

BioGaia AB Interim Report 1 January – 30 June 2015 (15 pages)

(Figures in brackets refer to the corresponding period in the previous year. Balance sheet comparisons refer to the balance sheet figures as per 31 December 2014.)



Message from the CEO

“Another highly satisfactory quarter. After three quarters each showing a steep rise in sales, the effect over 12 month figures is obviously positive – sales have risen by 40% over the past 12 months. Both the euro and dollar have become much stronger, but even after adjustment for foreign exchange effects, our sales growth amounts to 30%, which under any circumstances deserves to be considered as satisfactory. Developments on most markets remain positive, with the strongest performances being reported from South America, especially in Brazil where our drops and tablets have been very well received,” says Peter Rothschild, President of BioGaia AB.

Reporting period 1 January – 30 June 2015

Net sales totalled SEK 272.9 (185.6)¹⁾ million, an increase of SEK 87.3 million; this corresponds to a rise of 47%, or 34% after adjustment for foreign exchange effects.

Sales for the Paediatrics business unit totalled SEK 224.1 (143.1)¹⁾²⁾ million, an increase of SEK 81.0 million; this corresponds to a rise of 57%, or 41% after adjustment for foreign exchange effects.

Sales for the Adult Health business unit totalled SEK 42.1 (36.2)²⁾ million, an increase of SEK 5.9 million; this corresponds to a rise of 16%, or 9% after adjustment for foreign exchange effects.

Operating profit was SEK 95.0 (53.3)¹⁾ million, an increase of SEK 41.7 million; this corresponds to a rise of 78%, or 44% after adjustment for foreign exchange effects. If costs in the subsidiary Infant Bacterial Therapeutics (IBT) are excluded, operating profit for the period was SEK 104.7 (56.4) million, an increase of SEK 48.3 million (86%).

Profit after tax was SEK 78.9 (40.1)¹⁾ million, an increase of SEK 38.8 million or 97%.

Earnings per share were SEK 4.57 (2.35)¹⁾.

Cash flow for the period was SEK –8.8 (+4.3) million. Cash and cash equivalents on 30 June 2015 totalled SEK 202.8 (210.7) million.

Second quarter 2015

Net sales totalled SEK 134.0 (92.4) million, an increase of SEK 41.6 million; this corresponds to a rise of 45%, or 31% after adjustment for foreign exchange effects.

Sales for the Paediatrics business unit totalled SEK 108.8 (66.4)²⁾ million, an increase of SEK 42.4 million; this corresponds to a rise of 64%, or 46% after adjustment for foreign exchange effects.

Sales for the Adult Health business unit totalled SEK 22.3 (21.2)²⁾ million, an increase of SEK 1.1 million; this corresponds to a rise of 5%, or 0% after adjustment for foreign exchange effects.

Operating profit was SEK 42.4 (24.9) million, an increase of SEK 17.5 million; this corresponds to a rise of 70%, or 33% after adjustment for foreign exchange effects. If costs in the subsidiary IBT are excluded, operating profit for the period was SEK 48.4 (26.5) million, an increase of SEK 21.9 million (83%).

Profit after tax was SEK 35.7 (17.5) million, an increase of SEK 18.2 million or 104%.

Earnings per share were SEK 2.06 (1.03).

Important events in the second quarter of 2015

Publication of a Chinese study showing the efficacy of BioGaia's drops on colic.

BioGaia investigates the possibility of a separate listing for its subsidiary Infant Bacterial Therapeutics AB.

Important events after the end of the second quarter of 2015

Publication of a study that shows that Prodentis reduces Candida in elderly patients.

- 1) Excluding licence revenue from Nestlé. If licence revenue from Nestlé is included, sales for the first half of 2014 totalled SEK 281.0 million, sales for the Paediatrics business unit totalled SEK 238,5²⁾ million, operating profit was SEK 148.7 million, profit after tax was SEK 114.5 million and earnings per share were SEK 6.66.
- 2) A minor reallocation has been done on prior year's sales per segment to get more comparable figures with this year's amount.

Telephone conference: You are invited to take part in a teleconference about this interim report that will be held at 09:30 a.m. today by CEO Peter Rothschild. To participate in the teleconference, please see www.biogaia.com/agenda.

BioGaia has published this information in accordance with the Swedish Securities Market Act. The information was released for publication at 08:00 a.m. on 18 August 2015. This is a translation of the Swedish version of the interim report. When in doubt, the Swedish wording shall prevail.

BioGaia AB (publ.)

INTERIM REPORT 1 JANUARY – 30 JUNE 2015

Figures in brackets refer to the corresponding period in the previous year. Balance sheet comparisons refer to the balance sheet figures as per 31 December 2014

The Board of Directors and President of BioGaia AB hereby present their interim report for the period 1 January – 30 June 2015. A description of the company's operations is provided on page 15.

MESSAGE FROM THE PRESIDENT

Another highly satisfactory quarter. After three quarters each showing a steep rise in sales, the effect over 12 months figures is obviously positive – sales have risen by 40% over the past 12 months. Both the euro and dollar have become much stronger, but even after adjustment for foreign exchange effects, our sales growth amounts to 30%, which under any circumstances deserves to be considered as satisfactory.

Developments on most markets remain positive, with the strongest performances being reported from South America, especially in Brazil where our drops and tablets have been very well received.

Operating expenses rose by 28% during the first six months, but these include costs for our subsidiary IBT. If the costs for IBT are excluded, the increase in operating expenses was 20%, which is close to our estimate. Despite a strong increase of investment in research and development, first-half year operating profit rose to SEK 95 million, which equates to a 44% increase after adjustment for foreign exchange effects. Operating profit excluding costs for IBT was SEK 104.7 million. This corresponds to an operating margin of 38%, which is well above our target of 30%.

As I wrote in this year's first-quarter report, our oral health operations have developed well. Since then, another interesting study has been published that demonstrates that the use of our products contributes to a significant reduction in *Candida* among elderly patients. There is a great potential for our oral health products within this rapidly expanding target group.

IBT is making rapid progress in the development of a drug to prevent NEC, and we are now working closely with the FDA with the aim of starting an initial study on these very small, premature infants by the end of the year. In parallel with this, discussions are taking place with possible licensees for this very interesting pharmaceutical candidate, which has the potential to save lives among infants worldwide who require long-term intensive care. In addition to the fact that we can help save the lives of the youngest and most fragile members of the human race, I see the development of this drug as a highly attractive business opportunity. Independent consultants estimate peak sales in the five largest markets in Europe and the USA alone could be USD 250 million. Every year some 5,200 infants die as a result of NEC.

We are also investigating the possibility of a separate listing for IBT and we will be presenting our proposal on this to the board of directors after the summer.

FINANCIAL PERFORMANCE – FIRST HALF-YEAR 2015

First-half sales 2015

Group sales totalled SEK 272.9 (185.6)¹⁾ million. This is an increase of SEK 87.3 million or 47% compared with the corresponding period last year.

The major part of the company's sales is in foreign currencies, primarily EUR but also USD and JPY. If exchange rates had remained at the level they were during the corresponding period in 2014, sales would have been SEK 24.3 million lower. After making adjustments for foreign exchange effects, sales (excluding licence revenue from Nestlé) rose by 34%¹⁾ compared with the corresponding period last year¹⁾. Changes in exchange rates affect both income and expenses. Operating profit would have been SEK 18.2 million lower if exchange rates had remained stable. This translates into an increase (excluding licence revenue from Nestlé) of 44%¹⁾ after adjustment for foreign exchange effects compared with the corresponding period last year.

Over the most recent 12-month rolling period sales have risen by 40%¹⁾, or by 30% after adjustment for foreign exchange effects.

Licence revenue from Nestlé 2014

During the first quarter of 2014 BioGaia received licence revenue of SEK 95.4 million from Nestlé. First-half sales for 2014 including this licence revenue totalled SEK 281.0 million. For more information, please see the Annual Report for 2014.

Licence revenues for 2014 are non-recurring income and have a significant impact on the key figures. For this reason, they are stated separately in the Statement of Comprehensive Income, and separate sets of key figures have been calculated that include and exclude licence revenue from Nestlé. Licence revenue relates to the Paediatrics business unit and the European market. Licence revenue is excluded in the comparisons in the text. For comparisons including the licence revenue, please refer to Note 1 on page 7.

First-half sales by segment 2015

PAEDIATRICS BUSINESS UNIT – FIRST HALF

Sales for the Paediatrics business unit, the core of BioGaia's business activities, totalled SEK 224.1 (143.1)¹⁾ million. This is an increase of SEK 81.0 million or 57%. Adjusted for foreign exchange effects, the increase was 41%.

Most of the increase is attributable to sales of drops, which increased in all regions.

Sales of drops for the Rest of the World segment rose most strongly in Brazil, where the product was launched in October 2014, but sales also rose elsewhere in South America, in countries such as Chile, Peru and Colombia, and in Mexico. In Europe sales of drops rose in a number of countries – for example, Spain, Portugal, Turkey, France, Belgium and Italy – but fell in Ukraine and Finland. The decline in sales in Ukraine is the result of the current instability in the country.

In North America sales of drops rose in the USA but fell slightly in Canada.

The increase in sales in Asia was attributable to fairly modest rises in a number of countries.

Sales of digestive health tablets in the Paediatrics business unit rose most in the Rest of the World, but there were increases, too, in Europe and Asia. Sales remained at more or less the same level in the North American markets. The increase in the Rest of World segment was due chiefly to improved sales in Brazil, where the tablets were launched in September 2014. In Europe sales of digestive health tablets rose in Bulgaria and Spain/Portugal but declined in Ukraine. The rise in Asia was attributable to Singapore.

The sale of cultures for milk formulas rose compared with the corresponding period last year.

Royalty income from Nestlé for the rights to use *Lactobacillus reuteri* Protectis in powder formulas for infants older than 12 months rose in comparison with the corresponding period last year.

Royalty revenue for the Paediatrics business unit generated by the collaboration agreement signed with Nestlé in 2014 was SEK 1.9 (3.5)²⁾ million.

Over the most recent 12-month period sales in the Paediatrics business unit have risen by 49%, or by 38% when adjusted for foreign exchange effects.¹⁾

The focus for the Paediatrics business unit during the first six months of the year has been on study protocols and on identifying countries for four new clinical trials that will further reinforce the clinical documentation in BioGaia's core business area. The business unit is also continuing to work on commercialising its packaging solutions. Early in the year BioGaia launched its new Training Manual. This is a kind of digital presentation material with full background details about probiotics, strains, clinical studies and BioGaia as a company. The Training Manual has been produced to serve not only as a tool for training, but also as a knowledge bank and a source of inspiration for BioGaia's partners. The manual has been very well received and it is hoped that it will improve the general level of knowledge among the distributors and also make clear BioGaia's offer for existing indications. In May, the company participated at ESPGHAN in Amsterdam, a children's medical congress with over 4,000 participants. A very valuable opportunity to discuss both with partners and paediatricians from many different countries.

ADULT HEALTH BUSINESS UNIT – FIRST HALF

Sales for the Adult Health business unit totalled SEK 42.1 (36.2) million. This is an increase of SEK 5.9 million or 16%. Adjusted for foreign exchange effects the year-on-year increase was 9%.

This increase is due to rises in the sales of digestive health tablets and oral health tablets.

Most of the rise in sales of digestive health tablets is attributable to Europe (primarily Italy and Finland), but sales also increased in Asia (Japan and Hong Kong). In contrast, the Rest of the World reported a slight dip in sales. Digestive health tablets in the Adult Health business unit are not currently sold in the North American market.

Sales of oral health tablets rose both in Asia (Japan) and in Europe (Italy), while North American sales remained more or less unchanged. The oral health tablets are not yet offered for sale in the Rest of the World.

Sales of yoghurt products in Japan decreased in comparison with the corresponding period last year. The company stopped selling yoghurt products in Japan in September 2014 as the margins did not meet expectations.

Over the most recent 12-month period Adult Health sales have risen by 2%. However, when this figure is adjusted to take account of foreign exchange effects, sales over the past 12 months have fallen by 4%.

The Adult Health business unit works in various ways to support the expansion of the distribution network for its existing ProTectis and Gastrus brand products. Parallel with this work, investments to strengthen these products are being made through clinical support and product improvements, or through direct support in the form of marketing materials, a presence at congresses, etc. As part of a longer-term approach to promoting growth, the business unit will be embarking on a number of clinical studies during 2015; these focus on new indication areas, in particular the key areas of

gastroenterology and oral health, and involve both existing and new products.

The business unit works with several strains and a number of delivery systems to facilitate future differentiation between various indication areas.

NEW PRODUCTS BUSINESS UNIT – FIRST HALF

Other sales for the reporting period totalled SEK 6.7 (6.3) million. This is an increase of SEK 0.4 million. The New Products business unit is included in "Other sales" in the segment reporting.

Figures for the New Products business unit include royalty revenue of SEK 5.1 (4.2) million from the collaboration agreement signed with Nestlé in March 2014. Royalty revenue, which totals SEK 92.0 million for the period 2014–2017, has previously been reported under the Paediatrics business unit (SEK 22.9 million for 2014 as a whole, and SEK 7.6 million for the first half of 2014). Henceforward, however, this will be divided between Paediatrics and New Products. To be able to compare between years, the previous amount has been adjusted. Under the terms of the agreement BioGaia has undertaken to conduct clinical studies on infants and to develop new products in new areas. BioGaia will report royalty revenue in step with the projects' work-up rate.

FIRST-HALF SALES BY GEOGRAPHICAL MARKET

Sales in Europe rose by SEK 26.2 million – a 20%¹⁾ increase – to a total of SEK 160.1 million, bringing the rise in sales over the most recent 12-month period to 23%¹⁾.

Sales in the USA and Canada rose by SEK 12.0 million – a 157% increase – to SEK 19.6 million. Here the increase in sales over the most recent 12-month period is 96%.

Sales in Asia rose by SEK 4.9 million – a 22% increase – to SEK 26.9 million. Over the most recent 12-month period sales in Asia have risen by 2%.

Sales in the Rest of the World rose by SEK 44.2 million – a 200% increase – to SEK 66.3 million, bringing the rise in sales over the most recent 12-month period to 147%.

THE BIOGAIA BRAND

During the first six months of the year 61% (53%) of finished consumer products (drops, digestive health tablets, oral health tablets, oral rehydration solutions, etc.) were sold under the BioGaia brand, including co-branding.

Gross profit – first half 2015

Gross profit for the reporting period was SEK 191.4 (126.8)¹⁾ million, which represents an increase of SEK 64.6 million or 51% on figures for the corresponding period last year. The total gross margin rose from 68% to 70%.

The gross margin for the Paediatrics business was unchanged – 69%. The sales of bacterial cultures for infant milk formulas where the gross margin is very low increased. The effects of this are, however, offset to some degree by increased sales of drops and an increase in royalty revenue for the use of *reuteri* cultures in powder formula products for toddlers.

The gross margin for the Adult Health business unit rose from 61% to 72%. There are two main reasons for this increase: primarily, the decision to terminate sales of yoghurt, where the margin was very low, but also the increase in the sale of other products in Japan, where the margins are higher.

Operating expenses – first half

Total operating expenses rose to SEK 97.4 million, a 28% increase compared with the corresponding period last year. Operating expenses include various non-recurring costs related to personnel

costs and to costs incurred by the subsidiary IBT. If these are excluded, the rise in operating expenses was 18% compared with the corresponding period in 2014 and 22% over the most recent 12-month period.

The increase in total operating expenses over the past 12 months was 29%, or 23% if the subsidiary IBT is excluded.

For the remainder of this current year it is anticipated that operating expenses, excluding IBT, will continue to rise by between 15% and 20%, chiefly as a consequence of increased investment in research and development.

Selling expenses rose by SEK 6.1 million, a 14% increase, to a total of SEK 48.9 (42.8) million. This corresponds to 18% (23%)¹⁾ of sales. The main increase in selling expenses compared with the corresponding period last year was in personnel costs and costs for agents. In addition, however, marketing costs in Japan also rose, partly as a result of costs incurred in connection with the launch of drops. Over the most recent 12-month period sales costs have risen by 16%.

Administrative expenses totalled SEK 9.6 (8.8) million, which corresponds to 4% (5%) of sales¹⁾. The increase of SEK 0.8 million or 9% is due primarily to personnel costs and costs for consultants, together with a rise in administrative expenses in the subsidiary TwoPac (see below). Over the most recent 12-month period the Group's administrative expenses have risen by 20%.

Research and development costs totalled SEK 38.9 (24.4) million, which corresponds to 14% (13%) of sales. The increase of SEK 14.5 million or 59% is attributable in part to a SEK 6.6 million rise in costs for the subsidiary IBT (see below). There were also increased costs for development projects, primarily as a consequence of the collaboration agreement with Nestlé. Costs for patents and personnel costs also rose. Excluding the costs for IBT, R&D costs rose by 37%. Over the most recent 12-month period R&D costs have risen by 59%, or by 39% if the costs for IBT are excluded.

Investments in capitalised expenditure for research and development totalled SEK 7.7 (1.8) million and relate to the development of a product for the NEC project in the subsidiary IBT AB.

Other operating income/expenses consist of foreign exchange gains/losses on receivables and liabilities of an operating nature.

Operating profit – first half

Operating profit was SEK 95.0 (53.3)¹⁾ million, an increase of SEK 41.7 million, corresponding to a 78% rise, or 44% after adjustment for foreign exchange effects. Operating margin was 35% (29%)¹⁾. If costs in the subsidiary IBT are excluded, operating profit for the period was SEK 104.7 million and the operating margin was 38%.

Financial items and pre-tax profit – first half

Pre-tax profit was SEK 99.3 (51.7)¹⁾ million, which is SEK 47.6 million or 92% more than the corresponding period last year. Net financial items include an exchange gain of SEK 4.2 million on forward exchange contracts in EUR. The figures for the previous year include an exchange loss of SEK 3.2 million. On 30 June 2015 the company had outstanding forward exchange contracts for a total of EUR 12.8 million at an average exchange rate of SEK 9.22. Forward exchange contracts amounting to EUR 4.7 million mature for payment during the course of 2015; a further EUR 6.8 million will mature in 2016 and the remaining EUR 1.3 million in 2017. The actual exchange gains or losses will depend on the exchange rates that are in effect on the dates when the contracts mature. If the EUR rate on the maturity date is lower or higher than the rate of SEK 9.22 that applied on 30 June 2015, this will be recognised as an exchange gain or loss in future financial statements.

Profit after tax – first half

Profit after tax was SEK 78.9 (40.1)¹⁾ million, an increase of SEK 38.8 million or 97%.

The tax rate for the Group was 21% (22%). The reduced tax rate is the result of the fact that the Group pays no tax on profits in its Japanese subsidiary, where there are losses carried forward from previous years. The parent company also received a SEK 1.5 million tax refund from previous tax years, which was recognised in the accounts during the first half of 2015.

The losses carried forward in the Japanese subsidiary on 30 June 2015 amounted to SEK 32.1 million. The deferred tax asset for these has not been recognised in the accounts, as the Japanese subsidiary has not yet been able to show a sustainable profit level.

The company has an ongoing tax case relating to a write-down of receivables from the Japanese subsidiary. In the event of a negative outcome for the company, this could result in additional tax expenses of SEK 3.1 million. On the other hand, a positive outcome could pave the way towards receiving an additional tax income of SEK 2.3 million for previous years' activities.

Earnings per share – first half

Earnings per share were SEK 4.57 (2.35)¹⁾.

Cash flow – first half

Cash flow for the reporting period was SEK –8.8 (4.3) million. Cash flow included dividend of SEK 86.4 (120.9) million and SEK 15.8 (0.0) million relating to a new issue from warrant programme. Cash flow for 2014 included SEK 95.4 million in licence revenue from Nestlé.

The Group's cash and cash equivalents at 30 June 2015 amounted to SEK 202.8 (210.7) million.

Equity at 30 June 2015

Consolidated equity at 30 June 2015 totalled SEK 353.1 (344.6) million. The Group's equity/assets ratio was 80% (79%).

On 1 June 2015 a warrant programme that had originally been approved by the Annual General Meeting on 8 May 2012 matured. A total of 65,500 options were redeemed and share capital now totals SEK 17,336,462. There are now 16,595,794 class B shares in the company, while the number of class A shares remains unchanged at 740,668. The subscription price for one class B share was SEK 241.90, which means that the company received an additional SEK 15.8 million in funds during the second quarter. The provision of SEK 1.1 million that was made in order to cover costs for a subsidy of SEK 10 per option for employees who subscribed for subscription warrants but did not exercise their right to buy shares, was only partly used (SEK 0.2 million). The remaining SEK 0.9 million has been released during the second quarter and had a positive effect on operating expenses.

Investments in property, plant and equipment – first half

Investments in property, plant and equipment totalled SEK 9.4 (9.5) million, of which SEK 9.3 (9.3) million relates to the expansion of the production facility for the subsidiary TwoPac AB. Work on this project commenced during the reporting period.

Investments in capitalised expenditure for research and development amounted to SEK 7.7 (1.8) million and refer to the development of a product for the NEC project in the subsidiary IBT AB.

Subsidiary in Japan – first half

Net sales in the wholly owned subsidiary in Japan totalled SEK 12.5 (9.7) million. Operating profit in the Japanese subsidiary was SEK 0.8 (–1.3) million.

Subsidiary TwoPac AB, including subsidiaries – first half

Net sales in the wholly owned subsidiary TwoPac, which comprise solely sales to the parent company, amounted to SEK 28.8 (21.6) million. Operating profit was SEK 6.0 (4.6) million. Profit after tax rose to SEK 4.3 (3.3) million, thanks chiefly to increased sales. The company's operating expenses are also increasing as personnel costs rise to meet the demands of more stringent quality criteria. This internal quality assurance initiative is also motivated by the ambition to seek approval from the Swedish Medical Products Agency for the production of pharmaceuticals at TwoPac's manufacturing facility.

Subsidiary CapAble AB – first half

CapAble, in which BioGaia AB owns a 90.1% stake and the president of CapAble owns the remaining 9.9%, was set up in November 2008 to manufacture and sell the patented LifeTop Cap bottle closure.

Net sales for CapAble were SEK 0.5 (0.3) million during the period. Operating profit was SEK –1.3 (–1.5) million. During 2014 and the first quarter of 2015 the company experienced quality problems, which meant that sales did not gain the anticipated momentum. However, the company is confident that the problems have now been solved and that sales will pick up speed during 2015. CapAble has also commenced marketing of the company's LifeTop Straw for probiotics. During the reporting period CapAble has signed two new agreements for LifeTop Straw, with Ganeden and Alimentary Health respectively.

Subsidiary IBT AB – first half

In November 2013 the Board of BioGaia resolved to invest in the first phase of a long-term project aimed at developing a drug with rigorous hygiene, analysis and documentation requirements, to treat the highly fatal disease necrotising enterocolitis (NEC), which affects premature newborns. At the time BioGaia resolved to invest up to SEK 42 million in the project. In March 2015 BioGaia decided to invest a further USD 0.5 million – approximately SEK 4.6 million – in the project.

The project is being run by BioGaia's subsidiary, Infant Bacterial Therapeutics (IBT). The IBT president, Staffan Strömberg, and the company's research director, Eamonn Connolly, jointly own a 9.0% stake in IBT; board member Anders Ekblom, a former global head of R&D Science & Technology Integration and president of AstraZeneca AB, owns a 0.9% stake; the remaining 90.1% is owned by BioGaia AB.

In February 2015, following a similar decision by the FDA in August 2013, IBT was granted orphan designation in Europe for its NEC drug.

Work to develop the drug has progressed more quickly than anticipated and IBT is now planning to commence the first clinical trial before the end of the current year. To finance the study, IBT has an estimated capital requirement of approximately SEK 130 million. To enable BioGaia's shareholders to invest directly in this project, the board of directors has instructed the management team to evaluate the possibility of a separate listing of IBT during the second half of 2015.

Operating profit in IBT during first six months was SEK –9.7 (–3.1) million. The company invested SEK 7.7 (1.8) million in capitalised expenditure for R&D activities during the period. IBT has not yet reported any income.

Parent company – first half

Net sales in the parent company totalled SEK 263.4 (177.9)¹ million. Profit before tax was SEK 100.1 (51.1)¹ million. Cash flow in the parent company was SEK –19.0 (+1.5) million.

FINANCIAL PERFORMANCE – SECOND QUARTER 2015

Second-quarter sales

Second-quarter sales totalled SEK 134.0 (92.4) million. The SEK 41.6 million increase represents an improvement of 45% compared with the corresponding period last year, or 31% when adjustment has been made for exchange rate effects.

Sales were down SEK 4.8 million on first-quarter figures. This was chiefly as a result of a fall in the sales of drops following a number of large deliveries of these in the first quarter.

PAEDIATRICS BUSINESS UNIT – SECOND QUARTER

Sales for the Paediatrics business unit totalled SEK 108.8 (66.4) million, an increase of SEK 42.4 million or 64%. Adjusted for foreign exchange effects, the increase was 48%.

Most of the increase is attributable to sales of drops, which increased in the Rest of the World (particularly in Brazil, but also in Mexico and Chile) and in North America (especially the USA), but decreased slightly in Europe (Italy and Finland) while remaining more or less unchanged in Asia.

Sales of digestive health tablets also rose in comparison with the corresponding period last year. The increase here was strongest in Brazil, with South Africa also showing good growth.

The sale of cultures for milk formulas rose in comparison with the corresponding period last year as well as royalty revenues from Nestlé for the rights to use *L. reuteri* Protectis in powder formulas for toddlers.

Royalty revenue from the collaboration agreement with Nestlé that accrued to the Paediatrics business unit totalled SEK 1.9 (3.5)² million.

Compared with the previous quarter, sales in the Paediatrics business unit decreased by SEK 4.1 million.

ADULT HEALTH BUSINESS UNIT – SECOND QUARTER

Sales for the Adult Health business unit totalled SEK 22.3 (21.2)² million. This is an increase of SEK 1.1 million or 5%. After adjustment for foreign exchange effects, second quarter sales were on a par with those for the corresponding period last year.

The sales of oral health and digestive health products increased. Most of the rise in sales of oral health products took place in Asia (Japan). Sales of digestive health tablets rose both in Asia (Japan and Hong Kong) and in Europe (Finland and Italy), but decreased in Australia.

Income from yoghurt products in Japan decreased as sales ceased in September 2014.

Compared with the previous quarter sales in the Adult Health business unit rose by SEK 2.5 million.

NEW PRODUCTS BUSINESS UNIT – SECOND QUARTER

Other sales for the reporting period totalled SEK 2.9 (4.8) million. This is a decrease of SEK 1.9 million. The New Products business unit is included in "Other sales" in the segment reporting.

Figures for the New Products business unit include royalty revenue of SEK 2.3 (4.2)² million from the collaboration agreement signed with Nestlé in March 2014. (For more information, please see above under the heading "First-half sales 2015".)

Gross profit – second half

Gross profit for the reporting period was SEK 93.6 (65.3) million, which represents an increase of SEK 28.3 million or 43% on earnings for the

corresponding period last year. The total gross margin was 70% compared with 71% for the corresponding period in 2014.

The gross margin for the Paediatrics business unit decreased from 72% to 68%. This is due to increase in sales of bacterial cultures for infant milk formulas where the gross margin is very low. The effects of this are, however, offset to some degree by increased sales of drops and an increase in royalty revenue for the use of *reuteri* cultures in powder formula products for toddlers.

The gross margin for the Adult Health business unit rose from 61% to 73%. There are two main reasons for this increase: primarily, the decision to terminate sales of yoghurt, where the margin was very low, but also increases in sales of other products in Japan, where the margins are higher.

Other operating expenses – second quarter

Total operating expenses rose by 16% during the quarter compared to the same period of last year. Excluding costs incurred by the subsidiary IBT, the increase in total operating expenses was 6%. Compared with the previous quarter, operating expenses rose by SEK 0.3 million. If operating costs for IBT are excluded total operating expenses fell by SEK 2.1 million in comparison with the previous quarter, as a result of non-recurring costs incurred in the first three months of the year.

Second-quarter selling expenses were 1% up compared to the same period of last year, rising from SEK 23.8 million to SEK 24.1 million. This was mostly attributable to an increase in selling costs in Japan.

Administrative expenses were SEK 4.7 million, which is SEK 0.6 million (11%) less than for the corresponding period in 2014.

Research and development costs totalled SEK 20.1 (12.9) million. This is an increase of SEK 7.2 million or 56% compared with the corresponding period last year. If R&D costs for the subsidiary IBT are excluded, the increase is 26%, which comprises mostly increases in personnel costs.

Operating profit – second quarter

Operating profit was SEK 42.4 (24.9) million, an increase of SEK 17.5 million. This is a 70% rise compared with the corresponding period in 2014. If costs in the subsidiary IBT are excluded, the increase in operating profit was 83%.

Profit before tax – second quarter

Profit before tax was SEK 43.4 (22.4) million, an increase of SEK 21.0 million or 94% compared with the corresponding period in 2014. Net financial items include a foreign exchange gain of SEK 1.0 million in 2015 and a foreign exchange loss of SEK 3.3 million in 2014 respectively on forward exchange contracts in EUR. (For further details, please see above.)

Profit after tax – second quarter

Profit after tax was SEK 35.7 (17.5) million, an increase of SEK 18.2 million or 104%.

SIGNIFICANT EVENTS DURING THE SECOND QUARTER 2015

Q2 launches, 2015

Distributor/licensee	Country	Product
Recalcine	Panama	Drops and digestive health tablets
Ivodent	South Africa	Oral health tablets
PT Interbat	Indonesia	Relaunch of digestive health tablets

Publication of Chinese study showing the efficacy on colic of BioGaia's drops

A Chinese study of infants suffering from colic shows that babies who were given *Lactobacillus reuteri* Protectis cried significantly less than those who were given a placebo.

These findings, published in the medical journal *Antonie van Leeuwenhoek* on 16 April 2015, are the fifth study to confirm a positive result from treating colic with *Lactobacillus reuteri* Protectis.

Redemption of share options

On 1 June 2015 the warrant programme approved by the Annual General Meeting on 8 May 2012 matured. A total of 65,500 warrants were redeemed and share capital now totals SEK 17,336,462. There are now 16,595,794 class B shares in the company, while the number of class A shares remains unchanged at 740,668.

The subscription price for one class B share was SEK 241.90, which means that the company received an additional SEK 15.8 million in funds during the second quarter.

SIGNIFICANT EVENTS AFTER THE END OF THE SECOND QUARTER

Publication of study demonstrating that Prodentis reduces Candida in elderly people

A double-blind, randomised, placebo-controlled study of 215 elderly residents in nursing homes showed that *Lactobacillus reuteri* Prodentis reduced the prevalence of oral Candida by more than 50 per cent compared to placebo.

After 12 weeks of intervention with two lozenges per day of *Lactobacillus reuteri* Prodentis there was a statistically significant reduction of 53 per cent in the proportion of patients with high Candida counts in saliva and plaque in the probiotic cohort, while there was no difference in the placebo cohort.

The study was published in the *Journal of Dental Research* on 22 July 2015.

SIGNIFICANT EVENTS EARLIER IN 2015

Q1 launches, 2015

Distributor/licensee	Country	Product
Pharma Ace	Malaysia	Relaunch of drops
Noos	Italy	Oral health tablets / oral health drops
Dexcel	Israel	Oral health tablets
Nestlé	Pakistan / Middle East	Infant formula with <i>Lactobacillus reuteri</i> Protectis

Agreement on sale of drops in Vietnam

In January 2015 BioGaia signed an exclusive agreement with VietPhap International Co Ltd for the right to sell BioGaia ProTectis drops in Vietnam. The launch is planned to take place during 2015.

Nestlé launches new product with BioGaia probiotics

For some years now BioGaia and Nestlé have been engaged in fruitful collaboration to develop products with probiotics. An agreement signed on 30 May 2013 gave Nestlé exclusive rights to use BioGaia's patented probiotic strain *Lactobacillus reuteri* Protectis in powder formula products for infants over 12 months old. Since late 2014 Nestlé has commenced the launch of these products, which will be sold mainly in emerging markets.

Publication of study showing the efficacy of *Lactobacillus reuteri* Prodentis for patients with dental implants

Inflammation and other complications linked to dental implants are common. Results from a double-blind randomised controlled trial in 34 patients with implants show that 30 days' supplementation with *Lactobacillus reuteri* Prodentis significantly reduces implant-related inflammation. The study was published in the *Journal of Periodontal Research* on 25 February 2015.

Agreement relating to oral health products in Mexico

In March BioGaia signed an exclusive agreement with Silanes for the right to sell BioGaia's oral health lozenges in Mexico. The launch is planned to take place during 2015.

EMPLOYEES

On 30 June 2015 the Group had 104 (91) employees.

Incentive programme for employees

For more details, please refer to the headings "Equity" and "Significant events during the second quarter 2015 – Redemption of share options" above.

SIGNIFICANT BUSINESS RISKS AND UNCERTAINTIES – GROUP AND PARENT COMPANY

BioGaia's wholly owned Japanese subsidiary has operated at a loss since it was set up in 2006. On the balance sheet date, assets in the Japanese subsidiary were recognised at SEK 12.2 million. BioGaia's assessment is that there is no need for any impairment of these assets. In the parent company, current receivables from the Japanese subsidiary have been written off. The loan to the Japanese subsidiary and participations in the company have been written down to zero.

CapAble, in which BioGaia AB owns a 90.1% stake, was started in November 2008 to provide a solution for the manufacture and sale of the patented LifeTop Cap bottle closure. Shares in the subsidiary CapAble are recognised at a total of SEK 6.9 million in the parent company. CapAble has operated at a loss since it was set up in 2008. In 2009 and 2010 BioGaia made conditional shareholder contributions to CapAble totalling SEK 6.0 million. BioGaia AB has made group contributions amounting to SEK 12.7 million between 2010 and 2014. In the first half of 2015 profit before tax and group contributions was SEK – 1.3 (–1.5) million. On the balance sheet date assets in CapAble were recognised at SEK 3.9 million. Since BioGaia's assessment of the situation is that CapAble will begin to report a profit in the years to come, there is no indication of impairment on the balance sheet date.

Infant Bacteria Therapeutics AB (IBT), which is 90.1% owned by BioGaia, was established in November 2013. For more information, please see above. BioGaia AB has made conditional shareholder contributions of SEK 20.0 million, of which SEK 9.0 million in 2015, and group contributions of SEK 7.0 million to IBT. On the balance sheet date assets in IBT were recognised at SEK 15.9 million in the Group accounts. BioGaia is confident that, in the future, IBT and the company's R&D projects will show profitability, and for this reason there is no indication of impairment on the balance sheet date.

For further information, you are referred to the Administration Report and to Notes 27 and 28 in the Annual Report for 2014.

ACCOUNTING PRINCIPLES

This interim management report for the Group has been drawn up in accordance with IAS 34 "Interim Financial Reporting" and with the Swedish Annual Accounts Act. The interim management report for the parent company has been drawn up in accordance with the Annual Accounts Act.

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Boards (IASB), as well as with statements on interpretation from the International Financial Reporting Interpretations Committee (IFRIC) as approved by the European Commission for use in the EU. Unless stated otherwise below, the accounting principles applied to the Group and the parent company conform to the accounting principles used to prepare the most recent Annual Report.

The parent company has implemented the Swedish Financial Reporting Board's Recommendation RFR 2 "Accounting for Legal Entities" and the Annual Accounts Act and applies the same accounting principles and methods of calculation as used in the most recent Annual Report.

New accounting principles

The accounting policies applied are in accordance with those used in the Annual Report for 2014. A number of standards and interpretations have been published but have not yet entered into force. These are not deemed to have any significant effect on the profits or financial position of the Group or the parent company.

FUTURE OUTLOOK

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

The financial target is a sustainable operating margin (operating profit in relation to sales) of at least 30% 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.

In view of the Company's strong portfolio consisting of an increasing number of innovative products – mostly marketed under the company's own brand – together with successful clinical trials and a growing distribution network covering a large share of the key markets, the outlook for BioGaia is bright.

- 1) Excluding SEK 95.4 million in licence revenue from Nestlé. Net sales for the first six months of 2014 including licence revenue from Nestlé totalled SEK 281.0 million; sales for the Paediatrics business unit totalled SEK 243.8 million, sales in Europe were SEK 229.3 million, gross profit was SEK 222.2 million, operating profit was SEK 148.7 million, pre-tax profit was SEK 147.1 million, profit after tax was SEK 114.5 million and earnings per share were SEK 6.66. Operating margin was 53%. Net sales for the Parent Company including licence revenue were SEK 273.3 million and pre-tax profit was SEK 146.5 million.
- 2) A minor reallocation has been done on prior year's sales per segment to get more comparable figures with this year's amount.

Statements of comprehensive income - Group

(Amounts in SEK 000s)

	Jan-June 2015	Jan-June 2014	April-June 2015	April-June 2014	Jan-Dec 2014	July 2014- June 2015	July 2013- June 2014
Net sales	272,866	185,597	134,020	92,379	386,405	473,674	337,987
License revenue	-	95,397	-	-	95,397	-	95,397
Cost of goods sold	-81,475	-58,803	-40,465	-27,090	-131,338	-154,010	-108,873
<i>Gross profit</i>	19,391	222,191	93,555	65,289	350,464	319,664	324,511
Selling expenses	-48,879	-42,752	-24,114	-23,757	-89,759	-95,886	-82,777
Administrative expenses	-9,596	-8,809	-4,671	-5,221	-17,666	-18,453	-15,318
Research and development expenses	-38,944	-24,390	-20,072	-12,866	-53,867	-68,421	-43,084
Other operating income	1,000	2,472	-2,296	1,488	7,711	6,239	2,949
<i>Operating profit</i>	94,972	148,712	42,402	24,933	196,883	143,143	186,281
Interest income	268	1,641	125	798	2,382	1,009	3,831
Foreign exchange gain/loss, forward contracts	4,217	-3,204	1,033	-3,281	-6,592	829	-4,541
Financial expenses	-170	-75	-137	-32	-148	-243	-104
<i>Profit before tax</i>	99,287	147,074	43,423	22,418	192,525	144,738	185,467
Tax	-20,365	-32,562	-7,731	-4,873	-44,536	-32,339	-41,301
PROFIT FOR THE PERIOD	78,922	114,512	35,692	17,545	147,989	112,399	144,166
<u>Items that will be reclassified to profit or loss</u>							
Gains/losses arising on translation of the financial statements of foreign operations	117	580	-565	410	642	179	-281
Comprehensive income for the period	79,039	115,092	35,127	17,955	148,631	112,578	143,885
<u>Profit for the period attributable to:</u>							
Owners of the Parent Company	78,923	114,971	35,693	17,764	147,406	111,358	144,699
Non-controlling interests	-1	-459	-1	-219	583	1,041	-533
	78,922	114,512	35,692	17,545	147,989	112,399	144,166
<u>Comprehensive income for the period attributable to:</u>							
Owners of the Parent Company	79,040	115,551	35,128	18,174	148,048	111,537	144,418
Non-controlling interests	-1	-459	-1	-219	583	1,041	-533
	79,039	115,092	35,127	17,955	148,631	112,578	143,885
<u>Earnings per share</u>							
Basic earnings per share (average number of shares), SEK	4.57	6.66	2.06	1.03	8.53	6.45	8.38
Diluted earnings per share, SEK	4.57	6.66	2.06	1.03	8.53	6.45	8.38
Number of shares, thousands	17,336	17,271	17,336	17,271	17,271	17,336	17,271
Average number of shares, thousands	17,282	17,271	17,293	17,271	17,271	17,276	17,271
Number of outstanding warrants, thousands	-	87	-	87	87	-	87
Number of outstanding warrants with a dilutive effect, thousands	-	-	-	-	-	-	-
Number of shares after dilution, thousands	17,282	17,271	17,293	17,271	17,271	17,276	17,271

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in SEK 000s)

	30 June 2015	30 Dec 2014	30 June 2014
ASSETS			
Intangible assets	13,775	6,075	1,800
Property, plant and equipment	79,431	72,752	67,121
Financial assets	4,000	4,000	18
Other non-current receivables	22	20	-
<i>Total non-current assets</i>	97,228	82,847	68,939
Current assets excl. Cash and cash equivalents	142,103	122,095	88,009
Cash and cash equivalents	202,752	210,666	239,117
<i>Total current assets</i>	344,855	332,761	327,126
TOTAL ASSETS	442,083	415,608	396,065
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent Company	353,021	344,492	311,994
Non-controlling interests	98	99	-942
Total equity	353,119	344,591	311,052
Provision for deferred tax	192	192	85
Other provisions	3,900	3,900	-
Interest-free current liabilities	84,872	66,925	84,928
TOTAL EQUITY AND LIABILITIES	442,083	415,608	396,065
Pledged assets	12,845	2,000	2,000

CONSOLIDATED CASH FLOW STATEMENTS

(Amounts in SEK 000s)

	Jan-June 2015	Jan-June 2014	April-June 2015	April-June 2014	Jan-Dec 2014
<i>Operating activities</i>					
Operating profit	94,972	148,712	42,402	24,933	196,883
Depreciation/amortisation	2,690	2,688	1,423	1,319	5,652
Other non-cash items	-784	-405	468	-376	-853
	96,878	150,995	44,293	25,876	201,682
Gains/losses on realised forward exchange contracts	964	-141	527	-322	-1,186
Paid tax	-23,858	-35,755	-9,394	-4,440	-66,829
Interest received and paid	97	1,565	-13	765	2,214
<i>Cash flow from operating activities before changes in working capital</i>	74,081	116,664	35,413	21,879	135,881
Changes in working capital	4,678	19,841	-29	1,848	-11,498
<i>Cash flow from operating activities</i>	78,759	136,505	35,384	23,727	124,383
Acquisition of intangible assets	-7,700	-1,800	-5,370	-1,800	-6,075
Purchase of property, plant and equipment	-9,357	-9,501	-6,092	-5,092	-18,406
Purchase of financial assets	-	-	-	-	-4,000
<i>Cash flow from investing activities</i>	-17,057	-11,301	-11,462	-6,892	-28,481
Dividend	-86,355	-120,897	-86,355	-120,897	-120,897
Sale of financial assets	-	-	-	-	5
New share issue warrant programme	15,844	-	15,844	-	-
<i>Cash flow from financing activities</i>	-70,511	-120,897	-70,511	-120,897	-120,892
Cash flow for the period	-8,809	4,307	-46,589	-104,062	-24,990
Cash and cash equivalents at beginning of period	210,666	234,271	249,953	342,693	234,271
Exchange difference in cash and cash equivalents	895	539	-612	486	1,385
Cash and cash equivalents at end of period	202,752	239,117	202,752	239,117	210,666

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in SEK 000s)

	Jan-June 2015	Jan-June 2014	Jan-Dec 2014
At beginning of period	344,591	316,857	316,857
Dividends	-86,355	-120,897	-120,897
New share issue warrant programme	15,844	-	-
Comprehensive income for the period	79,039	115,092	148,631
At end of period	353,119	311,052	344,591

REPORTING BY SEGMENT - GROUP

(Amounts in 000s)

	Jan-June 2015	Jan-June 2014	April-June 2015	April-June 2014	Jan-Dec 2014	July 2014- June 2015	July 2013- June 2014
Income by segment - business area *)							
Paediatrics	224,057	143,103	108,807	66,423	301,248	382,202	256,045
License revenue (Paediatrics)	-	95,397	-	-	95,397	-	95,397
Adult Health	42,057	36,220	22,294	21,183	69,446	75,283	74,033
Other	6,752	6,274	2,919	4,773	15,711	16,189	7,910
	272,866	280,994	134,020	92,379	481,802	473,674	433,385

	Jan-June 2015	Jan-June 2014	April-June 2015	April-June 2014	Jan-dec 2014	July 2014- June 2015	July 2013- June 2014
Gross profit by segment - business area *)							
Paediatrics	154 452	99 059	74 423	47 685	195 978	251 371	177 628
License revenue (Paediatrics)	-	95 397	-	-	95 397	-	95 397
Adult Health	30 413	21 962	16 285	13 025	44 229	52 680	44 762
Other	6 526	5 773	2 847	4 579	14 860	15 613	6 724
	191 391	222 191	93 555	65 289	350 464	319 664	324 511

*)A minor reallocation has been done on prior year's sales per segment to get more comparable figures with this year's amount.

	Jan-June 2015	Jan-June 2014	April-June 2015	April-June 2014	Jan-Dec 2014	July 2014- June 2015	July 2013- June 2014
Revenue by geographical market							
Europe	160,093	133,887	68,093	63,085	257,808	284,014	231,779
License revenue (Europe) 1)	-	95,397	-	-	95,397	-	95,397
USA and Canada	19,607	7,606	13,487	4,792	30,273	42,274	21,535
Asia	26,870	21,996	13,247	11,473	38,778	43,652	42,684
Rest of world	66,296	22,108	39,193	13,029	59,546	103,734	41,989
	272,866	280,994	134,020	92,379	481,802	473,674	433,384

Income statements - Parent Company	Jan-June	Jan-June	Jan-Dec
(Amounts in SEK 000s)	2015	2014	2014
Net sales	263,353	177,945	368,809
License revenue	-	95,397	95,397
Cost of goods sold	-89,076	-61,685	-139,971
<i>Gross profit</i>	174,277	211,657	324,235
Selling expenses	-40,604	-33,689	-68,720
Administrative expenses	-8,547	-7,949	-15,075
Research and development expenses	-28,919	-21,167	-46,346
Other operating income	1,031	2,472	7,851
<i>Operating profit</i>	97,238	151,324	201,945
Impairment loss on receivable from subsidiary	-4,033	-4,288	-2,835
Impairment loss on shares from subsidiary	-	-	-2,874
Net financial items	6,920	-530	-3,611
Profit before tax	100,125	146,506	192,625
Tax	-19,185	-31,622	-43,035
Profit for the period	80,940	114,884	149,590

Balance sheets - Parent Company	30-jun	31-dec	30-jun
	2015	2014	2014
Assets			
Intangible assets	-	-	-
Property, plant and equipment	1,082	1,360	1,605
Shares in group companies	78,129	69,129	56,394
Shares in other companies	4,000	4,000	-
Non-current receivables from subsidiaries	50,835	41,013	37,513
<i>Total non-current assets</i>	134,046	115,502	95,512
Current assets excl. Cash and cash equivalents	126,666	111,084	76,867
Cash and cash equivalents	183,784	201,988	230,402
<i>Total current assets</i>	310,450	313,072	307,269
Total assets	444,496	428,574	402,781
EQUITY AND LIABILITIES			
Equity	360,729	350,300	315,594
Tax allocation reserve	3,900	3,900	-
Interest-free current liabilities	79,867	74,374	87,187
TOTAL EQUITY AND LIABILITIES	444,496	428,574	402,781
Pledged assets	2,000	2,000	2,000

Cash flow statements - Parent Company

	Jan-June 2015	Jan-June 2014	Jan-Dec 2014
<u>Operating activities</u>			
Operating profit	97,238	151,324	201,945
Depreciation/amortisation	301	512	867
Other non-cash items	-779	-405	-1,160
Realised forward exchange contracts	964	-141	-1,186
Paid tax	-22,421	-34,791	-64,828
Interest received and paid	484	1,936	2,961
Cash flow from operating activities before changes in working capital	75,787	118,435	138,599
Changes in working capital	-3,599	17,356	-16,827
<i>Cash flow from operating activities</i>	72,188	135,791	121,772
Purchase of property, plant and equipment	-24	-60	-169
Purchase of financial assets	-9,000	-4,000	-14,000
Sale of financial assets	-	5	5
Payment of loan to subsidiary	-11,635	-9,294	-14,335
<i>Cash flow from investing activities</i>	-20,659	-13,349	-28,499
Dividend	-86,355	-120,897	-120,897
New share issue warrant programme	15,844	-	-
<i>Cash flow from financing activities</i>	-70,511	-120,897	-120,897
Cash flow for the period	-18,982	1,545	-27,624
Cash and cash equivalents at beginning of period	201,988	228,456	228,456
Exchange difference in cash and cash equivalents	778	401	1,156
Cash and cash equivalents at end of period	183,784	230,402	201,988

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

(Amount in SEK 000s)

	Jan-June 2015	Jan-Dec 2014	Jan-June 2014
At beginning of period	350,300	321,607	321,607
Dividends	-86,355	-120,897	-120,897
New share issue	15,844	-	-
Comprehensive income for the period	80,940	114,884	149,590
At end of period	360,729	315,594	350,300

RELATED PARTY TRANSACTIONS

The Parent Company holds 100% of the shares in BioGaia Biologics Inc. USA, BioGaia Japan Inc., TwoPac AB and Tripac AB. The Parent Company holds 90.1% of the shares in CapAble AB and 90.1% of the shares in Infant Bacterial Therapeutics (IBT) AB.

Annwall & Rothschild Investment AB hold 740,668 class A shares and 759,332 class B shares, which is equal to 8.7% of the share capital and 34.1% of the votes in BioGaia AB. Annwall & Rothschild Investment AB is owned by Peter Rothschild, CEO of BioGaia, and Jan Annwall, a member of the Board of BioGaia AB. The only transaction that has taken place during the period is the payment of a dividend of SEK 5 per share. No other transactions between BioGaia and Annwall & Rothschild Investment AB have taken place during the period.

Bo Möllstam is Technical Director and a member of BioGaia's executive management. He is not employed by the company but is contracted as a consultant and invoices his fees through a company. Bo Möllstam is a partner in Synergon AB, which invoiced an amount of SEK 6.1 million to BioGaia AB during the period. Of this total, SEK 3.7 million refers to forwarded patent expenses and the remainder consists of consulting fees.

Helen Olsson is HR Director and a member of the executive management. Helen Olsson is employed by the company since June 2015 but has contracted as a consultant during the period January – May and invoiced her fees through her partner owned company, Spirean AB, which invoiced an amount of SEK 0.6 million to BioGaia AB during the period.

CONSOLIDATED KEY RATIOS 1)	Jan-June	Jan-June	Jan-June	Jan-Dec	Jan-Dec
	2015	2014	2014 ²⁾	2014	2014 ²⁾
Net sales, SEK 000s	272,866	280,994	185,597	481,802	386,405
Operating profit, SEK 000s	94,972	148,712	53,315	196,883	101,486
Profit after tax, SEK 000s	78,922	114,512	40,102	147,989	73,579
Return on					
- average equity	23%	37%	15%	45%	25%
- average capital employed	28%	48%	20%	60%	35%
Capital employed, SEK 000s	353,311	311,137	236,727	348,683	270,373
Number of shares, thousands	17,336	17,271	17,271	17,271	17,271
Average number of shares, thousands	17,282	17,271	17,271	17,271	17,271
Number of outstanding warrants, thousands	-	87	87	87	87
Average number of outstanding warrants with a dilutive effect, thousands	-	-	-	-	-
Number of shares after dilution, thousands	17,282	17,271	17,271	17,271	17,271
Basic earnings per share, SEK	4.57	6.66	2.35	8.53	4.23
Diluted earnings per share, SEK	4.57	6.66	2.35	8.53	4.23
Basic equity per share, SEK	20.43	18.06	13.76	19.95	15.64
Diluted equity per share, SEK	20.43	18.06	13.76	19.95	15.64
Equity/assets ratio	80%	79%	79%	83%	84%
Operating margin	35%	53%	29%	41%	26%
Profit margin	36%	52%	28%	40%	25%
Average number of employees	100	88	88	90	90

1) The definitions of key ratios correspond to those in the annual report.

2) Excluding non-recurring revenue from Nestlé of SEK 95.4 million.

FINANCIAL CALENDAR

18 August 2015	Teleconference at 9:30 a.m.
23 October 2015	Interim report 1 January – 30 September 2015
12 February 2016	Year-end report 2015
10 May 2016	Interim Management report 1 January – 31 March 2016
17 August 2016	Interim report 1 January – 30 June 2016

This interim report provides a true and fair picture of the business activities, financial position and results of operations of the Parent Company and the Group, and describes the significant risks and uncertainties to which the Parent Company and the Group companies are exposed.

Stockholm den 18 August 2015

David Dangoor
Board Chairman

Jan Annwall
Board member

Ewa Björling
Board member

Stefan Elving
Board member

Inger Holmström
Board member

Anthon Jahreskog
Board member

Brit Stakston
Board member

Paula Zeilon
Board member

Peter Rothschild
President

Review Report

Introduction

We have reviewed the interim report for BioGaia AB (publ) for the period January 1 - June 30, 2015. The Board of Directors and the President are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not, in all material respects, prepared for the Group in accordance with IAS 34 and the Annual Accounts Act, and for the Parent Company in accordance with the Annual Accounts Act.

Stockholm, August 18, 2015

Deloitte AB

Birgitta Lööf
Authorized Public Accountant

BioGaia AB

The company

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

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

BioGaia has 104 employees, of whom 37 are based in Stockholm, 29 in Lund, 27 in Eslöv, three in Raleigh, USA, six in Hiroshima, Japan, and two in Shanghai, China.

Business model

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

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

The BioGaia brand

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

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

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

Research and clinical studies

BioGaia's strains of *Lactobacillus reuteri* are some of the world's most well researched probiotics, especially in young children. To date, 137 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on around 11,700 individuals of all ages. The results have been published in 108 articles in scientific journals.

Studies have been performed on:

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

REPORTING OF CLINICAL STUDIES

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

Latest press releases from BioGaia:

2015-07-30	BioGaia's oral health probiotic reduces Candida in the elderly
2015-06-30	Number of shares in BioGaia
2015-06-24	BioGaia subsidiary IBT takes rapid steps in development of a drug for premature infants

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