a challenge to find environmentally friendly material and packages which meet safety requirements and which have those other properties needed to protect product quality.

THE CLIMATE IMPACT of the packages has been studied in two life-cycle analyses which among other things show that containers with less than 60 tablets have the greatest impact per dose. BioGaia therefore always recommends that distributors choose blister packs for smaller packages.

The special formulation and stabilization properties of palm oil mean that it is used in the products. BioGaia only purchases palm oil from suppliers that are members of Roundtable for Sustainable Palm Oil (RSPO) and thus support production of sustainable palm and palm kernel oil. BioGaia adds about 26 tonnes of palm oil to products annually. The total annual global production of palm oil is 52 million tonnes.

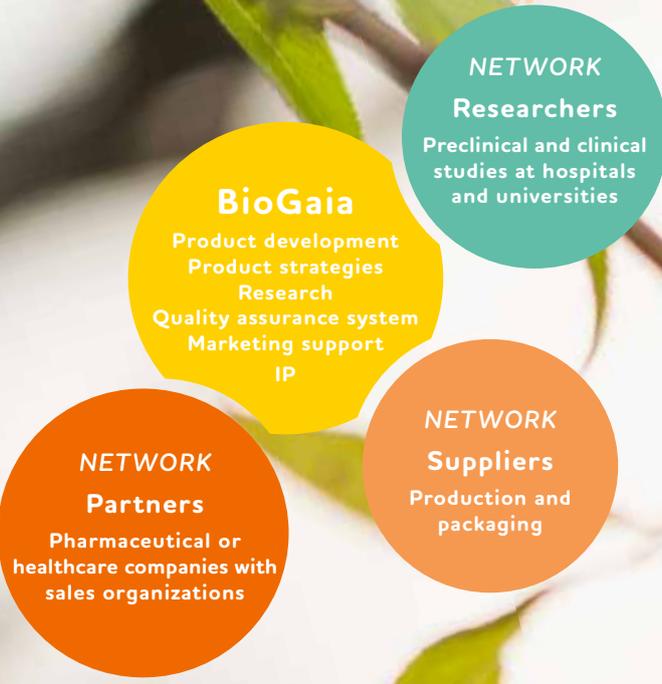
BIOGAIA'S PROBIOTICS, which are live bacteria, require a controlled environment in order to retain their effect which makes significant demands also on formulation. BioGaia works actively and continuously to develop and improve products and production processes. This work is done with consideration for product safety and effect as well as environmental impact.



BioGaia Protectis with 20 micrograms vitamin D was launched in a couple of markets in 2017. In 2018 it will be launched under BioGaia's own brand in Sweden.

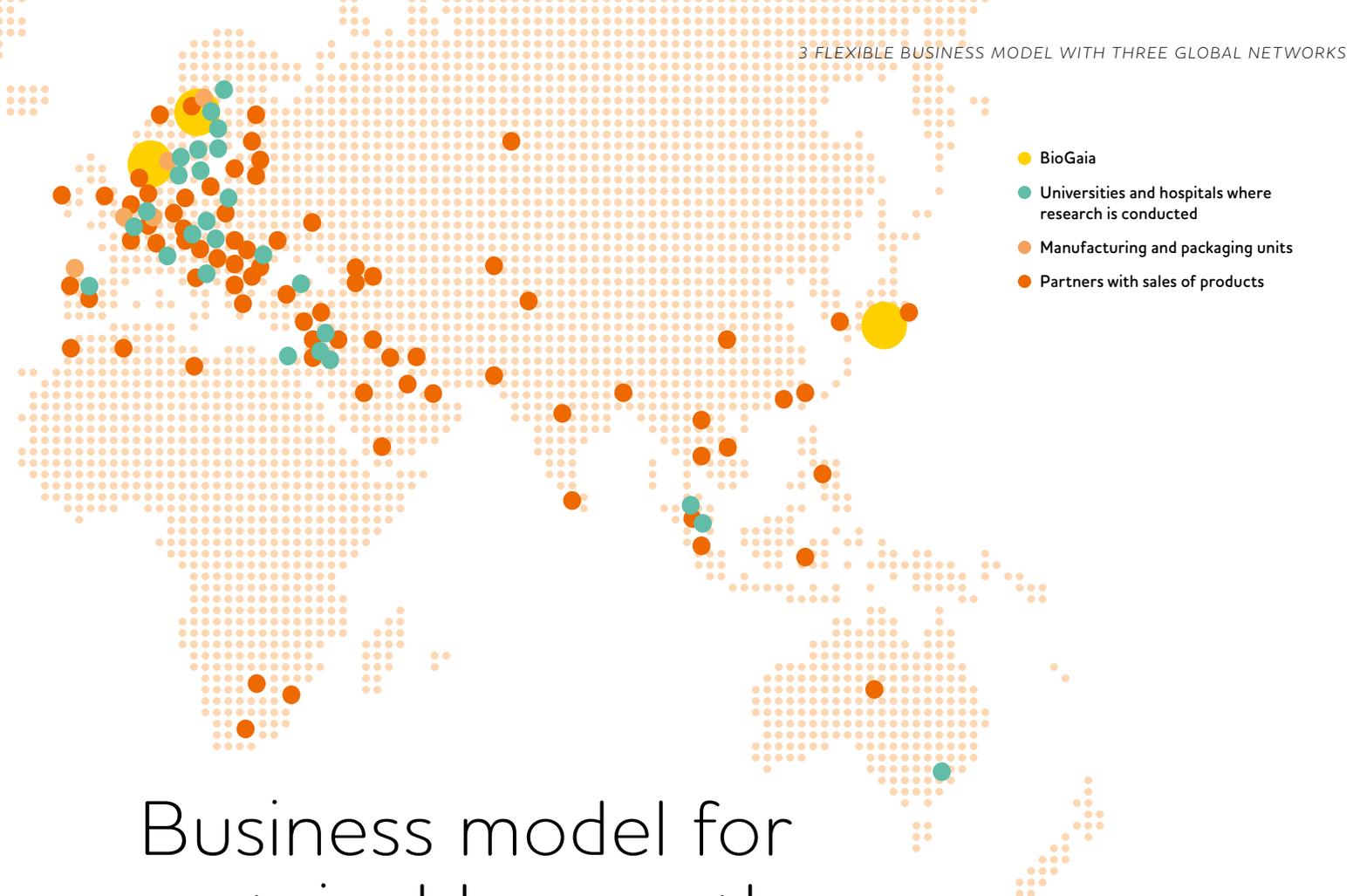
In 2017 a completely new product was launched, BioGaia Protectis minipack, which consists of unit doses of Lactobacillus reuteri Protectis in powder form. The product contains no flavorings and can be sprinkled over food or mixed into drinks.

Other launches during the year were apple-flavored BioGaia Protectis tablets, BioGaia Gastrus in a new formulation and BioGaia Protectis with 20 micrograms of vitamin D.



3

FLEXIBLE BUSINESS MODEL WITH THREE GLOBAL NETWORKS



- BioGaia
- Universities and hospitals where research is conducted
- Manufacturing and packaging units
- Partners with sales of products

Business model for sustainable growth

BioGaia's business model is based on long-term relationships in three external networks – research, production and distribution. Thanks to this successful model, BioGaia has been able to grow globally with a small, efficient and agile organization.

IN RESEARCH THERE is collaboration with just over 50 research institutes and clinics worldwide. Many of the researchers are among the foremost in their field. Some collaborations have been ongoing since BioGaia was founded, others are newer. At present some 60 studies are in progress around the world.

THE PRODUCTS ARE MANUFACTURED and packed in six different facilities in Sweden, Denmark, Belgium, Spain and the USA. Long-term and close collaboration with suppliers means that production and logistics are continually improved and can be adapted to market needs as well as new demands for sustainability.

Suppliers, above all the wholly-owned subsidiary BioGaia Production, are also key partners in product development, both for creating new products and further developing existing ones.

During 2017 BioGaia's purchasing department started work on getting all producers and suppliers of cultures, raw materials and analysis services to sign up to the company's Code of Conduct. Of the 16 suppliers, half

have now signed up to the code and the remainder are in the process of doing so. The aim is that all suppliers will be signatories to BioGaia's Code of Conduct in 2018.

THE DISTRIBUTION NETWORK consists of some 80 partners with sales in 100 countries. Most of these companies have sales representatives that visit doctors and other healthcare professionals. By providing information on the published results of clinical trials they build the doctors' interest and confidence and they then recommend the products to their patients who in turn buy the products at pharmacies and similar retail outlets.

In most markets BioGaia's products are registered as dietary supplements. BioGaia's regulatory specialists collaborate with the distributors' experts to ensure compliance with local regulations.

BIOGAIA HAS ALSO developed a Code of Conduct for distribution partners and work on getting all partners as signatories will start in 2018.

BioGaia's Supplier Code of Conduct specifies minimum requirements and covers areas such as respect for human rights, working environment and workplace safety as well as environmental issues and business ethics/anti-corruption.

4

SCIENTIFICALLY- BASED CLAIMS



KATAYOUN WELIN-BERGER, VICE PRESIDENT OPERATIONS:

In Operations we work with the entire product cycle and have a key role in the new research, development and production network.

Research network extended further

BioGaia collaborates with specialists at over 50 research institutes and clinics. To create synergies and increase skills the research network is being further extended and integrated with the development and production network.

BIOGAIA'S RESEARCH NETWORK is unique in several respects. Many of the researchers are among the foremost in the world in their field and some of the collaborations have been ongoing since BioGaia was founded 28 years ago. They also have significant breadth which spans many different indication areas both for children and adults. The aim of all research is that it should be of the highest possible scientific standard. All studies must have ethical approval before they start. External review and publication of data on *Lactobacillus reuteri* in medical journals is then confirmation of scientific relevance and good quality research. Further, BioGaia works actively to understand even more about how *Lactobacillus reuteri* works.

During recent years this work has been expanded to cover the "whole chain", that is not just understanding how the probiotic strains work but also understanding critical properties of raw materials and finished products as well as key process parameters to guarantee the best quality and robust production.

"Operations at BioGaia works with the entire product cycle and has a key role in the combined research, development and production network," says Katayoun Welin-Berger, Vice President Operations. "We are a support function in the flow from concept to launch of the finished product."

OPERATIONS IS RESPONSIBLE FOR qualification and quality assurance of BioGaia's suppliers such as raw material suppliers, those who manufacture and pack the products, and contract laboratories for analysis services. All of these must satisfy BioGaia's requirements for quality, safety and environmental responsibility. In addition, they must ensure that frameworks and regulations are adhered to while demands increase for faster and more efficient production. An audit of all suppliers is being

carried out in order to clarify and formalize collaboration. This work includes an explicit sustainability perspective which among other things covers the Code of Conduct and regular inspections.

"The balance is between making internal and external processes more efficient in parallel with ensuring our freedom to choose how and where our products are manufactured," says Katayoun.

FURTHER UP THE CHAIN major investments are being made in research and development. The idea is to develop BioGaia's new laboratory in Eslöv, Sweden, into a competence center where employees from different departments can collaborate and exchange ideas with each other, industry post-graduates and external researchers. The network includes research centers and institutions such as Research Institutes of Sweden (RISE), Lund University and the Swedish University of Agricultural Sciences (SLU) in Uppsala.

BioGaia is also one of the companies behind NextBioForm, an international center financed by Vinnova (Sweden's innovation agency) focusing on process development and formulation of biological products such as probiotics and proteins.

"The idea of NextBioForm is to contribute to the development of new biological products which improve the quality of life for the consumer," explains Katayoun. "This is an extremely exciting initiative which is also of great value for Sweden and Swedish research."

BIOGAIA IS INVOLVED internationally in the European branch of the International Probiotics Association (IPA).

"We want to be involved and influence issues concerning probiotics, for example that quality demands should be better adapted to the nature of probiotics or that product labelling should be clearer and more standardized," says Katayoun. "In this way we are involved in the development of standards for probiotics, which feels both important and stimulating."

184 clinical studies have been carried out to date, including 12 in 2017. Results have been published in 159 articles in scientific journals and 14 doctoral theses (March 2018).

15,500 individuals of all ages have taken part in clinical studies with BioGaia's human strains of *Lactobacillus reuteri*.

A man with short grey hair and a light beard, wearing a dark blue checkered suit jacket over a light blue shirt, is sitting at a white table. He is looking towards the camera with a slight smile. The background shows a large window with white frames and light-colored curtains, looking out onto a bright, possibly outdoor scene.

5

*PARTNERSHIP WITH
STRONG LOCAL
DISTRIBUTORS*

URBAN STRINDLÖV, VICE PRESIDENT SALES:

One of our ambitions in the USA is to strengthen our online presence which is clearly of strategic importance.

BioGaia establishes regional offices in Miami and Singapore

Regional offices in Miami and Singapore will satisfy the ambition to support partners through an improved presence. The choice of locations is of strategic importance since BioGaia will be focusing strongly on these regions in the years ahead.

As part of BioGaia's efforts to develop the business, a decision was made to establish regional offices in America and Asia. In line with the growth of the partner network the need for closer collaboration with local distributors has increased.

"The Miami office is already running and in spring 2018 we will open in Singapore," says Urban Strindlöv, Vice President Sales. "The Miami office is strategically placed for both North and South America. We have already recruited sales staff and recruitment will continue, focusing on marketing and partner support."

IN THE SAME way, Singapore is a hub in Asia, a market with good growth and potential for BioGaia.

"Our business model, with close collaboration with local partners, is central for us and one of our strengths," says Urban. "We are not a large company, but thanks to our partners our products are found worldwide. This allows us to be a small company but nevertheless multinational. I think our new local offices will contribute to a positive development of BioGaia by facilitating daily contact with our partners."

EUROPE CONTINUES TO BE BIOGAIAS most established market. In total Europe accounts for almost 65 percent of sales and during the past year sales have gone very well in, among others, Eastern Europe, France, Turkey and Germany.

"We have seen a strong trend in Turkey and France in recent years," says Urban, "and there is continuing major potential. Our Turkish partner Eczacibasi is a very serious and well-established company with which we collaborate very closely. In France we intensified our collaboration with PediAct during the year." Read more about this on page 27.

During 2018 several products for children and adults will be launched in Sweden under BioGaia's own brand. The products, with a focus on combination products with *Lactobacillus reuteri* Protectis and vitamin D, will be sold in several pharmacy chains.

"Semper is one of our oldest partners. They do a fantastic job and have had a well-established market position for many years. The initiative we are now making in Sweden, together with our partner Medhouse, complements this and is part of our long-term plan to strengthen BioGaia's position in the adult segment and build the BioGaia brand," says Urban. "On the oral health side, we are also investing in Sweden with, from the beginning of 2018, Sunstar selling BioGaia Prodentis under the brand GUM PerioBalance in several pharmacy chains."

IN THE USA BioGaia's long-term work continues to build a network of opinion-leaders in the pediatric area together with our partner Everidis.

"Another of our ambitions is to strengthen our online presence which is clearly of strategic importance especially in the USA," says Urban. "Together with Everidis we are among other things investing in social media, focusing on colic. At the same time we have intensified collaboration with Gerber who will launch BioGaia's drops with vitamin D during 2018."

IN 2017 there were several important launches in Asia. In the middle of the year Nestlé launched BioGaia-branded drops in Australia.

"There was consumer demand for the product and the market has good potential," says Urban.

China continues to be a complex and difficult market due to regulations. Given these conditions, the growth of our partner Sunflower has been good. During 2018 Abbott will launch BioGaia's tablets in China.

AT THE END of 2017 Kabaya Ohayo launched a yoghurt product with BioGaia's culture in Japan.

"We are at an early stage, but Kabaya Ohayo is a strong partner and it will be exciting to see the development," says Urban. "Japan continues to be by far BioGaia's largest market for oral health products and is also a reference market for these. In pediatrics, BioGaia is taking an initiative in Japan, but many challenges still remain."

"BioGaia has had difficulty finding a suitable partner in India. It is therefore gratifying that Dr Reddy's, one of India's largest pharmaceutical companies, launched the drops at the beginning of 2018 under a combination of BioGaia's and Dr Reddy's brands," Urban concludes. Read more about India on page 26.

MARKETS IN FOCUS

MEXICO

The probiotics market primarily consists of dietary supplements and dairy products. The market for prescription probiotics is underdeveloped but now showing double-digit growth, due among others to BioGaia. The healthcare sector's interest in clinically proven probiotic products is increasing.

Partner: Abbott

Population: 120 million

Births per year: 2.3 million

Products: BioGaia Protectis Gotas, BioGaia Protectis Tabletas

In Mexico annual sales of recommended probiotics exceed USD 40 million. Sanofi has a 60 percent market share,

with its products Enterogermina and Sinuberase. Sinuberase and BioGaia Protectis are the only two products in the market with increasing sales, other products are losing market share.

The use of probiotics in Mexico is below the average for Latin America. Abbott therefore continues to focus on educational initiatives for healthcare professionals with the aim of developing this market to the same levels as in Brazil or Chile. The response is favorable. Doctors and healthcare professionals are seeking information and showing an interest in probiotics – in particular for clinically proven probiotic products, which favors BioGaia.

Opportunities for BioGaia's products in Mexico are assessed as good. Abbott continues to establish itself in the colic market, where Simethicone still has a 60 percent market share. They also plan to launch BioGaia Protectis tablets, both with and without vitamin D. In the adult segment there is also potential for BioGaia Gastrus and BioGaia Prodentis.

"In just a few months Abbott has exceeded all expectations with BioGaia Protectis. I look forward to developing new segments and sharing new successes with our Mexican partner."

– Iván García, Regional Director LatAm. BioGaia

INDIA

The market is relatively mature as regards the use of probiotics for diarrhea. Continued major socio-economic differences in India mean, however, that large parts of this market have not yet been reached.

Partner: Dr Reddy's

Population: 1.3 billion

Births per year: 25.6 million

Products: BioGaia Protectis baby drops

Annual sales in the Indian market total EUR 25 million with growth of approximately 20 percent. Probiotics are mostly prescription only of which prescriptions within pediatrics for treatment of diarrhea account for 80 percent. Otherwise the use of probiotics is limited to treatment of acute gastroenteritis.

Knowledge of strain-specific properties is generally low. There are a large number of products in the market, both combination products and single-strain products. *Bacillus clausii* is market leader, but more strains are now being launched as dietary supplements, such as *Lactobacillus rhamnosus* GG, which was previously only available as a pharmaceutical. In regulatory terms the market for probiotics is still under development.

Given the size of the Indian market and its rapid development, opportunities for BioGaia are assessed as good. The aim is to develop this market and establish BioGaia in several segments in addition to diarrhea.

"We are very happy about our collaboration with BioGaia. Existing colic products have a limited effect and I am fairly sure that Protectis Baby drops will bring a smile to millions of infants and thereby also increase the value of our pediatric portfolio."

– MV Ramana, Executive Vice President & Head Branded Markets, Dr Reddy's

"Dr Reddy's is India's largest pediatrics company. They are highly professional and dedicated. With them as our partner in this huge market, I have high hopes of a successful launch of our drops."

– Sebastian Nummelin, Key Account Manager, Asia Pacific, BioGaia

“ We are now increasing our efforts to defend the strong position we have for our flagship product at the same time as developing the market with other BioGaia products. FRANCIS FAURE, CHAIRMAN, PEDIACT, FRANCE

FRANCE

Probiotics are well established as effective for digestive health problems for both children and adults, in infant colic, diarrhea, and antibiotic-associated diarrhea. Awareness of probiotics for prevention of stomach problems is very low, however.

Partner: PediAct

Population: 67 million

Births per year: 767,00

Products: BioGaia Protectis gouttes, BioGaia comprimés à croquer citron, BioGaia comprimés à croquer fraise

Launches 2018: BioGaia comprimés à croquer vitamine D, BioGaia minipacks

Competition in the French market is intense and health claims linked to dietary supplements are increasingly regulated by the authorities.

BioGaia has a good position, however, in this challenging market.

Since the launch in 2012, PediAct has mainly focused its marketing efforts on healthcare professionals, such as pediatricians, primary care physicians and pharmacists. Today, BioGaia's products are widely recommended and regarded as premium products.

During 2017 marketing activities were extended with consumer communication, mainly in digital channels, as well as communication aimed at midwives. PediAct plans to further intensify these efforts in 2018.

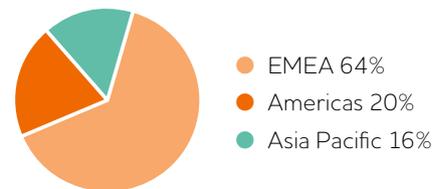
BioGaia Protectis drops in the new easydropper package are a big success in France. Sales increased by 26 percent

between 2016 and 2017 and there is potential for further growth. BioGaia Protectis tablets face greater competition but a continued positive sales development is expected. PediAct will launch new products in 2018 which will help further strengthen BioGaia's position.

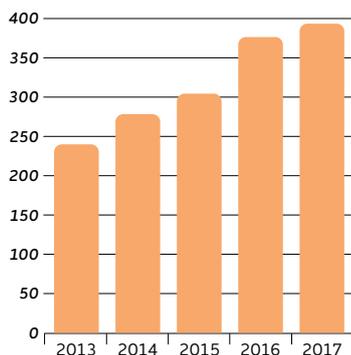
“In close collaboration with PediAct we have developed a joint strategy to reach both healthcare professionals, opinion leaders and consumers. PediAct's commitment and focus on spreading BioGaia's products and brand in the French market are impressive and I look forward to seeing the results of our efforts.”

– Ana Perez Sanz, Regional Sales Director Southern Europe and Africa, BioGaia

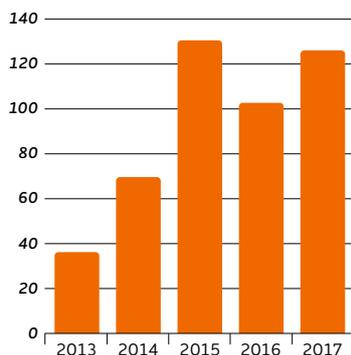
Sales by geographical market, MSEK



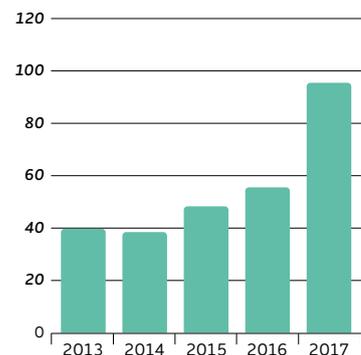
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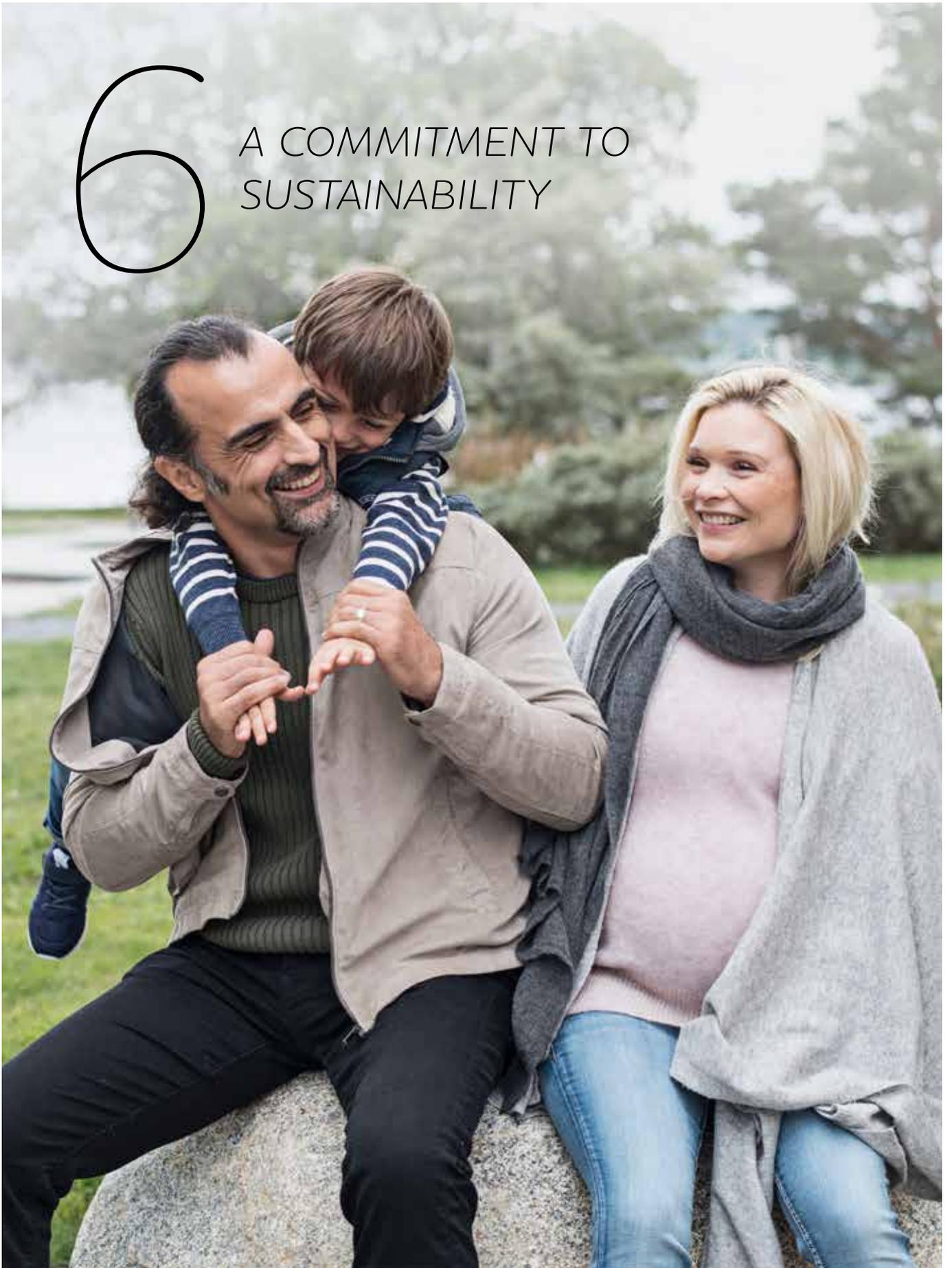


ASIA PACIFIC



6

A COMMITMENT TO
SUSTAINABILITY



Commitment and responsibility

Contributing to improved global health, through clinically-proven, health-promoting and user-friendly products, is BioGaia's core business. BioGaia's sustainability initiatives are based on conducting this business in a responsible manner from a social, environmental and economic perspective.

BIOGAIA'S VISION IS to be a ground-breaking leader in probiotics. This also includes being a responsible player who works with sustainability issues in an exemplary manner. To ensure that resources are directed to areas where they will do the most good, BioGaia has worked to build a platform for long-term sustainability initiatives.

WORK OF DEFINING WHICH AREAS have strategic priority within sustainability started in 2016. This project involved identifying where BioGaia has its main impact and where the company can make the biggest difference. It was also designed to better integrate sustainability work into the core business and lay the foundation for how progress should be communicated. Involving BioGaia's stakeholders in these efforts was key in order to obtain their opinions on the company's challenges and opportunities as well as an understanding of their expectations on the company from a sustainability perspective.

BASED ON THE MATERIALITY analysis, in 2017 work began to define ambition levels, goals and metrics linked to identified sustainability issues. Work has concentrated on the area "Product stewardship and producer responsibility" – the area where BioGaia considers it has the greatest opportunity to make a difference. Much is already in place but policies and guidelines have been reviewed to clarify BioGaia's expectations, on suppliers and also within operations.

In 2018 BioGaia will formulate objectives and targets linked to additional focus areas as well as identifying and carrying out activities and measures to achieve these targets.

EXTERNAL AND INTERNAL stakeholders provide a consistent picture of the areas that are most important for BioGaia to manage and communicate. The materiality analysis provides the following strategic focus areas, all of which are within the framework of BioGaia's core business:

- Contributor to global health
- Product stewardship and producer responsibility
- Sustainable supply chain
- Attractive employer

Within the framework of these strategic focus areas, BioGaia's management has prioritized the key sustainability issues.

STRATEGIC FOCUS AREAS

Contributor to global health

- Clinically-proven probiotic products
- Innovative partnerships
- IP protection for products and research

Product stewardship and producer responsibility

- Use of material
- Product quality and product safety
- Ethics and safety in clinical studies

Sustainable supply chain

- Responsible sourcing
- Long-term partner relations

Attractive employer

- Attract and keep employees
- Healthy employees
- Good working conditions
- Healthy and safe work environment

HYGIENE FACTORS

Trusted business

- Responsible and ethical marketing
- Production safety
- Anti-corruption and bribery
- Compliance with laws and regulations

As part of the materiality analysis, BioGaia analyzed the company's sustainability risks. A description of the main risks and how BioGaia manages these is provided in the section "Business risks and uncertainties" on pages 40–41.

BioGaia's work on compliance with local legislation, ethical marketing, policies for anti-corruption and bribery, and production safety are regarded as hygiene factors but given high priority within the company.



We have created a clearer structure for how to highlight our most important sustainability issues.

AXEL SJÖBLAD, MANAGING DIRECTOR

Stakeholder engagement

To ensure that sustainability initiatives remain relevant and focused on the areas where BioGaia can make the biggest difference, an ongoing dialog about these issues is conducted with prioritized stakeholders. Prioritized stakeholders are those assessed as having the greatest influence on and interest in the operations and sustainability initiatives.

STAKEHOLDER	PRIORITIZED ISSUES	HYGIENE FACTORS
Consumers	<ul style="list-style-type: none"> • Safe products • Products with positive health effects 	Direct and ongoing dialog with consumers via social media and email
Owner/shareholders	<ul style="list-style-type: none"> • Returns and dividends • Value creation • Reliable and responsible operations 	Quarterly reports, capital market days, investor presentations
Employees	<ul style="list-style-type: none"> • Skills development and career path • Healthy work environment • Non-discrimination 	Close dialog between employee and manager, regular performance reviews, internal conferences, employee surveys
Suppliers	<ul style="list-style-type: none"> • Long-term and evolving collaboration 	Direct and ongoing dialog via Sales, Marketing and Operations
Distributors	<ul style="list-style-type: none"> • Long-term and evolving collaboration 	Direct and ongoing dialog via Sales and Marketing
Researchers	<ul style="list-style-type: none"> • Independent research projects • Evolving collaboration 	Direct and ongoing dialog via Marketing, Operations and Discovery and Research

Sustainability initiatives at BioGaia

BioGaia’s business strategy is the starting point for sustainability work which is integrated into day-to-day operations. The materiality analysis and ongoing dialog with the company’s stakeholders provide support when prioritizing issues and resources.

BioGaia has an ongoing activity to set ambitions and quantify targets within each focus area. Operational responsibility for ensuring that these are integrated into the business rests with each unit. Planning of the operational plans.

BioGaia’s Communications and Sustainability Manager together with the CFO is responsible for coordination and communication of sustainability work.

The sustainability report covers the BioGaia Group and relates to the 2017 financial year.

Since 2007, BioGaia has supported the Children’s Mission in the Philippines which assists undernourished children and their parents. BioGaia donated SEK 600,000 in 2017.



BIOGAIA'S FOCUS AREAS

Contributor to global health

The core of BioGaia's activities lies in clinically-tested, health-promoting, patented and user-friendly probiotic products. This is also the core of the company's contribution to sustainable development in a wider perspective.

The company's products contribute to improved health for people in 100 countries. Over time, the need for antibiotics will also decrease, resulting in reduced risk of antibiotic resistance.

BioGaia develops new and innovative collaborations in order to grow and achieve a broader product portfolio in the future. Examples include the collaboration with the research company MetaboGen and the formation of the new subsidiary BioGaia Pharma.

Antibiotic resistance is one of the biggest global health threats. In addition to continued development of the core business, BioGaia has an active

involvement in spreading awareness within this area. At the end of 2017 an independent foundation was formed to provide financial support to individuals who research or work with spreading awareness of antibiotic resistance. The hope is to be able to allocate the first funds during 2018.

2017 ▶▶ **100 countries**
▶▶ **1.3 billion doses**
▶▶ **SEK 76 million for R&D**

Product stewardship and producer responsibility

BioGaia strives to be a sustainable producer of probiotics. Issues such as product safety and product quality, environmentally and socially responsible production and high ethics and safety in studies are central.

Ensuring that the products manufactured and offered to customers are of high quality and safe to use has the highest priority. Affected employees receive relevant training in product safety. Agreements with BioGaia's suppliers include quality requirements and the company has processes in place for ensuring supplier compliance with the Code of Conduct.

Distributors are key partners in efforts to ensure that BioGaia's products comply with applicable laws and regulations in each market. Thanks to these high quality requirements, BioGaia has never had to recall deliveries from the market and the number of complaints is very low.

BioGaia also has an ambition to reduce the environmental impact from production and products, for example through activities to improve production efficiency or reduce the quantity of material in products and packaging.

The climate impact of packaging has been analyzed in two life-cycle analyses. These show among other things that tablet containers with less than 60 tablets have the greatest climate impact per dose. BioGaia therefore always recommends that distributors choose blister packs for smaller packages. In parallel, a review of existing packaging is underway to try to find more environmentally friendly alternatives.

BioGaia climate compensates for the Group's carbon dioxide emissions which are mainly caused by air travel and product packaging.

BioGaia works with a network of prominent and independent researchers

whose studies include the effects of BioGaia's products. In order to ensure the highest possible scientific standard, BioGaia encourages that the design of the studies and reporting of results are of sufficiently high quality to enable publication in well-renowned medical journals.

Furthermore, BioGaia requires a study, before participants are recruited, to be registered on a public website, such as ClinicalTrials.gov. The aim is that all studies, regardless of result, should be published.

BioGaia has an ongoing activity to define targets and ambition levels within the focus area "Product stewardship and producer responsibility".

▶▶ **BioGaia compensated for the company's carbon dioxide emissions with approximately SEK 165,000 to Agroforestry projects in Tanzania and Kenya.**

BIOGAIA'S FOCUS AREAS

! We are growing! **55** new employees since 2013.

Sustainable supply chain

BioGaia's ambition is to take responsibility and take sustainability risks into account throughout the value chain – from supplier, via distributor, to consumer.

A key criteria for BioGaia's business model is efforts to build long-term and close relationships with a small number of suppliers. All suppliers must study and sign BioGaia's Supplier Code of Conduct which specifies minimum requirements within areas such as human rights, working conditions, environment and business ethics/anti-corruption. The ongoing dialog with suppliers concerns various sustainability aspects such as quality, safety and environmental impact.

BioGaia also conducts regular onsite inspections at its suppliers. These often lead to constructive discussions and improved working methods. Some distributors also inspect BioGaia's suppliers. Since 2015 BioGaia Production has been GMP-certified by the Swedish Medical Products Agency.

BioGaia works continuously to ensure and improve product content with regard to quality and safety as well as from an environmental and ethical perspective. This work is both internal and in collaboration with suppliers and external researchers.

Due to the special properties of palm oil, BioGaia uses this oil in its products. BioGaia only purchases palm oil from suppliers who are members of the Roundtable for Sustainable Palm Oil (RSPO), and thus supports the production of sustainably produced palm and palm kernel oil.

Since impact on the environment and health are important to BioGaia, the company works continuously with choice of packaging material, production processes and raw material, including palm oil.

In the regulatory area, BioGaia's experts collaborate with experts at the local distributors to ensure compliance with regulations.

- BioGaia has 16 key suppliers. For production, BioGaia works with six suppliers in Sweden, Denmark, Belgium, Spain and the USA, including the subsidiary BioGaia Production in Eslöv, Sweden. Other key suppliers are analysis companies and manufacturers of components and raw material.
- In 2017 BioGaia adopted a Supplier Code of Conduct which is being successively integrated into business agreements. In 2017, 8 of the 16 suppliers signed up to the Code of Conduct.
- BioGaia conducts regular inspections of suppliers.
- BioGaia has some 80 distribution partners worldwide. During 2018 work will start on getting the Code of Conduct signed by all of these.

Attractive employer

Employees who are motivated and feel good at work help to contribute to long-term, sustainable business. The right skills and a good work environment with diversity provides conditions for job satisfaction and commitment.

BioGaia's aim is to be an attractive employer who can recruit new talent and retain the right skills in the company.

- In 2017 BioGaia introduced a new tool for structured performance reviews. The tool includes interview templates and is also used to ensure the quality of follow-up from both managers and employees.
- An employee survey was conducted in February 2018. This takes place biannually.
- All employees at BioGaia AB have received training in anti-corruption. This training is now carried out annually.
 - ▶▶ **58% women**
 - ▶▶ **20 employees have worked for more than 10 years**
 - ▶▶ **2 days per employee and year (average short-term sickness absence)**

HELEN OLSSON, VICE PRESIDENT HUMAN RESOURCES:

The skills and commitment of employees are key factors for the success of BioGaia's development.







FINANCIAL
INFORMATION
& NOTES 2017



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This is a translation of the Swedish version of the Annual Report in the event of differences the Swedish wording shall prevail.

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Administration report

(The Figures in brackets refer to the previous year)

The Board of Directors and the President of BioGaia AB (publ.), corporate identification number 556380-8723, hereby submit their annual report and consolidated accounts for the financial year 2017.

The financial statements were approved for publication by the Board of the Parent Company on February 28, 2018.

BIOGAIA

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

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

BioGaia has 120 employees, of whom 110 are based in Sweden (Stockholm, Lund and Eslöv), two in the USA and eight in Japan.

Business model BioGaia works with global networks in 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 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 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. For these products, the BioGaia brand is shown on the consumer package since BioGaia is both the manufacturer and licensor.

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

KEY EVENTS IN 2017

New agreements

- **Agreement with Abbott for the rights to sell BioGaia's products in Thailand** In January 2017 BioGaia signed an exclusive agreement with Abbott for the rights to commercialize BioGaia products in the area of pediatrics and gastroenterology in Thailand. The products are co-branded under the BioGaia and Abbott brands. The launch took place in the second quarter of 2017.
- **Agreement with Nestlé for the rights to sell BioGaia Protectis drops in Australia** In March BioGaia extended its global collaboration with Nestlé by signing an agreement with Nestlé Australia Ltd for the exclusive rights to sell BioGaia Protectis drops in Australia starting in 2017. The product will be co-branded under the BioGaia and Nestlé brands. BioGaia Probiotic Drops, as the drops are called in Australia, were launched in the second quarter of 2017.
- **Three agreements for BioGaia Prodentis oral health probiotic in Canada, the Philippines and Vietnam** In the second quarter BioGaia signed three exclusive new agreements for Prodentis oral health lozenges with Hansamed Ltd for sales in Canada, with BioCulture for sale in the Philippines and with MTC Pharma Co Ltd for sale in Vietnam. All three partners will sell Prodentis under the BioGaia brand. The launch took place in the Philippines and Vietnam during the year.

Clinical studies

- **Presentation of study showing that *Lactobacillus reuteri* reduces bone loss in older women** In November BioGaia presented a randomized, double-blind, placebo-controlled study in 90 older women which showed that supplementation of the probiotic strain *Lactobacillus reuteri* ATCC PTA 6475 decreased bone loss compared to placebo.

Lactobacillus reuteri ATCC PTA 6475 is a naturally occurring bacteria in the gastrointestinal tract of humans and has been shown to have beneficial effects on bone in animals. In a randomized controlled trial conducted at the University of Gothenburg, 75 to 80-year-old women with low bone density received supplementation of *Lactobacillus reuteri* ATCC PTA 6475 or placebo for one year. In the group supplemented by *Lactobacillus reuteri* the loss in bone density was halved compared to placebo. Detailed results will be published in a scientific journal.

- **Publication of study showing that BioGaia's probiotic promotes growth and prevents recurrent diarrhea** Results from a randomized, controlled pilot study in 71 infants with acute diarrhea show that rapid diagnostic testing and *Lactobacillus reuteri* Protectis supplementation for 60 days was associated with a significant increase in height and significantly less recurrent diarrhea compared to standard care and placebo treatment. The study was published in PLOS ONE on October 9, 2017.

Other key events

- **BioGaia starts subsidiary for development of probiotic drugs** 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.

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

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

KEY EVENTS AFTER THE END OF THE FINANCIAL YEAR

- **Two new meta-analyses confirm the effectiveness of BioGaia's probiotic in infant colic** At the beginning of 2018, two new meta-analyses were published investigating the effects of *Lactobacillus reuteri* Protectis in colicky infants. Including these two, to date a total of nine systematic reviews have proven the effectiveness of *Lactobacillus reuteri* Protectis in infants with colic. With six positive randomized, double-blind and placebo-controlled clinical trials and nine meta-analyses, which is considered the highest level of evidence of a health effect, the proof of *Lactobacillus reuteri* Protectis in infant colic is solid. Further, *Lactobacillus reuteri* Protectis is the only probiotic with proven efficacy in colic.
- **New agreement with Abbott for the rights to sell Protectis tablets in China** In January 2018 BioGaia signed an exclusive agreement with Abbott for the rights to sell BioGaia Protectis tablets in China. The product will be co-branded under a combination of BioGaia's and Abbott's brand. The launch is planned for 2018, conditional on approval by the Chinese authorities.
- **BioGaia Protectis with vitamin D soon to be launched on the Swedish market** In the first quarter 2018, BioGaia will launch its chewable tablets with *Lactobacillus reuteri* Protectis and vitamin D in Sweden through the partner Medhouse AB. The products, BioGaia Protectis D3 and BioGaia Protectis D3+ (with 20 micrograms of vitamin D) will then be available at selected pharmacy chains throughout Sweden.



FINANCIAL PERFORMANCE IN 2017

Sales Consolidated net sales amounted to SEK 615.0 million (534.7) million, which is an increase of SEK 80.3 million (15%). (No material foreign exchange effects arose during the year compared to last year).

Sales by segment

● **Pediatric Segment** Net sales in BioGaia's core area, the Pediatric segment, amounted to SEK 492.6 million (433.0), an increase of SEK 59.5 million (14%, excluding foreign exchange effects, 13%). This growth was driven mainly by higher sales of drops, as well as increased royalty revenue from Nestlé for the use of *Lactobacillus reuteri* in Growing Up Milk for children older than one year and sales of BioGaia Protectis tablets.

Sales of drops, which make up the bulk of sales, rose in all regions, particularly in Americas, above all in Brazil but also in Canada. Sales were also up in Asia Pacific and EMEA thanks to a powerful fourth quarter in these regions. In both EMEA and Asia Pacific, growth for the year was attributable to several countries but was strongest in Eastern Europe, Germany, Turkey, China and South Korea.

The increase in sales of BioGaia Protectis tablets was attributable to the EMEA and Asia Pacific. In the Americas, sales declined after a weaker fourth quarter.

Sales of culture, at low margins, for use in Nestlé's infant formula decreased compared to the same period of last year, which is in line with the plan from 2012 when Nestlé acquired the rights to this product and now produces the culture itself to a greater extent.

Royalty revenue from the collaboration agreement with Nestlé in the Pediatric segment amounted to SEK 14.3 million (9.4). For more information, see below under "Other sales".

● **Adult Health Segment** Net sales in the Adult Health segment amounted to SEK 116.2 million (85.3), an increase of SEK 30.9 million (36%, excluding foreign exchange effects, 39%). The increase in sales for Adult Health is mainly due to revenue attributable to the agreements signed in December 2016 with Kabaya Ohayo in Japan and from sales of BioGaia Protectis tablets.

Revenue from the agreements with Kabaya Ohayo in Japan consists partly of compensation for knowhow, education and preparations for the launch, and, from the second quarter, also exclusivity fees that will be recognized successively over the term of the agreement. The entire exclusivity fee was paid at the beginning of 2017. In the third quarter BioGaia also started sales of culture for yoghurt products that were launched at the end of the third quarter. In the fourth quarter BioGaia received the first royalty revenue from the sale of yoghurt products.

Sales of BioGaia Protectis tablets also grew well compared to the same period of last year. Sales were up in EMEA (primarily Finland) and in Asia Pacific (primarily Hong Kong). In the Americas, the first BioGaia Protectis tablets in the Adult Health segment were sold in Colombia and Mexico during the year, but the level of sales is still very low.

Sales of oral health products also increased compared to the previous year. Sales rose in Asia Pacific (mainly Japan but also South Korea) but fell in other regions. BioGaia is working actively to find additional distribution partners for the product.

Sales of BioGaia Gastrus tablets remain very low but increased compared to the previous year. The increase was attributable to Asia Pacific. BioGaia is working actively to find additional distribution partners for the product.

LAUNCHES IN 2017

DISTRIBUTOR/LICENSEE	COUNTRY	PRODUCT	BRAND
Nestlé	Australia	BioGaia Protectis drops	BioGaia Co-branding
Ferring	Canada	BioGaia Protectis drops with 10 µg of vitamin D BioGaia Protectis tablets with 20 µg of vitamin D	BioGaia
Abbott	Colombia	BioGaia Protectis tablets	BioGaia
Abbott	Costa Rica	BioGaia Protectis drops and tablets	BioGaia
Verman	Finland	BioGaia Protectis tablets in new flavor (apple)	Partner brand
Infectopharm	Germany	BioGaia Protectis tablets in new flavor (Strawberry)	BioGaia Co-brand
Agefinsa	Honduras	BioGaia Protectis tablets	BioGaia
J Health	Hong Kong	BioGaia Gastrus tablets	BioGaia
Noos and Recordati	Italy	BioGaia Protectis tablets with 20 µg of vitamin D	Partner brand
Kabaya Ohayo	Japan	Yoghurt with BioGaia Prodentis bacteria culture	Partner brand
Phillips Pharma	Kenya	BioGaia Protectis drops	BioGaia
Ewopharma	Kosovo	BioGaia Protectis drops	BioGaia
Abbott	Mexico	BioGaia Protectis tablets	BioGaia
BioCulture	Philippines	BioGaia Prodentis tablets	BioGaia
Unilab	Philippines	BioGaia Protectis drops	BioGaia
Age Dor	Singapore	BioGaia LifeTop Straw	BioGaia
DongSung	South Korea	BioGaia Protectis tablets	BioGaia
Abbott	Thailand	BioGaia Protectis drops and tablets	BioGaia Co-brand
MTC Pharma	Vietnam	BioGaia Prodentis lozenges	BioGaia



- **Other sales** Other sales amounted to SEK 6.3 million (16.4), a decrease of SEK 10.1 million (62%). No foreign exchange effects arose.

Other sales include royalty revenue of SEK 3.5 million (14.1) from the collaboration agreement that was signed with Nestlé in March 2014. The royalty revenue amounts to a total of SEK 91.8 million for the period 2014-2017 and is distributed between the segments Pediatric and Other sales. Under the agreement, BioGaia has undertaken to carry out clinical studies on children and develop new products in new areas. BioGaia will recognize the royalty revenue in pace with completion of the projects. As of December 31, 2017, BioGaia had recognized revenue of SEK 81.7 million, of which SEK 42.2 million in other sales and SEK 39.5 million in the Pediatric segment. The assessment is that the remaining revenue of SEK 10.1 will be recognized during 2018 in the Pediatric segment.

Sales by geographical market Starting with the interim report for the second quarter of 2017, sales are reported according to the geographic markets EMEA (Europe, Middle East, Africa), Asia Pacific (Asia, excluding Middle East, and including Oceania) and the Americas (North and South America). Previously, sales were reported by geographic market according to the following regions: Europe, Asia, USA and Canada and Rest of the World. The change in geographic markets was made so that the external reporting system better reflects the company's internal monitoring and organizational structure.

Sales in EMEA amounted to SEK 393.5 million (376.4), an increase of 5%. The increase was mainly attributable to the Pediatric segment but to a certain extent also to Adult Health (for more information, see above).

Sales in Asia Pacific amounted to SEK 95.5 million (55.6), up by 72%. The increase was mainly attributable to Adult Health but to a certain extent also to Pediatric (for more information, see above).

In the Americas sales amounted to SEK 126.1 million (102.7), an increase of 23%. The increase was almost exclusively attributable to Pediatrics (for more information, see above).

The BioGaia brand Of total finished consumer products, (drops, gut health tablets, oral health lozenges, oral rehydration solution, etc.), 69% (59%) were sold under the BioGaia brand, including co-branding, during 2017.

Gross profit Gross profit amounted to SEK 463.3 million (387.8), which is an increase of 19% compared to last year. The total gross margin was 75% (73%).

Gross margin for the Pediatric segment was 77% (74%). This is due to higher royalty revenue for the use of bacteria culture in Growing Up Milk for children over the age of one year (with a 100% margin), increased sales of drops where a large share is manufactured by the company's wholly owned subsidiary BioGaia Production, and lower sales of cultures for infant formula with a very low margin.

Gross margin for the Adult Health segment was 67% (62%). The increase is due primarily to royalties and exclusivity fees attributable to the agreements from 2016 in Japan (see above under Adult Health Segment) but also somewhat better margins for other products in the segment. In general, gross margin is lower for the products in Adult Health since the volumes are smaller and all manufacturing is carried out by external contractors, compared, for example, to the BioGaia Protectis drops which are partly manufactured by BioGaia's wholly owned subsidiary BioGaia Production in Eslöv.

Operating expenses Operating expenses (selling, administrative and R&D expenses) amounted to SEK 224.9 million (192.8)¹⁾, an increase of 17%.

The increase is mainly attributable to increased personnel and market expenses and higher costs for research projects and clinical studies.

Other operating expenses/income refer to exchange losses/gains on receivables and liabilities of an operating nature. These amounted to SEK -3.8 million (5.6).

Share in profit of associates Share in profit of associates refers to BioGaia's share (36%) in MetaboGen AB's profit, which amounted to SEK -0.8 million (-1.2).

Operating profit and operating margin Operating profit was SEK 233.8 million (199.4)¹⁾, an increase of SEK 34.4 million (17%, excluding foreign exchange effects, 16%). Operating margin was 38% (37%)¹⁾.

Financial items and profit before tax Profit before tax was SEK 232.9 million (196.1)¹⁾, an increase of 19%. Net financial items include a foreign exchange loss of SEK 0.8 million (4.7). At December 31, 2017, the company had outstanding forward exchange contracts for EUR 15.3 million at an average exchange rate of SEK 9.63 and USD 9.4 million at an average exchange rate of SEK 8.21. The actual exchange gain/loss depends on the exchange rate on the maturity date of the contracts.

Profit after tax Profit after tax was SEK 180.5 million (159.3)¹⁾, an increase of SEK 21.2 million (13%). The tax rate for the Group was 22% (19%). Owing to the distribution and license agreements that were 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. 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 December 31, 2017, the deferred tax asset amounted to SEK 9.3 million. The Group thus has no loss carryforwards for which no deferred tax is recognized.

Earnings per share Earnings per share amounted to SEK 10.42 (9.19)¹⁾. No dilutive effects arose during the period.

Balance sheet, December 31 Total assets rose from SEK 489.0 to SEK 576.1 million. This is mainly due to an increase in cash and cash equivalents (see below under "Cash flow") and the investment in the new laboratory at BioGaia Production in Eslöv. Interest-free liabilities rose from SEK 73.5 million to SEK 111.4 million, mainly because the entire exclusivity fee from the agreement with Kabaya Ohayo that was paid at the beginning of 2017, but is being recognized successively over the term of the agreement, and has been reported as deferred income.

Cash flow Cash flow amounted to SEK 63.6 million (58.4)¹⁾. This cash flow includes dividends of SEK 130.0 million (86.7) and investments in property, plant and equipment of SEK 26.6 million (5.6), primarily at the BioGaia Production in Eslöv where a new laboratory has been built. Cash flow for 2017 also includes payment of exclusivity fees pertaining to the license and distribution agreement in Japan that was signed in December 2016. Cash and cash equivalents at December 31, 2017, amounted to SEK 305.9 million (243.1).

Investments in property, plant and equipment Investments in property, plant and equipment amounted to SEK 26.6 million (5.6), of which the majority refers to the subsidiary BioGaia Production in Eslöv.

Parent Company Net sales in the Parent Company amounted to SEK 587.9 million (518.3) and profit before tax was SEK 232.1 million (180.1). This figure includes the reversal of a previously impaired receivable on a loan to the subsidiary in Japan, since the subsidiary has repaid part of the loan. Cash flow in the Parent Company was SEK 55.1 million (40.9).

Subsidiary in Japan Net sales from the Japanese business reached SEK 44.7 million (24.4). Operating profit for the Japanese business was SEK 3.1 million (-2.0) (including revenue from Kabaya Ohayo from the agreement signed at the end of 2016).

Subsidiary BioGaia Production AB (former TwoPac AB) BioGaia Production is a wholly owned subsidiary to BioGaia that manufactures products, primarily drops, for BioGaia. Net sales in BioGaia Production for 2017 amounted to SEK 81.7 million (71.1). Operating profit was SEK 25.5 million (17.9).

Subsidiary CapAble AB CapAble is owned 90.1% by BioGaia and 9.9% by CapAble's Managing Director. Net sales in CapAble amounted to SEK 1.9 million (0.0). Operating profit was SEK -1.4 million (-3.6).

Subsidiary BioGaia Pharma AB In June BioGaia announced that the company had established a subsidiary, BioGaia Pharma AB. For more information, please see above under "Other key events". BioGaia Pharma is 96% owned by BioGaia and 4% by the company's Managing Director. Operating profit for the company's first six months amounts to SEK -1.4 million (0.0).

¹⁾ Excluding the former subsidiary IBT.



RESEARCH AND DEVELOPMENT ACTIVITIES

BioGaia has an extensive research network and collaborates with numerous universities and hospitals around the world, such as the Swedish University of Agricultural Sciences in Uppsala, Sweden, the Karolinska Institute in Stockholm, Sweden, Sahlgrenska University Hospital in Gothenburg, Sweden, Texas Children's Hospital in the USA, and the University Hospitals of Bari and Turin in Italy.

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 diarrhoea (AAD)
- Acute diarrhoea
- Gingivitis (inflammation of the gums)
- Periodontal disease (tooth loss)
- General health
- *Helicobacter pylori* (the gastric ulcer bacterium)
- Osteoporosis

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

ENVIRONMENTAL INFORMATION

BioGaia has a fundamentally ethical and environmentally friendly mission, namely to conduct research and development aimed at offering clinically proven, health-enhancing and user-friendly probiotic products.

BioGaia shows its commitment to the environment by:

- reducing the use of antibiotics
- measure the climate impact of the company and its products, and compensates for its CO₂ emissions
- striving to use eco-friendly packages
- encouraging its suppliers and distributors to take environmental aspects into account in their decisions

In 2017 BioGaia established an independent foundation (the Foundation to prevent antibiotic resistance). The aim of the Foundation is to reduce antibiotic resistance through support to research, education and information activities. The goal is for this to promote the use of products and methods that prevent infections or in other ways reduce the use of antibiotics. In a longer perspective, this will also have positive effects on the environment.

BioGaia conducts no operations that are subject to permit or notification requirements.

For more information, see the company's Sustainability Report at page 28-33.

BUSINESS RISKS AND UNCERTAINTIES

BioGaia's operations are associated with both risks and opportunities of various types. Certain risks are of a more general nature such as markets and countries, research and development, products and production, health and safety, environment, corruption and violation of human rights, while other risks are more specific to the company. The following section is not a complete risk analysis but gives an indication of the factors of significance for future development.

GROUP

Associated company 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. The aim is to develop new treatments and products for different metabolic and other microbial associated diseases by influencing large parts of the microbiome.

BioGaia owns 36% of MetaboGen AB. The remaining shares are held by Bäckhed and Nielsen and GU Holding. So far, MetaboGen has shown a loss. On the balance sheet date, assets in MetaboGen were reported at SEK 9.9 million. BioGaia's assessment is that MetaboGen will show profitability in the future, for which reason there was no indication of impairment on the balance sheet date.

BioGaia's partners BioGaia does not sell directly to end-users but instead sells its products to distributors (partners) which then sell the products further. The agreements normally have a term of 3-7 years.

BioGaia is dependent on these partners to invest the resources necessary for marketing and sales. In order to influence this to a greater extent on its own, BioGaia launched its own brand in 2006. Today the products wholly or partly under the BioGaia brand are sold in 70 countries. BioGaia provides its partners with strong support in the form of education, information about new clinical studies and speakers at symposia, as well as marketing and PR support. There is a risk that BioGaia's partners will not perform according to the company's wishes. However, BioGaia has formulated its agreements so that it is possible to terminate the agreement if a distributor does not meet certain minimum sales targets.

Research and development BioGaia invests considerable sums in research, clinical studies and product development with the aim of developing products with proven health benefits. Even after thorough pilot studies, there is always a risk that a project will be wholly or partly unsuccessful. BioGaia works with a range of research initiatives in which the company strives for a balance between low- and high-risk projects.

Research and clinical studies are carried out at universities and hospitals around the world. To ensure that the clinical studies are performed in accordance with the applicable regulations and provide reliable results, BioGaia's own staff is involved in parts of the work with clinical studies.

The study agendas are always approved by BioGaia, the ethics committee and other relevant authorities. Agreements are signed with hospitals and universities in which they bind themselves to comply with the applicable regulatory requirements. BioGaia has insight and monitors the studies to ensure that they are conducted in a correct and ethical manner. BioGaia always urges the researchers to publish the results of their studies.

Intellectual property BioGaia's business activities are based on a large number of intellectual property rights, such as patents, trademarks, names of strains and Internet domains. The company works continuously to strengthen its intellectual property rights by protecting the use of the company's products. The various patents have different terms but those covering the most used strains in BioGaia's products apply until 2026 and 2027.

There is always a risk for infringement of intellectual property. These rights are enforced on an ongoing basis, but there are no guarantees that future infringements will not cause the company damage. BioGaia continuously monitors the market.

Regulatory affairs BioGaia's products are currently sold in 100 countries around the world. Due to their differing regulatory systems, the length of time between contract and product launch varies between countries. In most countries the products are registered as dietary supplements but in a few markets they are registered as a category of pharmaceuticals.



There is always a risk that the rules will be changed in the different markets with a resulting negative impact on sales, at least for a limited period of time.

To minimize this risk, the company continuously monitors the regulatory systems of other countries in order to be proactive.

Regulations regarding health claims In the EU, the use of nutrition and health claims is regulated by the European Food Safety Authority (EFSA). The EFSA rules apply to food products that are marketed to consumers with various claims about preventative health effects. In order to make a health claim for a product and in marketing, EFSA approval is required.

In the case of BioGaia's products, the distributors' sales reps use the clinical studies in their marketing to healthcare professionals (doctors, midwives, etc.) who then recommend the products to patients because the patient in question is in more or less urgent need of the product's probiotic effects. As a result, the EFSA rules are not applicable to the majority of BioGaia's products. Furthermore, because the products are primarily recommended by healthcare professionals, such as doctors and nurses, in most countries there is no need to make general health claims in the marketing materials as would be the case if the company was marketing a yoghurt or beverage directly to consumers.

If it becomes necessary to use another type of marketing for future products, BioGaia will apply for approval of its health claims from the EFSA. Together with partners BioGaia is assessing the opportunities to register its products under the existing regulations as Food for Special Medical Purposes, natural remedies or other registration categories depending on the type of product and the country involved.

Employees BioGaia's operations are wholly dependent on the employees' expertise, and they therefore make up the company's most valuable resource. In order to attract and retain skilled and motivated employees, BioGaia strives to create a culture in which all employees are given the opportunity to develop, influence their own work situation and maintain a good balance between work and leisure in order to avoid stress. The company continuously evaluates the current staffing situation and the need for recruitment.

Product liability insurance BioGaia sells dietary supplements. There is a risk that a consumer could experience damage and claim that this damage is attributable to BioGaia's product. This risk also exists in clinical studies.

For BioGaia, the top priority has always been to ensure that the products that are manufactured and offered to the customers are of a high quality and are safe to use. The affected employees are given relevant training in product safety. The agreements with BioGaia's suppliers include quality requirements and the company has processes in place to ensure that the agreements are complied with by the suppliers. BioGaia has never needed to recall a product and complaints are very few.

BioGaia's partners require the company to have product liability insurance as protection against liability claims for third party damage. BioGaia has product liability insurance that provides coverage up to SEK 60 million per claim up to a maximum of SEK 120 million per year. The insurance is valid worldwide. BioGaia's assessment is that these insurance amounts are relevant and adequate for the company's operations.

Business ethics BioGaia's business model is based on three networks – Research, Production and Distribution. BioGaia's products are sold in 100 countries, which means that the brand is exposed all over the world.

To ensure that all parties perform their duties in an ethical and, according to BioGaia, correct manner, BioGaia adopted a Code of Conduct in 2017. The Code of Conduct contains minimum requirements in areas such as human rights, labor rights, environment and business ethics and anticorruption. Implementation of the Code among the suppliers was started in 2017 and is expected to be completed in 2018. In 2018 the company will also begin implementation of the Code of Conduct among the distributors.

With regards to the research network, BioGaia encourages a sufficiently high level in the design of the studies and reporting of results to enable publication in respected medical journals and thereby ensure the highest possible scientific standards. Furthermore, BioGaia requires that before participants start to be accepted, the study must be registered on a public site, such as ClinicalTrials.gov. The goal is for all studies to be published, regardless of the results, a practice that is carried out with few exceptions.

Sustainable supply chain BioGaia's ambition is to take responsibility and give consideration to sustainability risks throughout the entire chain, from suppliers via distributors and all the way to the consumer.

One key component of BioGaia's business model is the effort to build close and long-term relationships with a small number of suppliers. All suppliers must read and sign BioGaia's Supplier Code of Conduct, which covers minimum requirements in areas such as human rights, labor rights, business ethics and anticorruption.

PARENT COMPANY

Subsidiary CapAble AB CapAble, which is owned 90.1% by BioGaia AB was started in November 2008 to manufacture and sell the patented LifeTop Cap. The participations in the subsidiary CapAble amount to a total of SEK 0.9 million in share capital and SEK 6.0 million in conditional shareholder contributions.

CapAble has operated at a loss since the start in 2008. Profit/loss before tax and group contributions for 2017 was SEK -1.4 million (-3.6). BioGaia AB made total group contributions of SEK 20.1 million during the period 2010-2017. On the balance sheet date, assets in CapAble were reported at SEK 6.9 million in the Parent Company. BioGaia's assessment is that CapAble will show profitability in coming years, for which reason there was no indication of impairment on the balance sheet date.

Subsidiary BioGaia Pharma AB BioGaia Pharma AB was started in June 2017 to take advantage of the opportunities to develop drugs identified in the R&D activities conducted as part of the company's normal operations. For information, see above under "Other key events". BioGaia Pharma is owned 96% by BioGaia and 4% by the company's Managing Director. Operating profit for the company's first 6 months amounted to SEK -1.4 million (0.0). BioGaia AB made group contributions of SEK 1.4 million for 2017.

On the balance sheet date, assets in BioGaia Pharma were reported at SEK 3.4 million in the Parent Company. BioGaia's assessment is that BioGaia Pharma will show profitability in coming years, for which reason there was no indication of impairment on the balance sheet date.

FINANCIAL RISK MANAGEMENT

The overall objective of the Group's finance function is to secure cost-effective financing for the Group's operations and group companies and to provide secure cash management with a market-based return on investment. The overall objective of financial risk management is to minimize the risk for negative effects on the Group's earnings. Consequently, the Group's financial investments must have a low risk profile.

Below is a description of the Group's assessed risk exposure and the related risk management. For more information, see Note 28.

Currency risk BioGaia has revenue primarily in EUR and USD, but also in SEK, JPY and CHF, and expenses primarily in SEK, but also in EUR, JPY and USD. In 2017 the company had a cash flow surplus of approximately EUR 22.1 million (23.8), a cash flow surplus of JPY 313.1 million (29.4) and a cash flow surplus of USD 18.2 (11.1) million. Growth in sales has also led to increased currency risks, for which reason the company has taken currency hedges in EUR and USD. For more information, see Notes 12, 22 and 28.

Interest rate and liquidity risk The Group has no external loans. The company's interest rate risk consists of the return on cash and cash equivalents. For cash and cash equivalents, the company has a liquidity policy in which the basic principles are that investment risks should always be minimized and investments should be made primarily in Swedish kronor. To minimize currency risk, other currencies may also be considered. The company's excess liquidity may be invested only in bank accounts, commercial paper or other fixed income securities with very limited risk. This means that no investments may be made in shares, equity funds, options, etc.

Credit risks BioGaia's credit risks are tied to trade receivables. The customers have a 30-60 day credit period. When signing agreements with new customers, BioGaia always carries out an assessment of the customer's financial position. The company has routines for collection of past due accounts receivable and additional evaluation of the customers' financial position is carried out when needed in order to minimize risks.

Cash flow risk BioGaia has a positive cash flow and good liquidity. The risk for a shortage of liquidity is therefore minor. The cash flow amounted to SEK 63.5 million (14.0). This cash flow included dividends of SEK 130.0 million (86.7) and tax payments of SEK 49.5 million (43.4). Because cash and cash equivalents at December 31, 2017, amounted to SEK 305.9 million (243.1), no infusion of capital is necessary during the coming 12-month period.

Price risk BioGaia buys most of its goods on the international market and has several alternative suppliers, which reduces the company's price risk.

BioGaia's price to distributors is largely the same for all, but can vary with respect to the order volume. Certain markets are subject to aggressive price competition towards consumers. However, BioGaia's strategy is not to compete in terms of price but to instead convince doctors of the effectiveness and safety of the products by showing the results of clinical studies.



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.

In view of the company's strong portfolio consisting of an increased number of innovative products that are sold under the BioGaia brand to a growing extent, successful clinical trials and an expanding distribution network that covers a large share of the key markets, BioGaia's future outlook is bright.

Financial target and dividend policy 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 and brand building.

BioGaia's dividend policy is to pay a shareholder dividend equal to 40% of profit after tax.

EMPLOYEES

The number of employees in the Group at December 31, 2017, was 120 (109), consisting of 69 women and 51 men. The management team includes three men and five women. In 2017, 18 new employees were hired and 7 left the company. BioGaia currently has no longterm incentive scheme in place for the employees. See Note 4 for additional information about employees and personnel expenses

THE BOARD OF DIRECTORS' PROPOSAL TO THE AGM REGARDING REMUNERATION AND OTHER TERMS OF EMPLOYMENT FOR SENIOR EXECUTIVES

The Board of Directors proposes that the AGM approve the following guidelines for remuneration and other terms of employment for senior executives in the Group. These principles apply to employment contracts entered into after the decision of the AGM and in the event that changes are made in the existing terms after this date.

It is of fundamental importance for the Board that the principles for remuneration and other terms of employment for senior executives in the Group create long-term motivation and enable the company to retain competent employees who work to obtain maximum shareholder and customer value. In order to achieve this, it is vital to uphold fair and internally balanced terms that are market-based and competitive with respect to the structure, scope and level of remuneration. The total remuneration package for the affected individuals should contain a well-balanced mix of basic salary, variable remuneration, long-term incentive schemes, pension benefits, other benefits and terms of notice/termination benefits.

- **Basic salary** Basic salary shall be differentiated on the basis of the individual's role and responsibilities, as well as the individual's competence and experience in the relevant position.
- **Variable remuneration** The amount of variable remuneration shall not exceed 25% of total remuneration
- **Long-term incentive schemes** Every year, the Board of Directors shall evaluate whether a long-term share-based or share price-based incentive scheme should be proposed to the AGM. Other types of long-term incentive schemes can be decided on by the Board. Any remuneration in the form of long-term incentive schemes shall be consistent with generally accepted practices in the respective market.
- **Pensions** Senior executives who are entitled to pension benefits shall have pension agreements of the defined contribution type. The amount of benefit payable depends on the amount payable under the pension agreements in force.
- **Other benefits** Other benefits shall be of limited value in relation to other remuneration and shall be consistent with general norms in the respective geographical market.
- **Terms of notice and termination benefits** In the event that employment is terminated by the company, the term of notice for senior executives may not exceed 18 months. In the event that employment is terminated by the employee, the term of notice may not be shorter than three months.

The Board of Directors proposes that the Board be authorized to deviate from the above proposed guidelines in individual cases when there is special reason to do so.

For more information about remuneration to senior executives, see Note 4.

MOST RECENTLY ADOPTED GUIDELINES REGARDING REMUNERATION AND OTHER TERMS OF EMPLOYMENT FOR SENIOR EXECUTIVES

The most recently adopted guidelines correspond to those that are proposed to the AGM (see above).

CORPORATE GOVERNANCE

BioGaia has issued a separate corporate governance report. See pages 63-65.

SUSTAINABILITY REPORT

In accordance with Chapter 6, 11§ of the Annual Accounts Act, BioGaia has chosen to prepare the statutory sustainability report as a separate part of the annual report. The sustainability report is found on pages 28-33 of this printed document. The sustainability report includes BioGaia and its subsidiaries.

PROPOSED APPROPRIATION OF PROFITS

The following funds in the Parent Company are at the disposal of the Annual General Meeting (SEK):

Retained earnings	228,021,320
Profit for the year	186,621,150
Together amounting to	414,642,470

The Board of Directors proposes that the profits be appropriated as follows

To be paid as a dividend to the shareholders	156,028,158 ^{*)}
Provision to "the Foundation to prevent antibiotic resistance"	2,700,000
To be carried forward to new account	255,914,312
Total	414,642,470

^{*)} The proposed dividend consists of a dividend of SEK 4.31 (3.16) per share according to policy and an extraordinary dividend of SEK 4.69 (4.34) per share, amounting to a total dividend of SEK 9.00 (7.50) per share.



Five-year summary

Key ratios	2017	2016	2015	2014	2014 ¹⁾	2013
Net sales, SEK M	615.0	534.7	483.2	481.8	386.4	315.9
Net sales, Pediatrics, SEK M	492.6	433.0	389.6	409.1	313.7	238.6
Net sales, Adult Health, SEK M	116.2	85.3	74.7	69.4	69.4	75.6
Net sales, other SEK M	6.3	16.4	19.0	15.7	15.7	1.7
Operating profit, SEK M ²⁾	233.8	199.4	172.8	203.6	108.2	81.9
Profit before tax, SEK M ²⁾	232.9	196.1	178.0	199.3	103.9	84.0
Profit after tax, SEK M ²⁾	180.6	159.3	137.4	152.7	78.3	64.4
Profit after tax including discontinued operations, SEK M	180.6	227.3	121.3	148.0	73.6	64.2
Profit after tax attributable to owners of the Parent Company, SEK M ²⁾	180.6	159.3	137.4	153.3	78.9	61.9
Growth, net sales %	15	11	25	53	22	9
Operating margin, % ²⁾	38	37	36	42	28	26
Profit margin, % ²⁾	38	37	37	42	27	27
Current ratio, times	4.1	5.2	4.7	4.7	4.8	4.9
Equity/assets ratio, %	81	85	84	83	84	83
Capital employed, SEK M	464.7	415.5	396.2	344.8	270.4	316.9
Return on capital employed, % ²⁾	53	49	48	61	37	22
Return on equity, %	41	56	33	45	25	16
Average number of employees ²⁾	115	108	98	87	87	79
Data per share						
Number of shares at Dec. 31, thousands ³⁾	17,336	17,336	17,336	17,271	17,271	17,271
Average number of shares, thousands	17,336	17,336	17,309	17,271	17,271	17,271
Number of outstanding warrants, thousands	–	–	–	87	87	87
Number of outstanding warrants with a dilutive effect, thousands	–	–	–	–	–	87
Number of outstanding shares including outstanding warrants with a dilutive effect, thousands	17,336	17,336	17,336	17,271	17,271	17,358
Earnings per share, continuing operations, SEK ²⁾	10.42	9.19	7.94	8.87	4.57	3.73
Earnings per share before dilution, SEK ⁴⁾	10.42	13.13	7.01	8.53	4.23	3.57
Earnings per share after dilution, SEK ⁴⁾	10.42	13.13	7.01	8.53	4.23	3.56
Equity per share, SEK	26.76	23.95	22.87	19.95	15.64	18.37
Equity per share after dilution, SEK	26.76	23.95	22.87	19.95	15.64	18.28
Cash flow from operating activities per share, SEK	12.84	8.53	6.78	7.20	N/A	4.54
Cash flow from operating activities per share after dilution, SEK	12.84	8.53	6.78	7.20	N/A	4.52
Share price on the balance sheet date, SEK	326.00	300.00	281.50	179.50	179.50	253.50
Dividend per share, SEK	9.00⁵⁾	7.50	5.00	5.00	5.00	7.00

¹⁾ Key ratio excluding license revenue from Nestlé of SEK 95.4 million

²⁾ Excluding discontinued operations (distribution of IBT)

³⁾ The share capital consists of 740,668 class A shares and 16,595,794 class B shares. The quota value is SEK 1 per share.

⁴⁾ Key figures defined according to IFRS.

⁵⁾ Dividend proposed but not yet approved.

For definitions of key ratios, see page 51.



Group

STATEMENT OF COMPREHENSIVE INCOME

SEK 000s	Note	2017	2016
Net sales	2, 3	615,003	534,696
Cost of goods sold	2	-151,655	-146,889
Gross profit	2	463,348	387,807
Selling expenses	4	-127,115	-108,108
Administrative expenses	4, 6	-22,063	-20,893
Research and development expenses	4, 5, 10	-75,700	-63,795
Share of profit of associates	7	-820	-1,184
Other operating income	8	-	5,610
Other operating expenses	9	-3,817	-
Operating profit	10	233,833	199,437
Financial income	11	112	1,429
Financial expenses	12	-1,034	-4,807
Net financial items		-922	-3,378
Profit before tax		232,911	196,059
Tax	13	-52,347	-36,710
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		180,564	159,349
Discontinued operations (distribution of IBT)			
RESULT FROM DISCONTINUED OPERATIONS		-	67,935
PROFIT FOR THE YEAR		180,564	227,284
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Gain/losses arising on translation of the financial statements of foreign operations:		565	889
Comprehensive income for the year		181,129	228,173
<i>Profit from continuing operations attributable to:</i>			
Owners of the Parent Company		180,564	159,349
Non-controlling interests		-	-
		180,564	159,349
<i>Profit for the year attributable to:</i>			
Owners of the Parent Company		180,564	227,568
Non-controlling interests		-	-284
		180,564	227,284
<i>Comprehensive income for the period attributable to:</i>			
Owners of the Parent Company		181,129	228,457
Non-controlling interests		-	-284
		181,129	228,173
Earnings per share			
Basic earnings per share in continuing operations, SEK		10.42	9.19
Earnings per share after dilution, continuing operations, SEK		10.42	9.19
Earnings per share including discontinued operations, SEK		10.42	13.13
Earnings per share after dilution, including discontinued operations, SEK		10.42	13.13
Number of shares, thousands		17,336	17,336
Average number of shares, thousands		17,336	17,336

CASH FLOW STATEMENT

SEK 000s	Note	2017	2016
Operating activities			
Operating profit		233,833	194,275
<i>Adjustments for non-cash items:</i>			
Depreciation/amortization		6,573	7,074
Capital gains/losses on the sale of non-current assets		-	58
Share in profit of associates		820	1,184
Other non-cash items		896	-3,127
		242,122	199,464
Interest received		113	1,429
Interest paid		-270	-124
Realized forward exchange contracts		-1,337	-2,081
Taxes paid		-49,547	-43,381
Cash flow from operating activities before changes in working capital		191,081	155,307
<i>Cash flow from changes in working capital:</i>			
Inventories		8,333	4,534
Current receivables		3,083	-13,797
Trade payables		3,821	-7,217
Current interest-free operating liabilities		16,297	9,102
Cash flow from operating activities		222,615	147,929
<i>Investing activities:</i>			
Purchase of property, plant and equipment	14	-26,624	-5,611
Purchase of financial assets	15	-	-4,000
Reduction of long-term receivables		-19	-
Cash flow from investing activities		-26,643	-9,611
<i>Financing activities:</i>			
Dividend		-130,023	-124,311
Provision to foundation		-2,400	-
Formation of BioGaia Pharma		2	-
Cash flow from financing activities		-132,421	-124,311
CASH FLOW FOR THE YEAR		63,551	14,007
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
		243,069	226,882
Exchange difference in cash and cash equivalents		-764	2,180
CASH AND CASH EQUIVALENTS AT END OF YEAR		305,856	243,069



STATEMENT OF FINANCIAL POSITION

SEK 000s	Note	Dec 31 2017	Dec 31 2016
ASSETS			
<i>Non-current assets:</i>			
Property, plant and equipment	14	102,465	82,430
Investments in associates	15, 29	9,932	10,752
Deferred tax assets	13	9,339	10,433
Deposits		39	23
Total non-current assets		121,775	103,638
<i>Current assets:</i>			
Inventories	16	32,612	40,479
Trade receivables	18, 22	80,101	75,668
Other receivables	20	8,419	6,352
Deferred expenses and accrued income	21	22,349	19,759
Short-term investments	22	5,000	13
Cash and cash equivalents	22	305,856	243,069
Total current assets		454,337	385,340
TOTAL ASSETS		576,112	488,978

STATEMENT OF FINANCIAL POSITION

SEK 000s	Note	Dec 31 2017	Dec 31 2016
EQUITY AND LIABILITIES			
<i>Equity</i>			
	23		
Share capital		17,336	17,336
Other contributed capital		21,831	21,831
Reserves		1,724	1,159
Retained earnings		242,449	147,304
Profit for the year attributable to owners of the Parent Company		180,564	227,568
Total equity attributable to owners of the Parent Company		463,904	415,198
Non-controlling interests	13, 16	-16	-18
Total non-controlling interests		-16	-18
Total equity		463,888	415,180
<i>Non-current liabilities:</i>			
Deferred tax liability	13	778	332
Total non-current liabilities		778	332
<i>Current liabilities:</i>			
Prepayments from customers	22	36,648	21,799
Trade payables	22	20,893	16,951
Current tax liabilities	25	6,307	94
Other liabilities	25	6,711	9,241
Accrued expenses and deferred income	26	40,887	25,381
Total current liabilities		111,446	73,466
Total liabilities		112,224	73,798
TOTAL EQUITY AND LIABILITIES		576,112	488,978

STATEMENT OF CHANGES IN EQUITY

SEK 000s	Share capital	Other contributed capital	Foreign currency translation reserve	Retained earnings	Profit for the year	Equity attributable to owners of the Parent Company	Non-controlling interests	Total equity
Opening balance, January 1, 2016	17,336	21,831	270	235,006	121,408	395,851	-18	395,833
Dividend				-86,682		-86,682		-86,682
Dividend Shares IBT				-122,428		-122,428	284	-122,144
Total transactions with owners	-	-	-	-209,110	-	-209,110	284	-208,826
<i>Carried forward</i>				121,408	-121,408	-		-
Profit for 2016					227,568	227,568	-284	227,284
<i>Other comprehensive income</i>								
Translation differences on translation of foreign operations			889			889		889
Comprehensive income for the year	-	-	889	-	227,568	228,457	-284	228,173
Closing balance, December 31, 2016	17,336	21,831	1,159	147,304	227,568	415,198	-18	415,180
Dividend				-130,023		-130,023		-130,023
Provision to foundation				-2,400		-2,400		-2,400
Formation of BioGaia Pharma							2	2
Total transactions with owners	-	-	-	-132,423	-	-132,423	2	-132,421
<i>Carried forward</i>				227,568	-227,568			
Profit for 2017					180,564	180,564	-	180,564
<i>Other comprehensive income</i>								
Translation differences on translation of foreign operations			565			565		565
Comprehensive income for the year	-	-	565	-	180,564	181,129	-	181,129
Closing balance, December 31, 2017	17,336	21,831	1,724	242,449	180,564	463,904	-16	463,888



Parent Company

INCOME STATEMENT

SEK 000s	Note	2017	2016
Net sales	2, 3	587,937	518,307
Cost of goods sold	2	-177,578	-164,201
Gross profit	2	410,359	354,106
Selling expenses	4	-102,332	-90,308
Administrative expenses	4,6	-20,227	-19,119
Research and development expenses	4, 5, 10	-74,032	-64,203
Other operating income	8	-	6,002
Other operating expenses	9	-3,806	-
Operating profit	10	209,962	186,478
<i>Result from financial investments</i>			
Impairment loss on shares in group companies	15	-1,427	-3,578
Reversal of receivable in subsidiary	16	26,180	-
Interest income and similar profit/loss items	11	1,252	2,007
Interest expense and similar profit/loss items	12	-3,845	-4,798
Net financial items		22,160	-6,369
Profit before tax		232,122	180,109
Tax	13	-45,502	-43,156
PROFIT FOR THE YEAR		186,620	136,953

The Parent Company has no transactions in other comprehensive income, which means that comprehensive income for the year corresponds to profit for the year above. As a result, the Parent Company presents no separate statement of comprehensive income.

CASH FLOW STATEMENT

SEK 000s	Note	2017	2016
Operating activities			
Operating profit		209,962	186,478
<i>Adjustments for non-cash items:</i>			
Depreciation/amortization		515	449
Other non-cash items		897	-1,944
		211,374	184,983
Interest received		1,252	2,008
Interest paid		-174	-113
Realized forward exchange contracts		-1,337	-2,082
Taxes		-46,698	-40,637
Cash flow from operating activities before changes in working capital		164,417	144,159
<i>Cash flow from changes in working capital:</i>			
Inventories		7,187	5,698
Current receivables		-5,139	-23,567
Trade payables		4,568	-8,013
Current interest-free operating liabilities		-948	13,549
Cash flow from operating activities		170,085	131,826
<i>Investing activities:</i>			
Purchase of property, plant and equipment	14	-3,897	-283
Purchase of financial assets	15	-2,049	-4,000
Repayment of loans from subsidiaries	16	23,352	-
Cash flow from investing activities		17,406	-4,283
<i>Financing activities:</i>			
Dividend		-130,023	-86,682
Provision for foundation		-2,400	-
Cash flow from financing activities		-132,423	-86,682
CASH FLOW FOR THE YEAR		55,068	40,861
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		215,880	173,077
Exchange difference in cash and cash equivalents		-898	1,942
CASH AND CASH EQUIVALENTS AT END OF YEAR		270,050	215,880



BALANCE SHEET

SEK 000s	Note	Dec 31 2017	Dec 31 2016
ASSETS			
Non-current assets			
<i>Property, plant and equipment</i>	14		
Production equipment		3,724	245
Office equipment and computers		352	449
<i>Total property, plant and equipment</i>		4,076	694
<i>Financial assets</i>			
Investments in group companies	15	54,570	51,133
Investments in associates	15	12,001	12,000
Receivables from group companies	16	55,835	55,835
<i>Total financial assets</i>		122,406	118,968
Total non-current assets		126,482	119,662
Current assets			
Inventories	16	21,252	28,438
<i>Current receivables</i>			
Trade receivables	18,22	68,058	69,387
Receivables from group companies	19	7,439	8,956
Current tax assets	20	–	1,371
Other receivables	20	8,158	6,025
Deferred expenses and accrued income	21	17,767	17,764
<i>Total current receivables</i>		101,422	103,503
Short-term investments	22	5,000	13
Cash and cash equivalents		270,050	215,880
Total current assets		397,724	347,834
TOTAL ASSETS		524,206	467,496

BALANCE SHEET

SEK 000s	Note	Dec 31 2017	Dec 31 2016
EQUITY AND LIABILITIES			
Equity			
<i>Restricted equity</i>			
Share capital		17,336	17,336
Other restricted equity		1,253	1,253
		18,589	18,589
<i>Non-restricted equity</i>			
Retained earnings		228,022	223,492
Profit for the year		186,620	136,953
	24	414,642	360,445
Total equity		433,231	379,034
Liabilities			
<i>Current liabilities</i>			
Prepayments from customers		12,082	28,793
Trade payables		16,743	12,175
Liabilities to group companies	19	18,408	20,813
Other liabilities	25	2,427	3,145
Current tax liabilities	25	2,613	–
Accrued expenses and deferred income	26	38,702	23,536
<i>Total current liabilities</i>		90,975	88,462
Total liabilities		90,975	88,462
TOTAL EQUITY AND LIABILITIES		524,206	467,496

STATEMENT OF CHANGES IN EQUITY

	Share capital	Other restricted equity	Retained earnings	Profit for the year	Total equity
Opening balance, January 1, 2016	17,336	1,253	261,200	130,780	410,569
Carried forward			130,780	-130,780	0
Dividend			-86,682		-86,682
Dividend Shares IBT			-81,806		-81,806
Profit for 2016				136,953	136,953
Closing balance, December 31, 2016	17,336	1,253	223,492	136,953	379,034
Carried forward			136,953	-136,953	0
Dividend			-130,023		-130,023
Provision for foundation			-2,400		-2,400
Profit for 2017				186,620	186,620
Closing balance, December 31, 2017	17,336	1,253	228,022	186,620	433,231



Notes to the financial statements and accounting policies

All figures in SEK 000s unless otherwise specified. Figures in brackets refer to the previous year.

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NOTE 1 ACCOUNTING POLICIES

Compliance with norms and laws 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 Parent Company applies the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities, i.e. the same accounting policies as the Group except in cases where the Parent Company's compliance with the Swedish Annual Accounts Act limits the applicability of IFRS in the Parent Company.

New and revised IFRS standards and new interpretations effective for 2017

The new and revised standards and new interpretations have not had any material impact on the consolidated financial statements for 2017.

New and revised IFRS standards and new interpretations not yet effective

The new and revised standards and new interpretations that have been issued, but are mandatorily effective for accounting periods beginning on or after January 1, 2018, have not yet been adopted by the Group. Below is a description of those that are assessed to have an impact on the consolidated financial statements in the period when they are applied for the first time.

Standards	Effective for accounting periods beginning:
IFRS 9 Financial Instruments	on or after January 1, 2018
IFRS 15 Revenue from Contracts with Customers	on or after January 1, 2018
IFRS 16 Leases	on or after January 1, 2019

- *IFRS 9 Financial Instruments* was issued on July 24, 2014, and will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard has been issued in phases, of which the version issued in July 2014 supersedes all earlier versions.

IFRS 9 contains new principles for classification and measurement of financial assets and liabilities. The decisive factors for determining which measurement category a financial asset is attributed to are the entity's objective for holding asset (i.e. the entity's "business model"), and the financial asset's contractual cash flows.

The new standard also contains new rules for impairment testing of financial assets, replacing the earlier "incurred loss method" with a new "expected loss method".

The aim of the new hedge accounting rules is to reflect the company's risk management in the accounting. The standard also provides increased opportunities to hedge risk components of non-financial items and allows additional types of instruments to be included in a hedge relationship. Furthermore, the quantitative requirement for hedge effectiveness has been eliminated. IFRS 9 is effective for financial years beginning on or after January 1, 2018, and was approved by the EU in December 2016.

Management has reviewed its financial assets and liabilities and assessed that the effects of IFRS 9 on the consolidated financial statements will not have any material impact on BioGaia's consolidated financial statements.

- *IFRS 15 Revenue from Contracts with Customers* was issued on May 28, 2014 and will replace IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes a model for accounting for almost all revenue that arises through contracts with customers, with the exception of leases, financial instruments and insurance agreements. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized when control of the goods or services is transferred to the customer. IFRS 15 provides significantly more guidance for specific areas and the disclosure requirements are extensive. IFRS 15 is mandatorily effective for accounting periods beginning on or after January 1, 2018, with earlier application permitted. The standard was endorsed by the EU in September 2016.



Management has made an analysis of the effects of IFRS 15 on the company's revenue and assessed that the effects on the consolidated financial statements will not have any material impact on BioGaia's consolidated financial statements.

- **IFRS 16 Leases** was issued on January 13, 2016 and will replace IAS 17 Leases. IFRS 16 introduces a "right of use model" that requires lessees to recognize assets and liabilities for all leases, for which reason leases are no longer classified as operating or finance leases. The exceptions are leases that have a term of 12 months or less and leases where the underlying asset has a low value. In the income statement, the entity shall recognize depreciation on the asset and interest expenses on the liability. The standard contains more extensive disclosure requirements compared to the current standard. For the lessor, IFRS 16 entails no real changes compared to IAS 17. IFRS 16 is mandatorily effective for accounting periods beginning on or after January 1, 2019, with earlier adoption permitted on the condition that IFRS 15 is also applied. The standard was endorsed by the EU in December 2016. Management has not yet made a detailed analysis of the impact of the application of IFRS 9 and is therefore not yet able to quantify the effects.

Management's assessment is that the other new and revised standards and new interpretations that are not yet effective will not have any material impact on the consolidated financial statements when they are applied for the first time.

Basis of preparation The consolidated financial statements have been prepared on the historical cost basis unless otherwise specified.

Non-current assets, non-current liabilities and provisions essentially consist of amounts that are expected to be recovered or settled more than 12 months after the closing date. Current assets and current liabilities essentially consist of amounts that are expected to be recovered or settled within 12 months from the closing date.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 29.

Basis of consolidation The consolidated financial statements consolidate the operations of the Parent Company and the subsidiaries for the period ended December 31, 2017. The Parent Company controls the subsidiaries, and has the ability to affect returns from its involvement with the subsidiaries through its power over the subsidiaries. All subsidiaries have their balance sheet date on December 31.

All intragroup transactions and balances are eliminated in full on consolidation, including unrealized gains or losses arising from inter-company transactions. In cases where unrealized losses on intragroup sales of assets are reversed on consolidation, the underlying asset is tested for impairment also from a group perspective. When necessary, amounts reported in the financial statements of subsidiaries have been adjusted to ensure conformity with the accounting policies of the Group.

Profit/loss and other comprehensive income for subsidiaries that are acquired or sold during the year are recognized from the date on which the acquisition or sale went into force, according to what is applicable.

Non-controlling interests, which are recognized as component of equity, represent the share of the subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes comprehensive income for the subsidiaries to owners of the Parent Company and non-controlling interest based on their respective holdings. Transactions involving the acquisition and disposal of shares in companies where there are non-controlling interests are recognized in the cash flow statement in "Cash flow from financing operations" and in the statement of changes in equity as "Transactions with owners".

Associates Associates are companies over which the Group has a significant but not controlling interest. Investments in associates are accounted for according to the equity method on the acquisition date, and are thereafter adjusted by the company's share of changes in the associate's net assets.

Foreign currency translation

- **Functional currency** The functional currency is the currency of the primary economic environments in which the Group's companies operate.

- **Transactions** Foreign currency transactions are translated to the functional currency at the rate of exchange ruling on the transaction date. Monetary assets and liabilities in foreign currency are translated to the functional currency at the closing day rate. Exchange differences arising on translation are recognized in profit or loss. Non-monetary assets and liabilities carried at cost are translated at the rate of exchange ruling on the transaction date. Non-monetary assets and liabilities measured at fair value are translated to the functional currency using the rates of exchange ruling on the date when the fair value was determined.

Foreign exchange gains/losses on operating receivables and liabilities are recognized in operating profit, while foreign exchange gains/losses on financial receivables and liabilities are recognized in net financial items.

- **Derivatives** Growth in sales has also led to increased currency risks, for which reason the company has taken currency hedges in EUR and USD. The company's Board of Directors has issued a policy to hedge approximately 50-60% of projected cash flow 12 months forward and approximately 10-40% of projected cash flow 13-24 months forward in order to spread the risk for exchange rate fluctuations.

The forward contracts are reported at fair value through profit or loss.

A financial asset or liability is taken up in the balance sheet when the company becomes party to the contractual terms of the instruments.

- **Financial statements of foreign operations** Assets and liabilities in foreign operations are translated from the foreign operation's functional currency to the Group's presentation currency, SEK, at the closing day rate of exchange. Income and expenses in foreign operations are translated to SEK at an average rate that is a reasonable approximation of actual rates on the respective transaction dates. An average rate is computed quarterly. Exchange differences arising on translation of foreign operations are recognized in other comprehensive income.
- **Net investments in foreign operations** Receivables from a foreign operation for which settlement is neither planned nor likely occur in the foreseeable future are, in substance, part of the company's net investment in that foreign operation. Exchange differences arising on translation of long-term loans in foreign currency that that form part of the net investment in a foreign operation are deferred to a translation reserve in other comprehensive income.

Segment information The Executive Management has analyzed the Group's internal reporting and determined that the Group's operations are monitored and evaluated based on the following segments:

- **Pediatrics segment** (drops, gut health tablets, oral rehydration solution [ORS], cultures as an ingredient in a licensee's product, such as infant formula and royalties in respect of pediatric products).
- **Adult Health segment** (gut health tablets, oral health lozenges, cultures as an ingredient in a licensee's dairy products).
- **Other** (royalties in respect of development projects, animal health products, etc).

Sales and gross profit are reported for the above segments and are monitored regularly by the Managing Director (who is regarded as the chief operating decision maker) together with the management. There is no monitoring of the company's total assets and liabilities against the segments' assets.

Revenue recognition 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 from revenue from the sale of bacteria cultures to be used in licensee's products (for example infant formula and dairy products), royalty revenue for the use of *Lactobacillus reuteri* in a licensee's product and sales of packaging systems such as straws and caps.

Revenue from the sale of goods is recognized when the amount can be measured reliably, it is probable that the economic benefits will flow to the company and the criteria have been met for delivery in accordance with the agreed sale and shipping conditions.

Royalty revenue based on the licensee's reporting of units produced or on the sales value of products containing BioGaia's probiotic is recognized quarterly. The presentation of and time for the licensee's reporting is regulated by agreement.



Royalties from the sale of licenses (rights), such as the 2012 agreement with Nestlé which gives them the right to use the probiotic *Lactobacillus reuteri* Protectis in infant formula during the remaining term of the patent, are recognized as income directly in cases where there are no remaining conditions to be met and the right is transferred to the customer in connection with signing of the agreement.

Royalty revenue attributable to development projects is recognized in pace with completion of the projects.

Interest income is recognized profit or loss for the period in which it arises.

Leasing Leased assets are classified as operating leases, since all the risks and rewards incident to ownership have not been substantially transferred to BioGaia. As a result, the lease payments are recognized on a straight-line basis over the term of the lease.

Pensions All employees in Sweden are subject to mandatory retirement in accordance with Swedish legislation, and other employees in accordance with the respective country's legislation. The company has no pension commitments other than payment of annual pension insurance premiums. The pension insurance premiums are of the defined contribution type and are expensed as incurred.

Income taxes Current tax refers to the tax computed on taxable profit for the period. Taxable profit differs from recognized profit in the consolidated income statement in that it has been adjusted for non-taxable income and non-deductible expenses and for items of income and expense that are taxable or deductible in other periods.

Deferred tax refers to the tax computed partly on the basis of temporary differences and partly on tax losses. At every closing date, an assessment is made to determine whether to recognize deferred tax assets not previously recognized in the balance sheet. Such tax assets are recognized to the extent that it is probably that there will sufficient taxable profits against which to utilize these in the future.

Research and development expenses Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the company's intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probably future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development

Other expenditure on development activities is recognized as an expense in the period in which it is incurred. An individual assessment of all ongoing research and development projects is made quarterly to determine which costs are capitalizable. The carrying amount of capitalized expenditure includes all directly attributable costs such as materials, purchased services and employment costs.

BioGaia typically has research activities in the form of clinical studies underway parallel to product development. Much of BioGaia's product development consists of stability tests to ensure that the products remain stable throughout their shelf lives. While the clinical studies and stability tests are in progress, it is often not possible to be certain that the project will be successful and that the product can be sold. This means that projects often do not meet the requirements for capitalization. Other aspects of product development include finding new delivery systems and developing existing products.

Amortization of capitalized development costs is started when the asset can be used and the products begins generating revenue, and is carried out on a straight-line basis over the expected useful life of the asset.

Intangible assets and property, plant and equipment Intangible assets and property, plant and equipment are recognized at cost less accumulated amortization/depreciation and impairment.

Intangible assets are amortized on a straight-line basis over their expected useful lives.

The following depreciation schedules are applied for property, plant and equipment:

Tangible fixed assets

Production and laboratory equipment	5–10 years
Equipment and computers	3–5 years
Buildings	20–60 years

The carrying amounts of the Group's assets are reviewed at each balance sheet date to look for any indication that an asset may be impaired. Incomplete projects are tested for impairment annually. The cash-generating unit is the applicable segment. If impairment is indicated, the recoverable amount of the asset is calculated. If this is lower than the carrying amount, the value is written down to the recoverable amount.

Depreciation of buildings is started when construction is completed. For electrical and internal construction work, etc., the depreciation period is 20–30 years, and for framework and foundation the depreciation period is 60 years.

Inventories Inventories are stated at the lower of cost and net realizable value, including provisions for obsolescence. Cost is measured according to weighted average prices.

Short-term investments Short-term investments include interest rate funds that the company intends to dispose of within 12 months from the balance sheet date.

Cash and cash equivalents Cash and cash equivalents comprise cash on hand and in banks.

Financial assets and liabilities Financial instruments in the Group are measured and recognized in accordance with the rules in IAS 39.

The financial assets and liabilities recognized in balance sheet include cash and cash equivalents, short-term investments, and loans and receivables. Financial liabilities and equity include trade payables and prepayments from customers.

Financial assets and liabilities are initially measured at cost, corresponding to fair value including transaction costs for all financial assets and liabilities not measured at fair value through profit or loss. Subsequent measurement depends on how the instruments have been classified according to the following.

Financial assets in the Group refer to shares in a company where the holding is below 20% and the Group does not have control.

When the holding exceeds 20% (and control exists), the shares in the company will instead be recognized as investments in associates.

A financial asset or liability is recognized in the balance sheet when the company initially becomes party to the contractual provisions of the instrument. Financial liabilities are recognized when the counterparty has performed and there is contractual obligation to pay, even if no invoice has been received. Trade receivables are initially measured at cost and subsequently at amortized cost less provision for impairment. Impairment losses on trade receivables are recognized in profit or loss. Trade payables are recognized when an invoice has been received.

The purchase or sale of other financial assets is recognized on the trade date, which is the date on which the company commits to purchase or sell the asset.

A financial asset is derecognized from the balance sheet when the company's rights under the agreement are realized, expire or the company has relinquished control of the asset. The same applies to a part of a financial asset. A financial liability is derecognized from the balance sheet when the obligation specified in the agreement is discharged or otherwise extinguished. The same applies to a part of a financial liability.

The company classifies its financial assets and liabilities in the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments and other financial liabilities.

In accordance with IFRS 7 Financial Instruments, it is specified in connection with the note, regarding the balance sheet item for all financial instruments measured at fair value, which of the following levels of measurement has been used:

- **Level 1**, fair value is determined based on quoted prices in an active market for the instrument
- **Level 2**, fair value is determined based on a valuation technique using observable market data, either direct (such as prices) or indirect (derived from prices), and which are not included in level 1
- **Level 3**, fair value is determined with the help of valuation techniques, using significant inputs that are not observable in the market.

Accounting policies of the Parent Company The differences between the accounting policies applied by the Group and the Parent Company are described below. The following accounting policies for the Parent Company have been applied consistently for all periods presented in the Parent Company financial statements.

Revisions in RFR 2 have not had any material impact on the financial statements of the Parent Company for 2017.

- **Presentation** The income statement and balance sheet of the Parent Company are presented in accordance with the schedules in the Swedish Annual Accounts Act.
- **Income taxes** In the Parent Company, untaxed reserves are recognized including the deferred tax liability. In the consolidated financial statements, however, untaxed reserves are divided between the deferred tax liability and equity.
- **Subsidiaries** In the Parent Company, shareholdings in subsidiaries are accounted for on a historical cost basis. The carrying amount is tested regularly against the subsidiaries' consolidated equity.



DEFINITIONS OF KEY RATIOS

Key ratio	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.
Current ratio	Total current assets divided current liabilities	The current ratio shows the company's short-term solvency.
Equity per share	Shareholders' equity attributable to the owners of the Parent Company divided by the average number of shares.	Shareholders' equity per share measures the company's net value per share and indicates whether a company will increase the shareholders' wealth over time.
Equity per share, diluted	Equity attributable to the owners of the Parent Company at the end of the period divided by the average number of shares at the end of the period, after dilution.	Shareholders' equity per share, diluted, measures the company's net value per share after any dilution owing to ongoing incentive schemes. Shows the company's realized sales growth over time or similar and indicates whether a company will increase the shareholders' wealth over time.
Cash flow from operating activities per share	Cash flow from operating activities during the period divided by the average number of shares during the period.	Cash flow from operating activities per share measures the cash flow generated by the company per share before capital expenditure and cash flow attributable to the company's financing.
Cash flow from operating activities per share after dilution	Cash flow from operating activities divided by the average number of shares plus the number of outstanding warrants with a dilutive effect.	Cash flow from operating activities per share measures the cash flow generated by the company per share (plus the number of outstanding shares with a dilutive effect) before capital expenditure and cash flow attributable to the company's financing.
Operating margin (EBIT margin)	Operating profit expressed as a percentage of net sales.	The operating profit margin is used to measure operational profitability.
Operating income	Income before financial items and tax.	Operating income is used to measure operating profitability.
Equity/assets ratio	Shareholders' 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's running, and includes both equity and debt.
Growth	Sales for the current year less sales for the previous year divided by sales for the previous year.	Shows the company's realized sales growth over time.
Earnings per share (EPS)	Profit after tax attributable to owners of the Parent Company divided by the average 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.
Earnings per share (EPS), diluted	Profit from continuing operations attributable to owners of the Parent Company by the average number of shares after dilution.	EPS, diluted, measures how much of net profit is available for payment to the shareholders as dividends per share after any dilution owing to ongoing incentive schemes or similar.
Earnings per share in continuing operations	Profit after tax attributable to owners of the Parent Company divided by the average number of shares.	EPS measures how much of net profit in ongoing operations is available for payment to the shareholders as dividends per share in ongoing operations.
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.

RECONCILIATION AGAINST IFRS

Return on capital employed	2017	2016
Operating profit	233,833	199,437
Financial income	112	1,429
Profit before financial items + financial income	233,945	200,866
Total assets	576,112	488,978
Interest-free liabilities	-111,446	-73,466
Capital employed	464,666	415,512
Average capital employed	440,089	405,848
Return on capital employed	53%	49%

Return on equity	2017	2016
Profit after tax equity attributable to the owners of the Parent Company	180,564	159,349
Shareholders' equity attributable to the owners of the Parent Company	463,904	415,198
Average equity attributable to the owners of the Parent Company	439,551	405,525
Return on equity	41%	39%

Current ratio	Dec 31, 2017	Dec 31, 2016
Total current assets (A)	454,337	385,340
Current liabilities B	111,446	73,466
Current ratio (A/B)	4.1	5.2

CHANGE IN SALES BY SEGMENT

Description	Definition	Pediatrics 2017	Adult Health 2017	Other 2017	Total 2017	
A	The previous year's net sales according to the average rate	433,028	85,274	16,394	534,696	
B	Net sales for the year according to the average rate	492,550	116,176	6,277	615,003	
C	Reported change	B-A	30,902	-10,117	80,307	
	Percentage change	C/A	14%	36%	-62%	15%
D	Net sales for the year according to the previous year's average rate	490,669	118,375	6,277	615,321	
E	Foreign exchange effects	C-F	1,881	-2,199	0	-318
	Foreign exchange effects, %	E/A	0%	-3%	0%	0%
F	Organic change	D-A	57,641	33,101	-10,117	80,625
	Organic change, %	F/A	13%	39%	-62%	15%

AVERAGE KEY EXCHANGE RATES

	Group	
	2017	2016
EUR	9.63	9.47
USD	8.54	8.56
JPY	7.61	7.90



NOTE 2 SEGMENT REPORTING

BioGaia's operating segments consist of Pediatrics and Adult Health. The Pediatrics segment includes sales of drops, oral rehydration solution (ORS), gut health tablets and also cultures as an ingredient in a licensee's product (such as infant formula), as well as royalties pertaining to Pediatric products.

The Adult Health segment mainly includes gut health tablets, oral health products and also sales of cultures as an ingredient in a licensee's dairy product and royalty from the sale of Adult health products. Other consists of a number of smaller segments such as royalties from the collaboration with Nestlé and revenue from packaging solutions in the subsidiary CapAble. Together these account for less than 10% of sales and are therefore not reported separately.

NET SALES BY SEGMENT:

	Group	
	2017	2016
Pediatrics	492,550	433,028
Adult Health	116,176	85,274
Other	6,277	16,394
	615,003	534,696

GROSS PROFIT BY SEGMENT:

Pediatrics	378,936	318,811
Adult Health	78,173	52,917
Other	6,239	16,079
	463,348	387,807
Selling, administrative and R&D expenses	-224,878	-192,796
Share in profit of associates	-820	-1,184
Other operating income/expenses	-3,817	5,610
Operating profit	233,833	199,437
Net financial items	-2,922	-3,378
Profit before tax	232,911	196,059

The discontinued operation refers to the prior subsidiary Infant Bacterial Therapeutics (IBT) which was distributed to the shareholders 2016. IBT was a separate segment and had no sales and gross profit but only operating expenses, see note 5, and does not effect numbers above.

In 2017, SEK 204.8 million (184.6), or 33.3% (34.5%) of revenue in the Group, was attributable to three customers. The two largest of these three customers belong to the Pediatrics segment, while the third belongs to both the Pediatrics and Adult Health segments. In 2017 there was one customer that accounted for more than 10% of sales. In 2016 there was also one customer that accounted for more than 10% of sales.

NET SALES BY GEOGRAPHICAL MARKET:

	Group		Parent Company	
	2017	2016	2017	2016
Asia Pacific	95,475	55,551	70,266	39,200
EMEA	393,470	376,438	392,285	376,438
Americas	126,058	102,707	125,386	102,669
	615,003	534,696	587,937	518,307

More than 90% of the Group's total assets, amounting to SEK 576.1 million (489.0), are located in Europe.

Of the Group's capital expenditure on property, plant and equipment and intangible assets, totalling SEK 26.7 million (5.61), more than 90% pertained to Europe. Sales in Sweden amounted to SEK 15.0 million (14.3), or 2% (3%) of total sales in the Group. The Group's largest markets consist of Brazil, Finland, Italy, Japan and Spain. These markets account for approximately 31% of total revenue in the Group.

The Group's non-current assets amount to SEK 121.8 million, of which SEK 121.4 million is located in Sweden and SEK 0.4 million in other countries (the USA and Japan).

NOTE 3 REVENUE

	Group		Parent Company	
	2017	2016	2017	2016
Product revenue	522,093	494,020	495,027	477,631
Royalties	92,910	40,676	92,910	40,676
	615,003	534,696	587,937	518,307

NOTE 4 EMPLOYEES AND PERSONNEL EXPENSES, REMUNERATION TO SENIOR EXECUTIVES

AVERAGE NUMBER OF EMPLOYEES BY COUNTRY:

	2017	Of whom, men	2016	Of whom, men
<i>Parent Company:</i>				
Sweden	76	25	68	24
<i>Subsidiaries:</i>				
Sweden	29	17	32	16
Japan	8	6	6	4
USA	2	2	2	1
Total subsidiaries	39	25	40	21
Total Group	115	50	108	45

The number of employees in the Group at December 31, 2017, was 120 (109).

SALARIES AND OTHER REMUNERATION DIVIDED BY COUNTRY AND BETWEEN THE BOARD/MANAGING DIRECTOR AND OTHER EMPLOYEES:

	2017 Board and Managing Director	2017 Other employees	2016 Board and Managing Director	2016 Other employees
<i>Parent Company:</i>				
Sweden	4,235	51,906	3,156	44,844
<i>Subsidiaries:</i>				
Sweden	2,362	7,486	1,770	7,419
Japan	2,851	3,481	2,102	2,730
USA	-	2,963	-	3,356
Total subsidiaries	5,213	13,930	3,872	13,505
Total Group	9,448	65,836	7,028	58,349

TOTAL SALARIES AND SOCIAL SECURITY EXPENSES:

	Group		Parent Company	
	2017	2016	2017	2016
Salaries and other remuneration	75,283	65,376	56,141	48,000
Pension expenses for the Board and Managing Director	1,298	979	611	440
Pension expenses for other employees	7,565	6,215	6,879	5,486
Other social security expenses	22,357	18,668	18,418	14,939
	106,503	91,238	82,049	68,865



Pensions and health insurance: All employees in Sweden are subject to mandatory retirement in accordance with Swedish law. The company has no pension commitments other than payment of annual pension insurance premiums.

For all employees except the Managing Director^{*)} over the age of 25 years, the following pension insurance premiums are paid in relation to salary:

Pensionable salary within the range:	0-7.5 base amounts	>7.5-30 base amounts	>30 base amounts
Premium	4.5%	30%	0%

^{*)} For the Managing Director pension insurance premiums are paid with 6% within 7.5 base salary amounts and with 30% above 7.5 base salary amounts.

All employees are covered by health insurance, with benefits. This health insurance is activated after 90 days of sick leave. Together with the employer's health insurance and compensation from the Social Insurance Agency, the employee receives total benefits equal to approximately 65 - 87% of salary after a qualifying period of 3 months (depending on the level of salary).

The company also pays sick pay during the qualifying period (see above), i.e. from day 15 to day 90, when the health insurance is activated. Compensation from the Swedish Social Insurance Agency from day 15 corresponds to just under 80% of salary and is payable in a maximum amount corresponding to an annual salary of 7.5 price base amounts. During this period, the company pays compensation for loss of income so that the employee, regardless of salary level, receives a total of 80% of salary together with compensation from the Swedish Social Insurance Agency.

BioGaia's incentive scheme for the employees BioGaia had a bonus program for all employees in the Parent Company during 2017, based on the company's earnings performance. The company has no long-term incentive scheme currently in progress for the employees.

Remuneration to senior executives Remuneration to the Chairman and members of the Board is paid according to the decision of the Annual General Meeting. The Board has appointed a Remuneration Committee consisting of Board Chairman David Dangoor and Board member Stefan Elving. The Remuneration Committee handles matters related to remuneration and other terms of employment of senior executives. The principles for remuneration to senior executives are approved by the Annual General Meeting. The task of the Remuneration Committee is to prepare recommendations in accordance with these principles.

Remuneration to the Managing Director, Group President and other senior executives employed by the company consists of basic salary and other benefits. Other senior executives consist of the seven persons who together with the Managing Director make up the Executive Management.

In the event of termination by the company, the Managing Director, Group President and Vice Presidents are entitled to full salary during an 18 month period of notice. In the event of termination by the company, other senior executives have a statutory notice period of at least 3 months in accordance with the Swedish Employment Protection Act. In other respects, the Managing Director and Group President have the same benefits as other employees.

Otherwise, no agreements for termination benefits exist for the Managing Director, Group President or other senior executives.

REMUNERATION AND OTHER BENEFITS DURING THE YEAR:

	Director's fees	Basic salary	Variable salary	Other remuneration	Pension insurance incl. health insurance	Total
Board Chairman:						
David Dangoor:	400					400
Board members:						
Jan Annwall	200	225				425
Ewa Björling	200					200
Stefan Elving	200					200
Margaretha Gadnell	200					200
Inger Holmström	200					200
Anthon Jahreskog	200					200
Brit Stakston	200					200
Managing Director:						
Axel Sjöblad		2,135	300	288	611	3,334
Group President:						
Peter Rothschild		2,326				2,326
Other senior executives (7 persons):						
		8,399	671		2,036	11,106
	1,800	13,085	971	288	2,647	18,791

Comment on the table above: Other remuneration consist of housing benefits.

GENDER DISTRIBUTION:

	2017 Women	2017 Men	2016 Women	2016 Men
Board members	4	4	4	4
Management including Managing Director and Group President	5	4	5	4

NOTE 5 DISCONTINUED OPERATIONS (DISTRIBUTION)

BioGaia's former subsidiary IBT was distributed to BioGaia's shareholders on 29 March 2016. Below is a presentation of the profit/loss and cash flows from the discontinued operations.

RESULTS FROM DISCONTINUED OPERATIONS

	2017	2016
Net sales	-	-
Selling expenses	-	-
Research and development expenses	-	-5,101
Other operating income/expenses	-	-61
Operating result	-	-5,162
Financial expenses	-	-2
The difference between the fair value of the IBT's shares and the book value	-	73,099
Profit/loss for the period	-	67,935

CASH FLOW FROM DISCONTINUED OPERATIONS

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

An extraordinary general meeting on 18 March 2016 resolved to distribute the shares in the subsidiary Infant Bacterial Therapeutics (IBT) to BioGaia's shareholders. At the end of March, IBT commenced trading on First North. As of 22 March 2016, IBT is no longer part of the BioGaia Group. The operations in IBT are reported as "Discontinued operations" in the income statement. The company applies IFRIC 17, which means that the distribution of the subsidiary IBT is recognized at the fair value of the assets distributed. The difference between the previously reported value and the fair value (based on the average traded price for the first day of trading on 29 March 2016) has been recognized in the income statement and amounted to a profit of SEK 73.1 million.

NOTE 6 AUDITOR'S FEES

	Group		Parent Company	
	2017	2016	2017	2016
Deloitte AB				
Audit assignments	504	500	504	500
Audit services in addition to audit	203	20	203	20
Tax advice	-	40	-	40
Other services	-	-	-	-



Cont'd, Note 6

	Group		Parent Company	
	2017	2016	2017	2016
<i>Cherry, Bekaert & Holland, LLP:</i>				
Audit assignments	54	57	–	–
Other services	280	276	–	–
Tax advice	35	–	–	–

Audit assignments refer to the auditors' work on the statutory audit, other auditing activities and different types of quality assurance services. Other services are such that are not included in the audit assignment, auditing activities or tax advice.

NOTE 7 SHARE OF PROFIT OF ASSOCIATES

	Group	
	2017	2016
Share of profit of MetaboGen AB	–820	–1,184
	–820	–1,184

NOTE 8 OTHER OPERATING INCOME

	Group		Parent Company	
	2017	2016	2017	2016
Exchange gains on operating receivables and liabilities, net	–	5,610	–	6,002
	–	5,610	–	6,002

NOTE 9 OTHER OPERATING EXPENSES

	Group		Parent Company	
	2017	2016	2017	2016
Exchange rate losses on receivables and operating liabilities, net	3,817	–	3,806	–
	3,817	–	3,806	–

NOTE 10 OPERATING EXPENSES

OPERATING EXPENSES ALLOCATED BY TYPE OF COST

	Group		Parent Company	
	2017	2016	2017	2016
Cost of sales	151,655	146,889	177,578	164,201
Personnel expenses	107,540	108,936	82,768	70,776
Depreciation/amortization	6,573	7,074	515	449
Other operating expenses	110,765	76,786	113,308	102,405
	376,533	339,685	374,169	337,831

Operating expenses include lease payments of SEK 115 thousand (177). The total amount of minimum future lease payments falls due as follows

- Within one year: SEK 336 thousand
- Within two to five years: SEK 912 thousand
- After five years: –

The Group's future payment commitments for rents amount to SEK 33.1 million, of which SEK 26.1 million refers to the Parent Company. The Group's rents fall due for payment in an amount of SEK 5.6 million within one year and SEK 20.2 million within two to five years and SEK 7.3 million after 5 years.

Research and development expenses. No development expenses in the Parent Company or subsidiaries during the year meet requirements for capitalization in the balance sheet. Previously capitalized development expenses are fully amortized and the value in the balance sheet of intangible assets is therefore zero in BioGaia at 31 December 2017.

TOTAL RESEARCH AND DEVELOPMENT EXPENSES

	Group		Parent Company	
	2017	2016	2017	2016
Total R&D expenses excl. amortization	75,325	63,526	73,760	64,049
The year's capitalization of development expenses	–	–	–	–
Uncapitalized R&D expenses	75,325	63,526	73,760	64,049
Amortization component of R&D expenses*)	375	269	272	155
R&D expenses with an effect on profit/loss	75,700	63,795	74,032	64,204

*) This amount refers only to the portion of depreciation on property, plant and equipment attributable to the research and development function in the income statement classified by function.

NOTE 11 FINANCIAL INCOME

	Group		Parent Company	
	2017	2016	2017	2016
Interest income	112	1,429	1,252	2,007
	112	1,429	1,252	2,007

NOTE 12 FINANCIAL EXPENSES

	Group		Parent Company	
	2017	2016	2017	2016
Exchange losses, forward exchange contracts	842	4,685	842	4,685
Other financial expenses	192	122	174	113
	1,034	4,807	1,016	4,798

At 31 December 2017 the Parent Company and the Group had outstanding foreign exchange contracts for EUR 15.3 million (11.1) at an average exchange rate of SEK 9.63 and USD 9.4 million (2.2) at an average exchange rate of SEK 8.21. The unrealized foreign exchange gain/loss is reported in financial income/expense.



NOTE 13 TAX ON PROFIT FOR THE YEAR

	Group		Parent Company	
	2017	2016	2017	2016
Current tax	-51,253	-47,124	-45,502	-43,155
Deferred tax	-1,094	10,414	-	-
	-52,347	-36,710	-45,502	-43,155

DEFERRED TAX IN UNTAXED RESERVES:

	Group		Parent Company	
	2017	2016	2017	2016
Deferred tax attributable to untaxed reserves	778	332	-	-
	778	332	-	-

CHANGE IN DEFERRED TAX LIABILITY:

	Group	
	2017	2016
Opening balance deferred taxes	332	351
Reversal of deferred tax	-	-19
Provision for deferred tax	446	-
Closing deferred tax	778	332

The deferred tax liability is attributable to the subsidiary BioGaia Production AB (former TwoPac AB).

CHANGE IN DEFERRED TAX ASSETS:

	Group	
	2017	2016
Opening balance, deferred tax	10,433	-
Resolution of deferred tax asset	-1,094	-
Provisions for deferred tax	-	10,433
Closing balance, deferred tax	9,339	10,433

The deferred tax asset is attributable to the Japanese subsidiary.

RECONCILIATION OF NOMINAL TAX AND ACTUAL TAX EXPENSES:

	Group		Parent Company	
	2017	2016	2017	2016
Reported profit before tax	232,911	196,059	232,122	180,109
Tax rate	22,0%	22,0%	22,0%	22,0%
Anticipated tax expense	-51,240	-43,133	-51,067	-39,624
Tax effect of other non-deductible and non-taxable items	-21	-2,103	5,600	-1,890
Tax effect of loss carryforwards	-1,039	10,182	-	-
Tax effect attributable to previous years	-35	-1,643	-35	-1,641
Other tax adjustment	-12	-13	-	-
Actual tax expense	-52,347	-36,710	-45,502	-43,155

The tax rate for the Group was 22% (19%) of profit for the year after financial items. As a result of the distribution and licensing agreement that was signed in December 2016 in Japan (for more information see the administration report) it will be possible to utilize a large share of the accumulated loss carryforward and in 2016 the Group therefore recognized a deferred tax asset of SEK 10.4 million. Since the Group recognizes exclusivity fees successively over the term of the agreement a deferred tax expense is recognized on the temporary difference.

On last year's closing date the company had an ongoing tax matter pertaining to the 2014 financial year concerning an openly reported marketing contribution to the Japanese subsidiary. The Administrative Court announced its decision in June 2017 when BioGaia's appeal was dismissed. Since in 2016 the company reserved SEK 1.6 million in tax expenses attributable to earlier financial years, no costs relating to the decision are recognized in 2017.

Cumulative loss carryforwards amount to approximately SEK 2.7 million and expire in 2022. The deferred tax asset has been recognised for the entire amount.

Not 14 TANGIBLE FIXED ASSETS

GROUP:

	Land and buildings	Production and laboratory equipment	Work in progress	Office equipment and computers	Total property, plant and equipment
<i>Accumulated cost:</i>					
Opening balance, 1 January 2016	62,475	35,587	10,524	15,594	124,181
Additions	3,437	1,120	-	1,056	5,613
Sales and disposal	-	-310	-	-1,119	-1,429
Exchange differences	-	-	-	99	99

Closing balance, 31 December 2016 **65,912** **36,397** **10,524** **15,630** **128,464**

Opening balance, 1 January 2017	65,912	36,397	10,524	15,630	128,464
Additions	20,928	4,684	8	1,125	26,745
Reclassifications	-	7,685	-7,685	-	-
Exchange differences	-	-	-	-91	-91

Closing balance, 31 December 2017 **86,840** **48,766** **2,847** **16,664** **155,118**

Accumulated depreciation:

Opening balance, 1 January 2016	4,326	21,159	-	14,761	40,245
Depreciation	1,856	4,519	-	700	7,075
Sales and disposal	-	-310	-	-1,062	-1,372
Exchange differences	-	-	-	85	85

Closing balance, 31 December 2016 **6,182** **25,368** **-** **14,484** **46,033**

Opening balance, 1 January 2017	6,182	25,368	-	14,484	46,033
Depreciation	2,042	3,797	-	734	6,573
Exchange differences	-	-	-	47	47

Closing balance, 31 December 2017 **8,224** **29,165** **-** **15,265** **52,653**

Carrying amounts:

At 1 January 2016	58,150	14,429	10,524	833	83,936
At 31 December 2016	59,731	11,030	10,524	1,146	82,431
At 31 December 2017	78,617	19,602	2,847	1,399	102,465



Cont'd, Note 14

PARENT COMPANY:

	Production and laboratory equipment	Office equipment and computers	Total property, plant and equipment
<i>Accumulated cost:</i>			
Opening balance, 1 January 2016	3,559	11,473	15,032
Additions	-	283	283
Closing balance, 31 December 2016	3,559	11,756	15,315
Opening balance, 1 January 2017	3,559	11,756	15,315
Additions	3,805	92	3,897
Closing balance, 31 December 2017	7,364	11,848	19,212

Accumulated depreciation:

	Production and laboratory equipment	Office equipment and computers	Total property, plant and equipment
Opening balance, 1 January 2016	3,066	11,106	14,172
Depreciation	249	200	449
Closing balance, 31 December 2016	3,315	11,306	14,621
Opening balance, 1 January 2017	3,315	11,306	14,621
Depreciation	325	190	515
Closing balance, 31 December 2017	3,640	11,496	15,136

Carrying amounts:

	Production and laboratory equipment	Office equipment and computers	Total property, plant and equipment
At 1 January 2016	493	367	860
At 31 December 2016	244	450	694
At 31 December 2017	3,724	352	4,076

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT IS RECOGNIZED ON THE FOLLOWING LINES IN THE INCOME STATEMENT

	Group		Parent Company	
	2017	2016	2017	2016
Cost of sales	4,917	5 141	-	-
Selling expenses	972	1,225	198	242
Administrative expenses	420	446	45	54
Research and development expenses	376	263	272	153
	6,685	7,075	515	449

NOTE 15 FINANCIAL ASSETS

PARENT COMPANY

Participations in group companies	2017	2016
At beginning of year	51,133	132,938
Group contribution paid to CapAble AB	1,428	3,578
Group contribution paid to BioGaia Pharma AB	1,388	-
Group contribution paid to TriPac AB	1	1
Dividend shares in IBT	-	-81,806
Impairment loss on shares in CapAble AB	-1,428	-3,578
Acquisition of participations in BioGaia Pharma AB	48	-
Shareholder contribution to BioGaia Pharma AB	2,000	-
Carrying amount at end of year	54,570	51,133

SPECIFICATION OF THE PARENT COMPANY'S EQUITY HOLDINGS IN GROUP COMPANIES:

Subsidiary/corp. reg.no./Domicile	No. of shares	Holding, %	Book value
Biogaia Biologics Inc. /-/Raleigh, NC, USA	100 000	100	0
TriPac AB /556153-2200/Stockholm	10,000	100	3,592
CapAble AB /556768-3601/Stockholm	9,010	90.1	6,901
BioGaia Pharma AB /559114-8191/Stockholm	48,000	96.0	3,436
BioGaia Japan Inc. /-/Hiroshima, Japan	180	100	0
BioGaia Production AB /556591-9767/Eslov	10,000	100	40,641
			54,570

The assets and liabilities of the American subsidiary Biogaia Biologics Inc. have been translated at the closing day rate of exchange, SEK 8.23 (9.10). All items in the income statement have been translated at the average exchange rate during the year, SEK 8.54 (8.56). The assets and liabilities of the Japanese subsidiary BioGaia Japan Inc. have been translated at an exchange rate of SEK 0.073 (0.078). All items in the income statement have been translated at an exchange rate of SEK 0.076 (0.079). The resulting translation differences have been recognized in consolidated comprehensive income.

CapAble AB was formed in 2008. BioGaia owns 90.1% of the company. CapAble's President, Staffan Pålsson, owns 9.9% of the company. The non-controlling interests' share in equity of CapAble amounts to SEK -18 thousand.

BioGaia Production AB (former TwoPac AB) was formed in 2002 and is 100% owned by BioGaia since 1 July 2013.

BioGaia Pharma AB was formed in 2017. BioGaia owns 96% of the company. BioGaia Pharma's President, Nigel Titford owns 4% of the company.

Of total purchases made by the Parent Company, 23.4% (23.5) was attributable to group companies. Of total sales made by the Parent Company, 2.8 (1.2) % was attributable to group companies.

INVESTMENTS IN ASSOCIATES

	Group		Parent Company	
	2017	2016	2017	2016
At beginning of year	10,751	7,935	12,000	8,000
Acquisition of shares in MetaboGen AB	1	4,000	1	4,000
Share of profit for the year	-820	-1,184	-	-
Carrying amount at end of year	9,932	10,751	12,001	12,000

SPECIFICATION OF THE PARENT COMPANY'S EQUITY HOLDINGS IN ASSOCIATES

Associated company/Corp. ID no./Domicile	No. of shares	Holding, %	Carrying amount
MetaboGen AB/556872-7142/Göteborg	322,275	36	12,001

MetaboGen's loss after financial items in 2017 amounted to SEK 2.3 million.

MetaboGen's total assets amounted to SEK 6.7 million and equity was SEK 4.5 million at 31 December 2017.

NOTE 16 NON-CURRENT RECEIVABLES FROM SUBSIDIARIES

NON-CURRENT RECEIVABLES FROM SUBSIDIARIES:

	Parent Company	
	2017	2016
At beginning of year	55,835	55,835
Repayment of loan from BioGaia Japan Inc.	-23,310	-
Exchange difference related to loan to BioGaia Japan Inc.	-2,871	7,208
Reversal of earlier impairment ¹⁾	26,181	-
Provisions for net receivable ¹⁾	-	-7,208
	55,835	55,835

¹⁾ The company previously made a provision for the net receivable from the subsidiary in Japan. Since the subsidiary has repaid part of the loan, reversal of the receivable including exchange rate effect took place in 2017.



NON-CURRENT RECEIVABLES FROM GROUP COMPANIES AT 31 DECEMBER 2017:

	Parent Company	
	2017	2016
BioGaia Production AB	55,835	55,835
Closing balance at end of year	55,835	55,835

NOTE 17 INVENTORIES

	Group		Parent Company	
	2017	2016	2017	2016
Raw materials and consumables	8,549	8,891	–	–
Finished goods and goods for resale	24,063	31,588	21,252	28,438
	32,612	40,479	21,252	28,438

The Group's provisions for obsolescence amounts to SEK 6.4 million (5.5) at 31 December 2017. Expenses related to impairment losses on inventory and scrapping amount to SEK 7.2 million (3.7).

NOTE 18 TRADE RECEIVABLES

Provisions for bad debt losses amounted to SEK 1.7 million (1.9) at 31 December 2017.

At 31 December 2017, trade receivables of SEK 17.0 million (38.6) were overdue without any assessed grounds for impairment. Of the overdue receivables, SEK 15.9 million have been recovered as of the closing date.

AGE ANALYSIS:

	Group		Parent Company	
	2017	2016	2017	2016
Receivables not overdue	63,128	37,071	51,491	30,803
Less than 3 months	15,777	33,962	15,371	33,948
3-6 months	224	767	224	767
More than 6 months	972	3,869	972	3,869
	80,101	75,669	68,058	69,387

THE CARRYING AMOUNTS, BY CURRENCY, ARE AS FOLLOWS:

	Group		Parent Company	
	2017	2016	2017	2016
SEK	7,614	9,318	7,614	9,318
EUR	37,190	24,381	37,190	24,381
USD	23,398	35,702	22,865	35,688
JPY	11,510	–	–	–
CHF	389	6,268	389	–
	80,101	75,669	68,058	69,387

NOTE 19 RELATED PARTY TRANSACTIONS

Group 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 33.0% of the votes. Annwall & Rothschild Investment AB is owned by Peter Rothschild, Group President of BioGaia AB, and Jan Annwall, a member of the Board of the Parent Company. The only transactions that took place during 2017 was a dividend of SEK 7.50 per share and remuneration and director's fees - for further information see note 4.

Parent Company The Parent Company owns 100% of BioGaia Productin AB, BioGaia Biologics Inc., USA, BioGaia Japan Inc. and Tripac AB. The Parent Company owns 90.1% of the shares in CapAble AB. The Parent Company owns 96 % of the shares in BioGaia Pharma AB.

THE FOLLOWING TRANSACTIONS HAVE TAKEN PLACE WITH BIOGAIA PRODUCTION AB (FORMER TWOPAC AB) (INCLUDING BIOGAIA PRODUCTION'S WHOLLY OWNED SUBSIDIARIES)

	Parent Company	
	2017	2016
Interest income	570	584
Purchase of services	-751	-2,300
Purchase of goods	-81,695	-68,031
Sales of services	198	–

Goods are purchased on a cost plus basis.

THE FOLLOWING TRANSACTIONS HAVE TAKEN PLACE WITH BIOGAIA JAPAN INC.:

	Parent Company	
	2017	2016
Interest income	569	1,195
Repayment of loans from BioGaia Japan	23,310	–
Purchase of services	-753	-807
Sale of goods ¹⁾	10,806	8,283
Marketing contribution paid	–	-6,672

¹⁾ BioGaia has delivered products but only invoiced a small amount in 2016, since the bulk refers to marketing contributions during the start-up phase.

THE FOLLOWING TRANSACTIONS HAVE TAKEN PLACE WITH BIOGAIA BIOLOGICS INC.:

	Parent Company	
	2017	2016
Purchase of services	-5,117	-6,901

THE FOLLOWING TRANSACTIONS HAVE TAKEN PLACE WITH CAPABLE AB:

	Parent Company	
	2017	2016
Sale of Services	78	128
Group contribution paid	-1,428	-3,577

THE FOLLOWING TRANSACTIONS HAVE TAKEN PLACE WITH BIOGAIA PHARMA AB

	Parent Company	
	2017	2016
Sale of Services	20	–
Group contribution paid	-1,388	–
Shareholder contribution paid	-2,000	–



Cont'd, Note 19

THE FOLLOWING TRANSACTIONS HAVE TAKEN PLACE WITH TRIPAC AB:

	Parent Company	
	2017	2016
Group contribution paid	-1	-1

THE CLOSING BALANCE AT THE END OF THE PERIOD WAS AS FOLLOWS:

	Parent Company	
	31 Dec, 2017	31 Dec, 2016
Non-current receivables from subsidiaries		
Non-current receivables, BioGaia Production AB	55,835	55,835
	55,835	55,835
Current liabilities from subsidiaries		
Current liabilities, BioGaia Biologics Inc	-2,659	-2,678
Current liabilities, CapAble AB	-3,628	-5,295
Current liabilities, Tripac AB	-4,672	-4,671
Current liabilities, BioGaia Production AB	-6,080	-8,169
Current liabilities, BioGaia Pharma AB	-1,369	-
	-18,408	-20,813
Current receivables from subsidiaries		
Current receivables, BioGaia Japan Inc.	7,439	8,956
	7,439	8,956

See also Note 4 for other related party transactions.

NOTE 20 OTHER RECEIVABLES

	Group		Parent Company	
	2017	2016	2017	2016
VAT refund	7,287	5,511	7,141	5,364
Current tax asset	-	-	-	1,371
Other receivables	1,132	840	1,017	661
	8,419	6,351	8,158	7,396

NOTE 21 DEFERRED EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
	2017	2016	2017	2016
Accrued income	16,731	16,538	16,731	16,538
Prepaid rents	1,035	1,314	909	1,190
Other deferred expenses	4,583	1,907	127	36
	22,349	19,759	17,767	17,764

NOTE 22 FINANCIAL ASSETS AND LIABILITIES

The Group classifies its financial assets and liabilities in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, account's receivables and loans and other financial liabilities.

Financial assets measured at fair value through profit or loss The Group's financial assets at fair value through profit or loss consist of cash and cash equivalents and short-term investments. Short-term investments pertain to fixed income funds in 2017 and listed securities in 2016. The financial assets are recognized in the balance sheet and measured at the closing day rate.

The company has taken forward currency hedges in EUR and USD. The forward currency hedges have been recognized at their fair value at 31 December 2017. This value is included in other liabilities – see Note 25.

In BioGaia's measurement of fair value, the fair values of financial assets and financial liabilities are determined according to level 2 in the value hierarchy except for cash and cash equivalents and short-term investments where value is determined according to level 1 in the value hierarchy.

Held-to-maturity investments The Group has no held-to-maturity investments.

Loans and receivables The Group's trade receivables amount to SEK 80.1 million (75.7). Fair value corresponds to the carrying amount.

Other financial liabilities The Group's other financial liabilities consist of trade payables and prepayments from customers. Financial liabilities are valued at the closing day rate of exchange.

NOTE 23 EQUITY

The objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to provide a good return to the shareholders.

The share capital in BioGaia AB consists of 740,668 class A shares, carrying 10 votes each, and 16,595,794 class B shares, carrying one vote each. The class A and B shares grant equal entitlement to the company's assets and profits. Both the A shares and B shares have a quota value of SEK 1 each. All shares are fully paid-up and no shares are reserved for transfer. No shares are held in treasury by the company itself or by its subsidiaries.

Other contributed capital consists of payments made by the shareholders in excess of the quota value.

The foreign currency translation reserve arises in translation of the net assets of foreign operations according to the acquisition method.

Retained earnings consist of other equity. The Parent Company's dividend for 2016, as resolved on by the 2017 AGM, was SEK 130.0 million, equal to SEK 7.50 per share. For 2017 the Board of Directors proposes that the company pay a dividend according to policy of SEK 4.31 per share and an extraordinary dividend of SEK 4.69 per share, amounting to a total dividend of SEK 9.00 per share. This is equal to a total dividend of SEK 156.0 million. The Board further proposes to the next Annual General Meeting a provision to the "Foundation for the prevention of antibiotic resistance" of SEK 2.7 million. Non-controlling interests comprise 9.9% of the subsidiary CapAble's equity and 4.0% of the subsidiary BioGaia Pharma's equity.

Non-controlling interests account for 9.9% of equity in the subsidiary CapAble and 4% of the subsidiary BioGaia Pharma AB. Equity in the BioGaia Group consists of the sum of equity attributable to owners of the Parent Company and equity attributable to non-controlling interests. At 31 December 2017, total consolidated equity amounted to SEK 463.9 million (415.2) and equity attributable to owners of the Parent Company amounted to SEK 463.9 million (415.2).

BioGaia's dividend policy is to pay a shareholder dividend equal to 40% of profit after tax.



KEY RATIOS, EQUITY

	2017	2016
Number of shares at 31 Dec., thousands ¹⁾	17 336	17,336
Average number of shares, thousands	17 336	17,336
Result per share, continuing operations, SEK ¹⁾	10,42	9.19
Earnings per share, SEK ²⁾	10,42	13.13
Equity per share, SEK	26,76	23.95
Return on equity, %	41	56
Share price on closing day, SEK	326.00	300.00
Dividend per share, SEK ³⁾	9,00	7.50

¹⁾ Excluding discontinued operations (distribution of IBT)

²⁾ Key figures defined according to IFRS.

³⁾ Dividend proposed but not yet approved. The Board and President propose that the company pay a dividend according to policy of SEK 4.31 per share and an extraordinary dividend of SEK 4.69 per share, equal to a total dividend of SEK 9.00 per share.

NOTE 24 PROPOSED APPROPRIATION OF PROFITS

The following funds in the Parent Company are at the disposal of the Annual General Meeting:

Retained earnings	228,022
Profit for the year	186,620
Together amounting to	414,642

The Board of Directors proposes that the profits be appropriated as follows

To be paid as a dividend to the shareholders	156,028
Provision to the Foundation to prevent antibiotic resistance	2,700
To be carried forward to new account	255,914
Total	414,642

NOTE 25 OTHER LIABILITIES

	Group		Parent Company	
	2017	2016	2017	2016
Employee withholding tax	1,788	1,681	1,511	1,410
Current tax liabilities	6,307	94	2,613	-
Other current liabilities	4,923	7,560	916	1,736
	13,018	9,335	5,040	3,146

Other current liabilities above include forward exchange contracts with a fair value of SEK 0.9 million (1.7) in 2017. All forward exchange contracts are attributable to level 2 of the fair value hierarchy.

NOTE 26 ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
	2017	2016	2017	2016
Accrued holiday pay	7,343	7,598	5,711	6,269
Accrued social security expenses	1,718	1,484	1,310	1,115
Other accrued expenses and deferred income	31,826	16,299	31,681	16,152
	40,887	25,381	38,702	23,536

NOTE 27 PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Group		Parent Company	
	2017	2016	2017	2016
Pledged assets				
Floating charges	2,000	2,000	2,000	2,000
Assets pledged for construction of a facility for the subsidiary BioGaia Production AB	-	253	-	-
	2,000	2,253	2,000	2,000
Contingent liabilities	None	None	None	None

The floating charges relate to credit for credit cards.

NOTE 28 POLICY FOR FINANCIAL RISK MANAGEMENT

The overall objective of the Group's finance function is to secure cost-effective financing for the Group's operations and group companies and to provide secure cash management with a market-based return on investment. The overall objective of financial risk management is to minimize the risk for negative effects on the Group's earnings. Consequently, the Group's financial investments must have a low risk profile. Below is a description of the Group's assessed risk exposure and the related risk management:

Currency risk BioGaia conducts operations in various geographical markets and has revenue and expenses in different currencies. This affects both transaction exposure (cash flow) and translation exposure (the balance sheet).

Transaction exposure

The breakdown of net sales in 2017 was approximately:	The breakdown of expenses in 2017 was approximately:
EUR 44 % (50%)	SEK 63 % (55%)
USD 26 % (21%)	EUR 22 % (27%)
SEK 13 % (15%)	JPY 7 % (9%)
Other currencies 17 % (14%)	USD 7 % (8%)
	Other currencies 1 % (1%)

In 2017 the company had a cash flow surplus of approximately EUR 22.1 million (23.8), a cash flow surplus of JPY 313.1 million (29.4) and a cash flow surplus of USD 18.2 million (11.1).

The company's Board of Directors has issued a policy to hedge approximately 50-60% of projected cash flow 12 months forward and approximately 10-40% of projected cash flow 13-24 months forward in order to spread the risk for exchange rate fluctuations. At 31 December 2017 the company had outstanding forward exchange contracts for EUR 15.3 million at an average exchange rate of SEK 9.63 and USD 9.4 million USD at an average exchange rate of SEK 8.21. Forward exchange contracts amounting to EUR 10.0 million and USD 6.1 million will mature for payment in 2018 and forward exchange contracts amounting to EUR 5.3 million and USD 3.3 million will mature for payment in 2019. The actual exchange gain/loss depends on the exchange rate on the maturity date of the contracts. For more information, see Notes 12, 22 and 25.

The average exchange rate for EUR/SEK in 2017 was SEK 9.63. If the EUR/SEK rate had been SEK 0.10 higher/lower, BioGaia's net sales would have been approximately SEK 2.8 million higher/lower and operating profit would have been approximately SEK 1.9 million higher/lower.

The average exchange rate for USD/SEK in 2017 was SEK 8.54. If the USD/SEK rate had been SEK 0.10 higher/lower, BioGaia's sales would have been approximately SEK 1.3 million higher/lower and operating profit would have been approximately SEK 1.0 million higher/lower. A stronger SEK rate, primarily against the EUR and USD, decreases BioGaia's sales and profit, but through forward exchange transactions and by working to reallocate a portion of expenses to EUR, the company is working to minimize the impact on profit. BioGaia is also trying to reallocate a portion of revenue from EUR to other currencies.



Cont'd, Note 28

Translation exposure Translation exposure is the risk that the value of the Group's net investments in foreign currencies will be negatively affected by changes in foreign exchange rates.

The Group has two foreign subsidiaries, one in the USA and one in Japan. The assets and liabilities of the American subsidiary, Biogaia Biologics Inc., have been translated at the closing day rate of SEK 8.23 (9.10). Items in the income statement have been translated at an average rate of SEK 8.54(8.56). The assets and liabilities of the Japanese subsidiary, BioGaia Japan Inc., have been translated at a rate of SEK 0.073 (0.078). The translation difference amounted to SEK 1.5 million (0.7) for the Japanese subsidiary.

Interest rate and liquidity risk The Group has no external loans. Excess liquidity is invested mainly in bank accounts. For cash and cash equivalents, the company has a liquidity policy in which the basic principles are that investment risks should always be minimized and investments should be made primarily in Swedish kronor. To minimize currency risk, other currencies may also be considered. The company's excess liquidity may be invested only in bank accounts, commercial paper or other fixed income securities with very limited risk. This means that no investments may be made in shares, equity funds, options, etc.

Credit risks BioGaia's credit risks are attached to trade receivables and, for the Parent Company, also loans to subsidiaries. When signing agreements with new customers, BioGaia always carries out an assessment of the customer's financial position. The company has routines for collection of past due trade receivables and additional evaluation of the customers' financial position is carried out when needed in order to minimize risks.

Cash flow risk Cash flow for the period amounted to SEK 63.5 million (14.0). Cash flow included, dividends of SEK 130.0 million (86.7) and tax payments of SEK 49.6 million (43.4).

Age analysis of the Group's liabilities:

	Due in less than:					Total
	Interest rate	1 month	1-3 months	3-12 months	1-5 years	
31 December 2016						
Non-current liabilities	-	-	-	-	332	332
Current liabilities	-	20,113	6,822	46,531	-	73,466
		20,113	6,822	46,531	332	73,798
31 December 2017						
Non-current liabilities	-	-	-	-	778	778
Current liabilities	-	32,085	18,451	39,709	21,201	111,446
	-	32,085	18,451	39,709	21,979	112,224

Because cash and cash equivalents at 31 December 2017 amounted to SEK 305.9 million (243.1), no infusion of capital is necessary during the coming 12-month period.

Price risk BioGaia buys most of its goods on the international market and has several alternative suppliers, which reduces the company's price risk. BioGaia's price to distributors is largely the same for all, but can vary with respect to the order volume. Certain markets are subject to aggressive price competition towards consumers. However, BioGaia's strategy is not to compete in terms of price but to instead convince doctors of the effectiveness and safety of the products by showing the results of clinical studies.

NOTE 29 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Certain sources of uncertainty in accounting judgements and assumptions are described below.

Associated company MetaboGen AB Since 1 December 2016, BioGaia owns 36% of MetaboGen AB (for more information, see Administration report). The remaining shares are held by the researchers who founded the company and GU Holding. So far, MetaboGen has shown a loss. On the balance sheet date, assets in MetaboGen were reported at SEK 9.9 million in the Group. BioGaia's assessment is that MetaboGen will show profitability in the future, for which reason there was no indication of impairment on the balance sheet date.

The Board of Directors and the Managing Director hereby give their assurance that the consolidated financial statements and annual report have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and generally accepted auditing practices, and give a true and fair view of the financial position and results of operations of the Group and the Parent Company. The administration report for the Group and the Parent Company gives a true and fair view of the business activities, 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, 28 February 2018

David Dangoor
Chairman

Axel Sjöblad
Managing Director

Jan Annwall
Member of the Board

Ewa Björling
Member of the Board

Stefan Elving
Member of the Board

Margaretha Gadnell
Member of the Board

Inger Holmström
Member of the Board

Anthon Jahreskog
Member of the Board

Brit Stakston
Member of the Board

Stockholm, 6 March 2018
Deloitte AB

Birgitta Lööf
Authorized Public Accountant



Auditor's report

To the general meeting of the shareholders of Biogaia AB (publ)
corporate identity number 556380-8723

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

OPINIONS

We have audited the annual accounts and consolidated accounts of Biogaia AB (publ) for the financial year 2017-01-01-2017-12-31. The annual accounts and consolidated accounts of the company are included on pages 37-60 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group. Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's Board of Directors in accordance with the Audit Regulation (537/2014) Article 11.

BASIS FOR OPINIONS

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

KEY AUDIT MATTERS

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

REVENUE RECOGNITION

The group's sales as of December 31, 2017 amounts to SEK 615 million and mainly consist of two revenue streams, which are described in the company's accounting policies on page 48. The company's revenue is a material item consisting of a large number of transactions that in part relate to some complex, customer specific agreements, requiring managements' critical estimates and assumptions in determining the timing of revenue recognition.

Our audit included but was not limited to the following audit procedures:

- Evaluation of the company's accounting principles for revenue
- Created an understanding of the company's routines and internal controls associated with revenue recognition
- Examination of a selection of transactions to ensure that they have been reported in the correct period
- Examination of margin analyses and comparison to prior year
- Examination that the required disclosures are provided in the annual accounts

OTHER INFORMATION THAN THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-36 and 61-70. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITY

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material



uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Biogaia AB (publ) for the financial year 2017-01-01-2017-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

BASIS FOR OPINIONS

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

AUDITOR'S RESPONSIBILITY

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Deloitte AB, was appointed auditor of Biogaia AB by the general meeting of the shareholders on the 2017-05-03 and has been the company's auditor since 2015-05-22.

Stockholm, 6 March 2018

Deloitte AB

Birgitta Lööf

Authorized public accountant

Auditor's report on the statutory sustainability report

To the Annual General Meeting of BioGaia AB (publ), corporate identity number 556380-8723

ENGAGEMENT AND RESPONSIBILITY

It is the Board of Directors which is responsible for the statutory sustainability report for the year 1 January 2017 - 31 December 2017 on pages 28-33 and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

OPINION

A statutory sustainability report has been prepared.

Stockholm, 6 March 2018

Deloitte AB

Birgitta Lööf

Authorized Public Accountant



Corporate governance report BioGaia AB 2017

Compliance with the Swedish Code of Corporate Governance The purpose of the Code is to strengthen trust in Swedish listed companies by promoting positive development of the companies' corporate governance. The Code is based on the "comply or explain" principle, which means that a company may deviate from the Code but that any such deviations must be explained.

BioGaia has not deviated from any of the rules set out in the Code.

Corporate governance in BioGaia BioGaia is a Swedish public limited company whose class B shares are listed on the Mid Cap list of the NASDAQ OMX Nordic Exchange Stockholm. The company's corporate governance is exercised through the General Meeting of Shareholders, the Board of Directors, the Managing Director and the Executive Management in accordance with the Swedish Companies Act, the Articles of Association and the Swedish Code of Corporate Governance.

The share capital consists of 740,668 class A shares carrying 10 votes each and 16,595,794 class B shares carrying one vote each.

Articles of Association According to BioGaia's Articles of Association, the company, directly or through subsidiaries or other forms of co-ownership or partnership, shall engage in the development, production, marketing and sale of health-enhancing products in the form of pharmaceuticals, natural health products, dietary supplements, additives for food products and animal feed, suitable delivery systems for these products and other activities compatible therewith. The company is domiciled in Stockholm, Sweden. The Articles of Association can be viewed on BioGaia's website under the heading "Investors/Corporate Governance".

General Meeting of Shareholders The General Meeting of Shareholders is the company's highest decision-making body. The Annual General Meeting (AGM) elects the members of the Board of Directors. In addition, the responsibilities of the AGM include adoption of the company's income statements and balance sheets, approval of the appropriation of disposable profits and discharge from liability for the members of the Board and the Managing Director. The AGM also elects the company's auditors.

One shareholder, Anwall & Rothschild Investment AB, holds 7.2% of the share capital and 33.0% of the votes in the company. Other individual shareholders hold less than 10% of the share capital and votes each.

2017 AGM BioGaia's AGM was held on 3 May 2017 and was attended by shareholders representing 51.7% of the total number of votes in the company. The AGM was also attended by the company's Managing Director, the Board members elected by the previous AGM except for Paula Zeilon, and all of the Board members elected by the year's AGM as well as the company's elected auditor.

The AGM resolved on the following proposals, among others:

- Adoption of the annual report
- Discharge from liability for the Board of Directors and the Managing Director
- A dividend of SEK 7.50 per share
- Re-election of sitting Board members Jan Anwall, Ewa Björling, David Dangoor, Stefan Elving, Inger Holmström, Anthon Jahreskog and Brit Stakston
- Election of Margaretha Gadnell as board member
- Re-election of David Dangoor as Board Chairman
- Re-election of the registered auditing firm of Deloitte AB
- Board fees of SEK 400,000 to the Board Chairman and SEK 200,000 to each of the other Board members not employed by the company
- Payment of auditor's fees according to approved account
- Principles for remuneration and other terms of employment for senior executives in accordance with the Board's proposal
- Appointment of the Nominating Committee in accordance with the Nominating Committee's proposal
- on a grant of not more than SEK 2.4 million to a research and education foundation to be set up by BioGaia in accordance with the Board's proposal. The intended purpose of the foundation is to reduce antibiotic resistance through support to research, education and information activities. The objective is for this to lead to promotion of the use of products and methods that prevent infections or otherwise reduce the use of antibiotics. The board of the foundation is intended to consist of members appointed by BioGaia's Board of Directors. It shall also be possible for other companies or physical persons to contribute funds to the foundation. Provided that the operations continue to show positive development, BioGaia's Board of Directors intends to put forward proposals at future annual general meetings regarding additional contributions to the foundation.

2018 AGM The 2018 AGM will be held at 4:00 p.m. on 25 April, at Lundqvist & Lindqvist Klara Strand, Klarabergsviadukten 90, in Stockholm.

Notice of the AGM Notice of the AGM is given through an announcement in the Official Gazette (Post- och Inrikes Tidningar) and on the company's website. An announcement that notice has been given is published in Svenska Dagbladet.

Nominating Committee The task of the Nominating Committee is to prepare recommendations regarding election and remuneration for decision by the AGM.

The 2017 AGM resolved that the Nominating Committee would be appointed according to the following: "The Board Chairman shall convene the three largest shareholders in the company in terms of voting power, each of which has the right to appoint a member to the Nominating Committee together with the Board Chairman. In determining the composition of the Nominating Committee, the largest shareholders in terms of voting power shall be based on the ownership conditions at 30 June 2017. The Nominating Committee shall be chaired by the member representing the largest shareholder at that time. If any of the three largest shareholders should waive its right to appoint a member to the Nominating Committee, the next largest shareholder in order of voting power shall be given the opportunity to appoint a member. The names of the three shareholder representatives shall be made public as soon as they have been appointed, but no later than six months before the 2018 AGM. The term of office shall extend until a new Nominating Committee has been appointed.

In the event that the shareholder represented by a member is no longer one of the three largest shareholders in terms of voting power, and if the Nominating Committee deems it appropriate, the member can resign and a representative for the next largest shareholder in order of voting power can be given the opportunity to replace this member. In the event that an appointed member of the Nominating Committee resigns from the Nominating Committee for some other reason, the shareholder who has appointed the member in question has the right to appoint a new member to the Committee. If this shareholder waives its right to appoint a new representative, the Nominating Committee, if it deems so appropriate in respect of the remaining mandate period, shall ask the next largest shareholder in terms of voting power if it wishes to appoint a representative to the Nominating Committee."

The Nominating Committee shall prepare recommendations for the following matters to be put before the 2018 AGM for resolution:

- a) appointment of the Chairman of the AGM
- b) election of the Board of Directors
- c) election of the Board Chairman
- d) fees for members of the Board
- e) election of auditors
- f) fees for the auditors
- g) appointment of the Nominating Committee ahead of the 2019 AGM.

In accordance with the AGM's resolution, the Nominating Committee was appointed and consists of the Chairman of BioGaia AB, David Dangoor, together with Per-Erik Andersson, representing Anwall & Rothschild Investment AB, the company's largest shareholder, Magnus Skåniger representing the company's second largest shareholder Swedbank Robur Fonder and Sebastian Jahreskog, who through direct and indirect ownership is the company's third largest shareholder. All four members of the Nominating Committee are independent in the relation to the company and its management.

All shareholders have had the opportunity to contact the Nominating Committee with recommendations for Board candidates for further evaluation within the framework of the Committee's work. No suggestions or proposals have been submitted to the Nominating Committee as of today's date.

The Nominating Committee presents a written motivation to the AGM for election of Board members. With regard to the composition of the Board, in line with the diversity policy and considering goals for the same, the prescription in item 4.1 of the Swedish Code of Corporate Governance has been applied, which has resulted in the Nominating Committee's proposal to the Annual General Meeting regarding election of the Board.

Board of Directors According to BioGaia's Articles of Association, the Board shall consist of at least five and at most eight members with no more than three deputies. The Board is elected yearly by the AGM to serve for the period until the end of the following AGM. In 2017 the Board consisted of eight members elected by the AGM, with no deputies. One Board member, Jan Anwall, has been a member of the Board since 1990 and is a major shareholder in the company. Jan Anwall was previously employed by the company as CFO and Executive Vice President, but retired



on 1 April 2010. However, Jan Annwall works to a limited extent as a consultant to the company. The seven remaining members are independent in relation to both the company and its management. A presentation of the Board is provided at page 69. BioGaia's legal counsel has been appointed to serve as Secretary at Board meetings. The Managing Director and the Group President are not members of the Board but are co-opted to attend all Board meetings. Other executives in the company take part in Board meetings in order to present reports. The Board has adopted rules of procedure that include instructions for the separation of duties between the Board and Managing Director and the structure of Board activities during the year. In addition to the responsibilities that are generally applicable pursuant to Swedish Companies Act, the Articles of Association and the Swedish Code of Corporate Governance, the following are regulated by the Board's rules of procedure:

- At least 5 Board meetings during the year, in addition to the statutory meeting.
- Establishment of the overall objectives for the company's operations and decision on the company's strategy.
- Approval of budgets and similar long-term plans, including the investment budget.
- Matters related to investments and similar in amounts of more than SEK 2 million.
- Decision on the purchase and sale of real estate, shares or the acquisition of another company's operations in amounts of more than SEK 2 million.
- Decision on the formation and capitalization of subsidiaries in amounts of more than SEK 2 million.
- Adoption of the annual report, administration report and interim reports.
- Raising of loans
- Signing of agreements with a term of more than five years.
- Launching of large-scale lawsuits and settlement of disputes of material significance.
- Other matters of material financial or other significance.

Furthermore, the Board has adopted instructions for the Managing Director, authorization instructions including instructions for liquidity management and a policy for foreign exchange management. The rules of procedure, Managing Director's instructions and authorization instructions are reviewed at least once a year.

Board attendance during 2017 ¹⁾

Members elected by the AGM	Elected in	Born in	Board meetings Attendance/ total no. of Board meetings	Remuneration Committee Attendance/total no. of committee meetings
Chairman of the Board David Dangoor ²⁾	2003	1949	18/18	2/2
Board member Jan Annwall	1990	1950	18/18	
Board member Ewa Björling ²⁾	2015	1961	18/18	
Board member Stefan Elving ²⁾	2001	1941	16/18	2/2
Board member Margaretha Gadnell ²⁾³⁾	2017	1959	12/13	
Board member Inger Holmström ²⁾	2007	1948	17/18	
Board member Anthon Jahreskog ²⁾	2015	1980	16/18	
Board member Brit Stakston ²⁾	2014	1961	15/18	
Board member Paula Zeilon ²⁾⁴⁾	2003	1962	4/5	

¹⁾ All members of the Board who have been prevented from participating in a Board meeting have been given the opportunity to present their views to the Chairman prior to the meeting.

²⁾ Independent in relation to the major shareholders, the company and the company's management.

³⁾ Elected to the board at AGM 3 May 2017

⁴⁾ Board member up to the AGM 3 May 2017

At the Board meetings, the following are dealt with as needed:

- Business plans
- Business performance monitoring
- Investments
- Strategic matters
- Financial reports
- Major agreements
- Budgetary matters
- Accounting matters

The Board of Directors continuously evaluates its own performance through both open discussions and a written self-assessment. The results of the written assessment are submitted to the Nominating Committee.

Board fees The 2017 AGM resolved that Board fees would be paid in an amount of SEK 400,000 to the Board Chairman and SEK 200,000 to each of the other Board members not employed by the company.

Board Chairman The Chairman supervises the work of the Board and is responsible for ensuring that the Board carries out its duties in accordance with the Swedish Companies Act and the rules of procedure. Through ongoing contact with the Managing Director, the Chairman continuously monitors the company's development and ensures that the Board is provided with the information necessary to carry out its duties. David Dangoor has been Board Chairman since the 2007 AGM.

Managing Director The Managing Director is responsible for overseeing the company's business development and for supervising and coordinating its day-to-day operations. The Board has established instructions for the Managing Director that among other things regulate his management and development of the company and the provision of reports and decision data to the Board. The Managing Director prepares the required information and decision data such as reports on the company's finances, the order situation, significant business matters and strategic issues prior to Board meetings, as well as presenting reports and motivating proposals for decision. Furthermore, the Managing Director continuously informs the Board Chairman about the company's financial and business situation. Every year the Board carries out an evaluation of the Managing Director's performance in which no member of the Executive Management is present. In October 2015, BioGaia's Board of Directors decided to appoint Axel Sjöblad as the new Managing Director with effect from 1 March 2016. The company's former President Peter Rothschild was then appointed as Group President.

Executive Management BioGaia's Group Executive Management consists of the nine individuals who are presented at page 68.

The Group's Executive Management is headed by the Managing Director and is responsible for planning, supervising and monitoring the company's day-to-day operations. Minuted meetings are normally held once a month. The responsibilities and powers of the Managing Director are regulated by the Swedish Companies Act and by the instructions that are adopted by the Board. The responsibilities and powers of the Executive Management are defined in the established job descriptions and authorization instructions.

Remuneration Committee The Board has appointed a Remuneration Committee consisting of Board Chairman David Dangoor and Board member Stefan Elving. The task of the Remuneration Committee is to prepare recommendations for the remuneration and other terms of employment of the Managing Director and other senior executives who together make up the Executive Management. The principles for remuneration to senior executives are resolved on by the AGM. The Remuneration Committee prepares its recommendations based on these principles.

Auditors BioGaia's independent auditors are normally appointed by the AGM to serve for a period of one year. The 2017 AGM resolved on re-election of the registered auditing firm of Deloitte AB to serve for the period until the end of the AGM to be held in 2018. The auditing firm appointed Birgitta Löf as Auditor in Charge. By decision of the AGM, auditing fees are paid according to approved account.

The auditors examine the administration of the company by the Board of Directors and the Managing Director and the quality of the company's financial reporting. At the request of the Board, the auditors also review the semi-annual report and the year-end report.

The auditors report the results of their review to the shareholders through an audit report, which is presented to the AGM. In addition, the auditors submit written and oral reports to the Executive Management and the Board. The auditors take part in the Board meeting preceding publication of the year-end report to present the results of their audit of the annual accounts and observations on ongoing examination of the company's internal control during the financial year.

The auditors also submit an auditor's statement on the corporate governance report and a report on the examination of remuneration to senior executives.

Deloitte has provided certain tax-related advice and performed other audit-related services. Information about remuneration to the auditors can be found in Note 6 of the annual report.

Due to the fact that independent Board members have accounting expertise and in view of the Board's ongoing examination of the financial reporting and the company's limited size and transaction volume, the Board has decided not to set up any audit committee. Furthermore, the entire Board of Directors meets with the auditors at least once a year without the presence of the Managing Director or other members of the Executive Management.



The Board's report on internal control over financial reporting for the financial year 2017

Introduction As stated in the Swedish Companies Act, the Swedish Annual Accounts Act and the Swedish Code of Corporate Governance, the Board of Directors is responsible for establishing and maintaining adequate internal control. This description has been prepared in accordance with these rules and provisions and is thereby limited to internal control over financial reporting.

Internal control over financial reporting The Board is responsible for ensuring that the company's organization is suitably structured so that the financial accounts, cash management and other financial conditions can be controlled satisfactorily.

Every year, the Board of Directors adopts rules of procedure for the Board's activities and instructions regulating the division of responsibilities between the Board and the Managing Director. The rules of procedure state which matters require approval or authorization from the Board. At Board meetings, the Managing Director reports on matters requiring treatment by the Board.

The Managing Director ensures that the Board is provided with the objective, detailed and relevant information needed for the Board to make well founded decisions and that the Board is continuously informed about the company's business development and financial position.

Aside from the rules of procedure between the Board and the Managing Director, BioGaia's control structure is based on the company's organization and way of conducting operations, where roles and responsibilities are defined. There is a high level of employee awareness about the importance of maintaining good control over financial reporting. The company's financial development is assessed and monitored monthly. Financial reports and summaries are prepared by the Group's finance department and are presented to the Board quarterly and to the Executive Management monthly.

The company's values BioGaia also has a set of shared values and the company's employees are well aware of these (see below). This is ensured through interviews in connection with new hires and through regular workshops with each department.

BioGaia's values:

- My personal engagement is a prerequisite for the success of BioGaia
- We are innovative and action oriented
- We are business minded and deliver on our promises
- We are honest, respectful and selfless in what we do and say

Risk assessment The company works continuously with risk assessment and risk management to ensure that the risks to which the company is exposed are handled within the limits ultimately established by the Board. The Executive Management continuously analyses the company's business processes with regard to efficiency and risks.

This work includes identifying significant risks for misstatements and deficiencies in the financial reporting and ensuring that there are suitable processes and controls in the company's operations to limit these risks. The most critical business processes and the absolutely largest values, in terms of both assets and business/product development, are found in the Parent Company. In addition, the bulk of sales take place in the Parent Company. Processes that are deemed to be of special importance to BioGaia are sales including quality assurance, R&D and manufacturing.

Control activities The risks identified in the financial reporting are managed through a number of control activities in the company's processes. Processes and controls are reviewed and updated regularly in order to detect, prevent and correct any errors or deficiencies. The control structure also includes the division of powers and responsibilities and the Executive Management's monthly review of the company's financial information.

Information and communication BioGaia has information and communication paths that are designed to promote the completeness and accuracy of the financial reporting. Authorization instructions and policies are distributed to all employees and can be viewed on the company's intranet. Once or twice a year, all of BioGaia's employees meet to increase their knowledge about the company's processes and goals and to exchange information and experiences.

Monitoring The Executive Management performs a yearly evaluation of the effectiveness of internal control. Every year, the company's elected auditing firm, Deloitte AB, also audits a selection of BioGaia's routines and internal controls. The Board then evaluates this information and ensures that measures are taken in respect of the identified deficiencies and resulting recommendations.

The company has no special internal audit function. In light of the company's size and the volume of transactions, together with the expertise in this area possessed by the Board of Directors and the Board's meeting with the independent auditor, the Board has determined that there is no reason to set up a formal internal audit function.

Stockholm, 28 February 2018

David Dangoor
Chairman

Axel Sjöblad
Managing Director

Jan Annwall
Member of the Board

Ewa Björling
Member of the Board

Stefan Elving
Member of the Board

Margaretha Gadnell
Member of the Board

Inger Holmström
Member of the Board

Anthon Jahreskog
Member of the Board

Brit Stakston
Member of the Board

AUDITORS' REPORT ON THE CORPORATE GOVERNANCE STATEMENT

To the general meeting of the shareholders in BioGaia AB (publ) corporate identity number 556380-8723

Engagement and responsibility

It is the board of directors who is responsible for the corporate governance statement for the financial year from 1 January 2017 to 31 December 2017 on pages 63-65 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinions

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, 6 March 2018

Deloitte AB

Birgitta Löf
Authorized public accountant



The BioGaia share

Figures in brackets refer to the preceding year

Trading volume BioGaia AB's class B share has been quoted on the OMX Nordic Exchange Stockholm since May 1998. On 1 January 2012 the shares were moved from the Small Cap list to the Mid Cap list.

In 2017 BioGaia shares were traded for a total of around SEK 1.568 million (1,081), corresponding to approximately 4.9 million shares (4.4).

The number of shareholders at 31 December 2017 was 8,566 (7,740).

The total registered share capital of BioGaia AB consists of 740,668 class A shares and 16,595,794 class B shares.

Share price development In 2017 the share price increased from SEK 300.00 to SEK 326.00. The highest closing price during the year was SEK 369.50 and the lowest was SEK 278.50. Market capitalization at 31 December 2017 was approximately SEK 5,650 million (5,200).

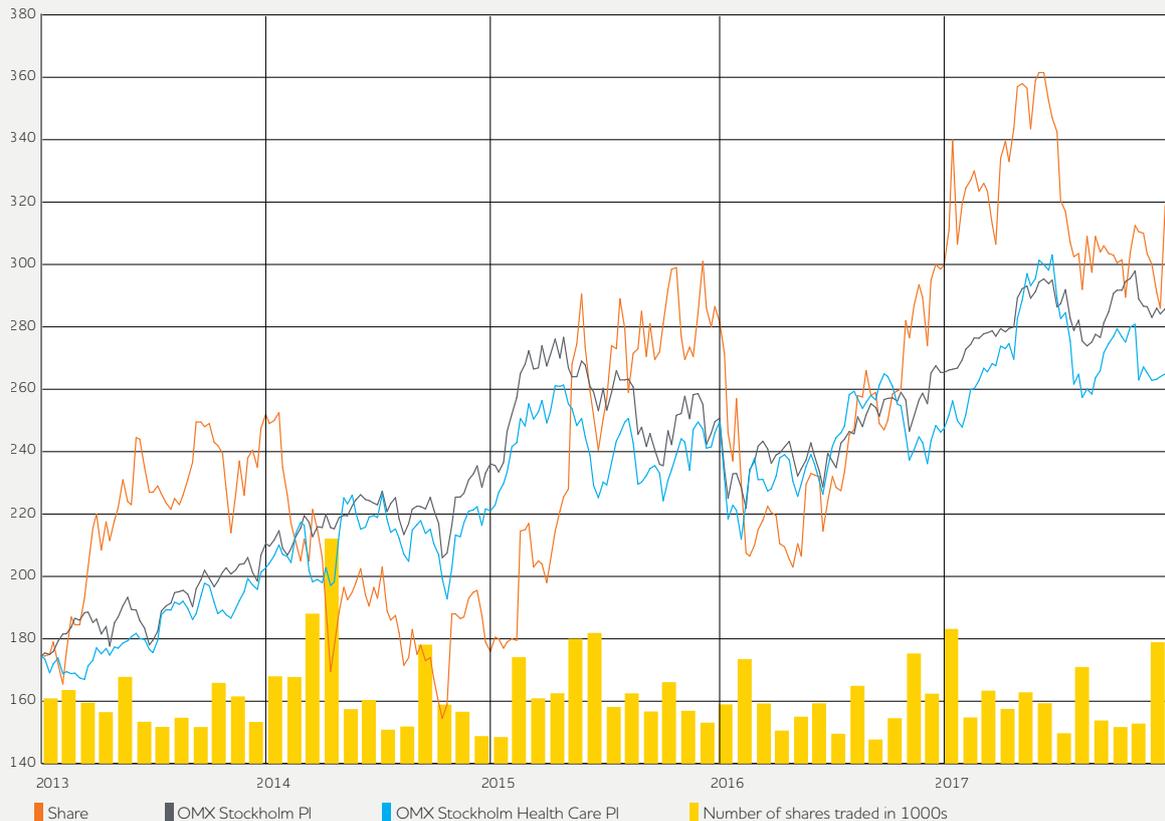
Dividend policy BioGaia's policy is to pay a shareholder dividend equal to 40% of profit after tax.

Incentive scheme The company has no ongoing share-based incentive schemes.

Distribution of ownership

Number of shares	Total number of shareholders	
	31 December 2017	31 December 2016
1–500	7,397	6,511
501–1,000	540	572
1,001–5,000	422	445
5,001–10,000	70	66
10,001–15,000	29	29
15,001–20,000	12	19
20,001–	96	98
Total number of shareholders:	8,566	7,740

THE BIOGAIIA SHARE





LARGEST SHAREHOLDERS IN BIOGAI A AT 31 DECEMBER 2017 (SOURCE: EUROCLEAR SWEDEN AB)

	A shares, 000's	B shares, 000's	Share capital, SEK 000's	No. of votes, 000's	Holding, %	Votes, %
Anwall & Rothschild Inv AB	741	509	1,250	7,916	7.2	33.0
Swedbank Robur fonder		1,626	1,626	1,626	9.4	6.8
Ohman Bank SA		1,354	1,354	1,354	7.8	5.6
Fjärde AP-fonden		1,243	1,243	1,243	7.2	5.2
Clearstream Banking SA		538	538	538	3.1	2.2
Banque Pictet & CiE		478	478	478	2.8	2.0
CBNY Norges Bank		456	456	456	2.6	1.9
Ålandsbanken ABP, Bank of Åland LTD		421	421	421	2.4	1.8
SSB and Trust company, Boston		346	346	346	2.0	1.4
Tredje AP-fonden		316	316	316	1.8	1.3
Nordea Investment Funds		310	310	310	1.8	1.3
State Street Bank & Trust com, Boston		273	273	273	1.6	1.1
Hanvad Invest Aktiebolag		261	261	261	1.5	1.1
AMF-Försäkring och fonder		237	237	237	1.4	1.0
JP Morgan Chase NA		228	228	228	1.3	0.9
Sten Irwe		225	225	225	1.3	0.9
DnB Carlson fonder		202	202	202	1.2	0.8
Andra AP-fonden		192	192	192	1.1	0.8
SSB Client Omnibus AC OM07		173	173	173	1.0	0.7
SEB Investment Management		170	170	170	1.0	0.7
Nordnet Pensionsförsäkring AB		167	167	167	1.0	0.7
Bnmysanv Re Bnymtd RE CF Ruffer Inv		150	150	150	0.9	0.6
Försäkringsaktiebolaget Avanza Pension		140	140	140	0.8	0.6
SSB Client Omnibus AC OM03		137	137	137	0.8	0.6
Luxenburg AIF Clients Account		132	132	132	0.8	0.5
Other Shareholders		6,312	6,312	6,312	36.4	26.3
Total	741	16,596	17,336	24,002	100.0	100.0

CHANGES IN SHARE CAPITAL SINCE THE COMPANY'S FORMATION

Year	Transaction	Increase in no. of shares	Increase in share capital, SEK	Total share capital, SEK	Total no. of A shares	Total no. of B shares	Quota value, SEK	Issue pro- ceeds, SEK
1990	Company founded			150,000		30,000	5.00	-
1991	New share issue	12,857	64,285	214,285		42,857	5.00	4,500,000
1993	New share issue	12,554	62,770	277,055		55,411	5.00	4,394,341
1995	New share issue	2,303	11,515	288,570		57,714	5.00	806,009
1996	Bonus issue/Split	60,541,986	5,771,400	6,059,970	4,740,278	55,859,422	0.10	-
1996	New share issue	18,200,000	1,820,000	7,897,970	4,740,278	74,059,422	0.10	15,320,000
1997	New share issue Banco Fonder	2,608,696	260,870	8,140,840	4,740,278	76,668,118	0.10	5,760,000
1997	New share issue BioGaiA Fermentation	4,400,000	440,000	8,580,840	4,740,278	81,068,118	0.10	7,469,000
1997	New share issue	21,452,099	2,145,210	10,726,050	5,925,347	101,335,148	0.10	38,597,265 *
1998	New share issue	5	1		5,925,350	101,335,150	0.10	20
1998	Reverse split				592,535	10,133,515	1.00	-
1998	New share issue (IPO on SSE)	2,681,512	2,681,512	13,407,562	740,668	12,666,894	1.00	57,934,131 *
2000	New share issue November	3,275,000	3,275,000	16,682,562	740,668	15,941,894	1.00	73,031,886 *
2000	New share issue December	425,000	425,000	17,107,562	740,668	16,366,894	1.00	11,505,294 *
2004	New share issue Industrifonden	100,000	100,000	17,207,562	740,668	16,466,894	1.00	100,000
2010	New share issue warrant programme	63,400	63,400	17,270,962	740,668	16,530,294	1.00	4,862,780
2015	New share issue warrant programme	65,500	65,500	17,336,462	740,668	16,595,794	1.00	15,844,450

* Excluding underwriting costs

EXECUTIVE MANAGEMENT



AXEL SJÖBLAD Born 1967. MBA, EMBA, Stockholm School of Economics. Managing Director. Employed by the company since 2016. Board assignments in the subsidiary BioGaia Production AB and BioGaia Pharma AB. Holds 0 shares.



MARGARETA HAGMAN Born in 1966. M.B.A. Executive Vice President Accounting, Finance and Investor Relations. Employed by the company since 1996, in current position since 2010. Board assignments in the subsidiary BioGaia Production AB, CapAble AB and Infant Bacterial Therapeutics (IBT) AB. Holds 7,000 class B shares.



URBAN STRINDLÖV Born in 1964. Mechanical Engineering. Executive Vice President and Sales Director. Employed by the company since 2004, in current position since 2010. Holds 0 shares.



KRISTINA MAGNUSSON BORG Born in 1961. MSc Nutrition/Biochemistry, Ph. Lic. Clinical Physiology, MBA. Vice President Discovery and Research. Employed by the company since 2015. Holds 1,500 class B shares.



PETER ROTHSCHILD Born in 1950. M.B.A. Group President, founder and principal shareholder of BioGaia. President 1996-2016 and in current position since 2016. Working Chairman of the subsidiaries BioGaia Production AB, BioGaia Pharma AB and CapAble AB as well as of the associated company MetaboGen AB and The foundation to prevent antibiotic resistance. Also Chairman of the Board of Infant Bacterial Therapeutics (IBT) AB and with board assignments in Glycom AB, Looft Industries AB and Stiftelsen Allbright. Holds 370,334 class A shares and 254,666 class B shares via Annwall & Rothschild Investment AB.



ULRIKA KÖHLER Born in 1966. BSc Biology with extended studies in microbiology. Vice President Marketing and Product Development. Employed by the company since 2013. Holds 0 shares.



HELEN OLSSON Born in 1965. Studies in Human Resources Management. Vice President Human Resources. Employed by the company on a consulting basis since 2013, in current position since 2015. Holds 0 shares.



KATAYOUN WELIN-BERGER Born in 1968. PhD Pharmacology. Vice President Operations. Employed by the company since 2014. Holds 0 shares.



SEBASTIAN SCHRÖDER Born 1973. MSc Business Administration. Vice President Business Development. Employed by the company since 2015. Holds 0 shares.

GROUP PRESIDENT

BOARD OF DIRECTORS



DAVID DANGOOR Born in 1949. Board Chairman. Elected to the board 2003. MBA. Marketing and PR Consultant. President of Innoventive Partners LLC. Former Vice President and Marketing Director Philip Morris USA och Philip Morris International. Other board assignments: The Feinstein Institute for Medical Research, Manhasset, New York, New York City Ballet Inc., School of Creative Leadership, Berlin University and Swedish-American Chamber of commerce (Chairman 1997-2001) among others. Holds 518,918 class B shares.



EWA BJÖRLING Born in 1961. Elected to the Board in 2015. Doctor of Dentistry, Doctor of Medicine and Associated Professor at the Karolinska Institute. Member of the Swedish Riksdag 2002-2014. Minister for Trade in the Swedish Government 2007-2014. Minister for Nordic Cooperation 2010-2014. Other board assignments: Essity AB, Mobilaris AB, Rehnman & Partners Global Assessment advisory board. Board Chairman Svenska Petroleum och Biodrivmedelsinstitutet (SPBI). Holds 0 shares.



JAN ANNWALL Born in 1950. Elected to the Board in 1990. M.B.A. Former Executive Vice President and CFO of BioGaia AB. Founder and principal shareholder in BioGaia AB. Other board assignments: in Infant Bacterial Therapeutics (IBT) AB. Holds 370,334 class A shares and 254,666 class B shares via Annwall & Rothschild Investment AB.



INGER HOLMSTRÖM Born in 1948. Elected to the Board in 2007. MA in Language and Linguistics and a degree in journalism. Senior Partner, Priority. Former Corporate Communications Director at Coop Norden, Posten and Vattenfall. Other board assignments: Järna akademi. Holds 500 class B shares.



ANTHON JAHRESKOG Born in 1980. Elected to the Board in 2015. MSc Financial Management. Former Chief Operating Officer Fund Linked Products at Credit Suisse Investment Bank, London. Other board assignments: Infant Bacterial Therapeutics (IBT) AB. Holds 0 shares.



BRIT STAKSTON Born in 1961. Elected to the Board in 2014. Media Strategist and Communication Consultant. Owner of Stakston AB and founder of the reportage site Blankspot. Member of Presstödsnämnden. Holds 0 shares.



STEFAN ELVING Born in 1941. Elected to the Board in 2001. Former Marketing Director and Executive Vice President of Icahandlarnas AB. Holds 0 shares.



MARGARETHA GADNELL Born 1959. Elected to the Board in 2017. B.Sc in chemistry. Founder and partner in the business consulting company Conlega BioBusiness Development and Management. Former Marketing Director for Companion Diagnostics within Thermo Fisher Scientific. Holds 0 shares.



Glossary

Antibiotics Compounds that kill or inhibit the growth of microorganisms.

Helicobacter pylori Very commonly occurring bacteria in many parts of the world. Resides in the stomach and may lead to peptic ulcers and gastric cancer.

Clinical research Research conducted in humans.

Lactobacillus Lactic acid bacteria. A collective name for a group of microorganisms that occur naturally in various foods such as yogurt, olives and pickled vegetables. In the past, we ingested a great deal of lactic acid bacteria, but today our diet lacks these beneficial bacteria. Some lactic acid bacteria are also present in the human commensal flora.

Lactic acid bacteria have different properties and may thus provide different health effects when consumed. There are a large number of lactic acid bacteria, for example *Lactobacillus reuteri* and *Lactobacillus acidophilus*.

***Lactobacillus reuteri* (L. reuteri)** Species within the genus *Lactobacillus*. The vast majority of BioGaia's patented probiotics consist of different strains of *Lactobacillus reuteri*, for example, *Lactobacillus reuteri* Protectis.

***Lactobacillus reuteri* Gastrus** Combination of two strains of *Lactobacillus reuteri*, used in BioGaia's digestive health product for use in connection with *Helicobacter pylori* infection.

***Lactobacillus reuteri* Prodentis** Combination of two strains of *Lactobacillus reuteri*, used in BioGaia's oral health products.

***Lactobacillus reuteri* Protectis** Strain of *Lactobacillus reuteri*, used in BioGaia's digestive health products for children and adults.

Partner The companies distributing and selling BioGaia's products.

Probiotics Live microorganisms that, when administered in adequate amounts, confer a health benefit on the host.

Resistant bacteria Bacteria that have become resistant to one or several antibiotics.





Project Management: Eva Nelson, Communications Manager, BioGaia. Chatarina Andersson, Marketing Assistant, BioGaia (financial section).
Graphic design: Granath, Photographs: Helén Karlsson, Printing: BrandFactory, Stockholm, 2018.



BioGaia is an innovative Swedish healthcare company and has been a world-leader in dietary supplements with probiotics for more than 25 years. The products are based mainly on different strains of *Lactobacillus reuteri* and are sold by distribution partners in 100 countries.