

BioGaia®

ANNUAL REPORT 2013

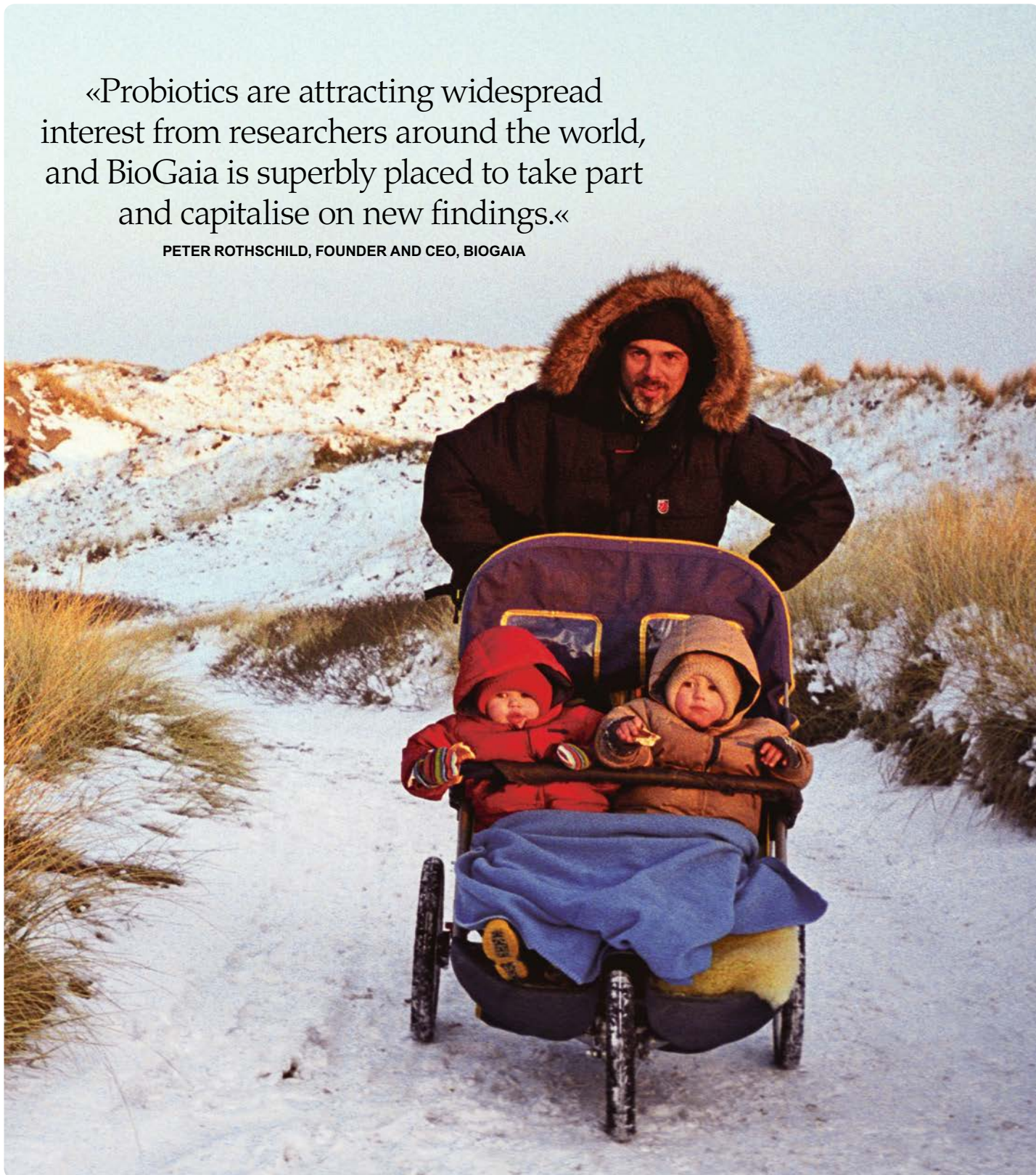
Our new organ 9

Research on 10000 17

Partnership with strong local distributors 26

«Probiotics are attracting widespread interest from researchers around the world, and BioGaia is superbly placed to take part and capitalise on new findings.»

PETER ROTHSCHILD, FOUNDER AND CEO, BIOGAIA



Contents

- 4 Message from the Chairman
- 5 BioGaia in 30 seconds
- 6 Message from the CEO

- 8 **INTEREST IN GI FLORA HAS AWAKENED AND BIOGAIA IS AT THE FOREFRONT**
- 9 Our new organ

- 10 **FLEXIBLE BUSINESS MODEL WITH THREE GLOBAL NETWORKS**
- 11 Cooperation provides a platform for the business model
- 12 BioGaia's global network
- 14 Short decision-making paths and the entrepreneurial spirit preserved

- 16 **SCIENTIFICALLY-BASED CLAIMS**
- 17 Research on 10,000 people
- 17 A strong research network
- 18 Research in several stages
- 19 Clinical studies

- 22 **WIDE RANGE OF PRODUCTS IN SMART PACKAGES**
- 23 BioGaia a world-leader with unique products
- 24 From small-scale experimental workshop to high-tech production facility

- 26 **PARTNERSHIP WITH STRONG LOCAL DISTRIBUTORS**
- 27 BioGaia's products sold in 85 countries
- 31 Trends in the oral health industry

- 32 **A COMMITMENT THAT EXTENDS FURTHER**
- 33 Antibiotic resistance
– rethinking and thinking ahead
- 35 Goals for environmental work in 2014
- 33 Measuring the company's climate impact

- 37 **FINANCIAL INFORMATION AND NOTES 2013**

The 2013 Annual General Meeting

will be held on Tuesday, 6 May 2014,
4:00 p.m. at Lundqvist & Lindquist Klara Strand,
Klarabergsviadukten 90, in Stockholm.

The annual report will be distributed to all shareholders. The year-end report, annual report and quarterly reports are also published in English. All financial information is published on www.biogaia.com and can be ordered from BioGaia's head office.

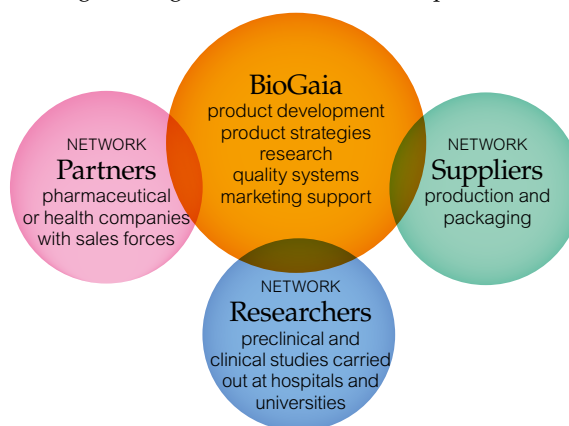


DESCRIPTION OF THE COMPANY

VISION BioGaia's vision is to improve the health of people around the world by offering first class probiotic products.

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

BUSINESS MODEL BioGaia's business model is based on three external networks for distribution, research and production. In these areas the company has close and longstanding collaborations with companies around the world.



STRATEGY BioGaia's strategy is based on three fundamental pillars:

- 1 Carry out high quality clinical studies.
- 2 Develop innovative new products and packaging solutions.
- 3 Powerful support to partners, among other things through a presence at international conferences, seminars, training of sales staff and online marketing.

FINANCIAL TARGETS BioGaia's goal is to create strong value growth and a good return for the shareholders. This will be achieved through a greater emphasis on the BioGaia brand, increased sales to both existing and new customers and a controlled cost level. The financial target is a sustainable operating margin (operating profit in relation to sales) of at least 30 per cent with continued strong growth and increased investments in research, product development and brand building. The dividend policy is to pay a shareholder dividend equal to 40 per cent of profit after tax.

RISK AND SENSITIVITY ANALYSIS See page 42.

5-YEAR OVERVIEW AND KEY RATIOS

Key ratios	2013	2012	2012 ¹⁾	2011	2010	2009
Net sales, SEK M	315.9	645.2	289.2	315.0	236.0	203.5
Net sales of component products, SEK M	58.6	406.6	50.6	97.7	68.6	53.8
Net sales of finished consumer products, SEK M	256.2	237.6	237.6	215.4	165.6	147.7
Operating profit, SEK M	81.7	428.1	72.1	103.2	56.3	47.7
Profit before tax, SEK M	83.8	442.2	86.2	108.9	69.7	53.1
Profit after tax, SEK M	64.2	329.9	63.7	79.5	47.2	36.0
Sales growth, %	9 ²⁾	105	-8	33	16	40
Operating margin, %	26	66	25	33	24	23
Equity/assets ratio, %	83	88	82	82	82	90
Average number of employees	82	70	70	61	45	43

1) Excluding license revenue from Nestlé (see page 60 for more information).

2) Compared to net sales for 2012 excluding license revenue from Nestlé.

2013

HIGHLIGHTS

QUARTER 1

- Launch of:
 - digestive health tablets with Vitamin D in Finland
 - digestive health tablets in an additional flavour in Hungary and France

QUARTER 2

- Agreements for the sale of:
 - drops and digestive health tablets in South Korea and China
 - a new category of products (Nestlé)
- Launch of:
 - drops in the USA (Gerber) and Mexico
 - digestive health tablets in Pakistan
 - digestive health tablets with Vitamin D in Bulgaria
 - oral health tablets and drops in Singapore
 - infant formula with *Lactobacillus reuteri* Protectis in Colombia, Israel and Thailand (Nestlé)

QUARTER 3

- Acquisition of the remaining 50 per cent of TwoPac
- Approval of BioGaia's application for orphan drug designation
- New study shows that:
 - *Lactobacillus reuteri* Protectis improves treatment of patients with periodontal disease
- Launch of:
 - digestive health tablets in Greece
 - digestive health tablets with Vitamin D in Italy
 - oral health tablets and drops in Germany (relaunch)
 - yoghurt with *Lactobacillus reuteri* Protectis in Japan
 - infant formula with *Lactobacillus reuteri* Protectis in Denmark, Sweden, Syria, Yemen, Iraq, Central and Western Africa (Nestlé)

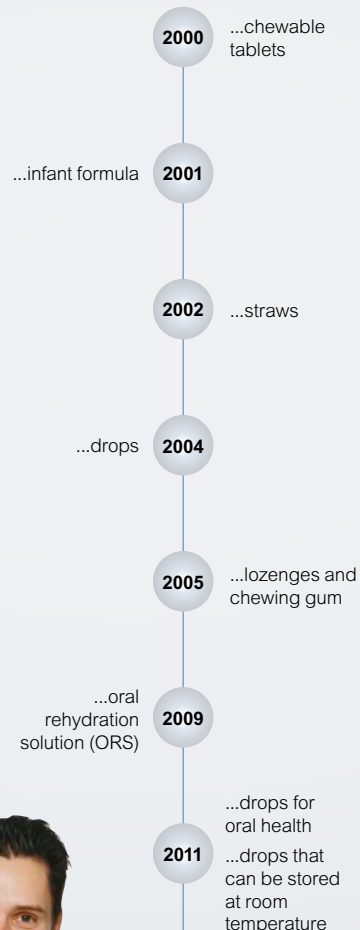
QUARTER 4

- Decision to invest in development of drug against NEC
- Agreements for the sale of:
 - drops and tablets in Brazil
 - oral health products in Switzerland, Greece, the United Arab Emirates and Cyprus
- Results of:
 - two new studies show that *Lactobacillus reuteri* Gastrus reduces side effects of treatment of *Helicobacter pylori* infection
 - meta-analysis shows that *Lactobacillus reuteri* Protectis is effective in treating colic
- Launch of:
 - drops in Bosnia-Herzegovina
 - oral health tablets in Denmark
 - infant formula with *Lactobacillus reuteri* Protectis in Ecuador (Nestlé)

KEY EVENTS AFTER THE END OF THE YEAR

- New studies show
 - that *Lactobacillus reuteri* Protectis reduces the risk for colic, regurgitation and constipation
 - no effect on diabetes patients
- First instalment of milestone payments from Nestlé

BioGaia
first in the
world to launch
probiotics as...

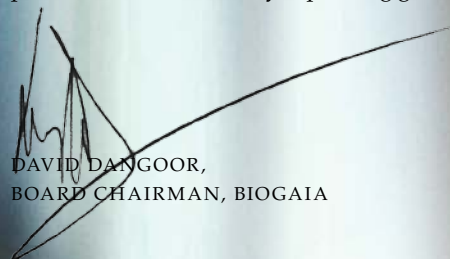


A living brand

In recent years, global awareness of the positive health effects of probiotics has grown dramatically. This has taken place at the same time that we have seen an acceleration in the number of launches in this area, with major advertising campaigns directed at consumers. I would dare to say that virtually none of these products is supported by clinical research findings of such a calibre and with such clearly positive results as BioGaia has for its patented *Lactobacillus reuteri* strains. Furthermore, the studies demonstrate that the advantages of our products are of great importance to newborns and small children, which few other products have shown. The steadily increasing number of high quality and positive studies, support from researchers and doctors and exposure in the trade press and public media has created an international awareness about the unique attributes and quality of BioGaia's products.

IN 2006 THE TIME WAS RIGHT for us to launch our product range under our own brand – BioGaia ProTectis, BioGaia Gastrus, etc. It was only natural to choose the company name BioGaia as our brand. It is an unusually good, unique and appealing name that is easy to remember and is well suited to a brand in this product category (bio = living, Gaia = Mother Earth). Over time, a brand stands for much more than the product itself, which creates opportunities to launch sister products and other whole new products that immediately benefit from the brand's credibility. A respected brand inspires a loyalty that provides a certain protection from patent expirations and attempts at copying. Although we have focused on building our own brand also in the future we may need to choose strong distributors who absolutely want to use their own brands. At present, however, we insist on always including clearly visible co-branding featuring "with BioGaia Probiotics" and if possible one of our symbols.

WE HAVE BEEN SUCCESSFUL with the launch of the BioGaia brand and our packaging design, which represents a rising share of our sales around the world. Today BioGaia is internationally well established and respected as both a company and a product name. Together with our competitive products, this will drive growth for the existing and future products in a continuously expanding global market.



DAVID DANGOOR,
BOARD CHAIRMAN, BIOGAIA

«A well-managed brand often provides superior returns over time.»



BioGaia in 30 seconds

1990

Peter Rothschild and Jan Annwall acquire the rights for the probiotic use of *Lactobacillus reuteri* and found the company BioGaia Biologics. The duo also acquires the laboratory operations in Raleigh, USA. The focus is on reducing the need for antibiotics in animal feed. An interest is awakened in human health and so-called functional foods. The first brand for BioGaia's products is BRA milk and fermented milk.

1994

ICA acquires the BRA trademark and concept.

1996

Introduction on IM, Innovationsmarknaden.

1997

The fermentation facility Multi Ferm in Lund is acquired and becomes BioGaia Fermentation AB. The aim is to gain greater knowledge about the fermentation process and how to extend the shelf life of the bacterial cultures.

1998

Introduction on the O list, which is today OMX NASDAQ.

2001

Price pressure and daunting regulatory hurdles lead to a decision to abandon activities in the animal health area. The main focus is now on probiotic dietary supplements for humans.

2002

BioGaia Fermentation AB is sold. Parts of the staff are retained in a production and development unit that becomes the present BioGaia Lund. TwoPac AB (50 per cent owned) in Eslöv is formed together with several entrepreneurs to develop a concept for straws containing *Lactobacillus reuteri*.

2006

The first year that the company makes a profit.

2008

CapAble is founded and is responsible for development of caps containing *Lactobacillus reuteri*.

2009

Net sales exceed SEK 200 million.

2010

BioGaia celebrates 20 years as a successful probiotics company.

2011

Net sales of over SEK 300 million. BioGaia's 50 per cent owned subsidiary TwoPac builds a new production facility in Eslöv to meet demand for increased volumes.

2012

BioGaia extends and deepens its collaboration with Nestlé. TwoPac's new production facility is completed.

2013

BioGaia acquires the remaining 50 per cent of TwoPac. Infant Bacterial Therapeutics is formed and is responsible for development of a drug for premature infants.



BioGaia increased its sales 2013 by 12 per cent including foreign exchange effects. This was not one of our best years, but in light of the fact that we were affected by distributor changes and that we sold our perpetual license in the infant formula area to Nestlé during 2012, this growth is quite good. Finished consumer products increased by 11 per cent and could have been significantly higher if we had not suffered from setbacks in the transition from our former distributor in the USA to Nestlé's subsidiary Gerber. The launch took place in the summer, but distribution was still not satisfactory by the end of the year. We are working with Gerber to address this situation. In spite of these problems, consumer sales have now reached roughly the same level that we had with our old distributor, although we have not yet seen the increase we had counted on. Other countries that have been affected by distributor changes are Spain and Portugal, but we are now noting normal growth in these markets.

In Italy and Finland, our two largest markets, sales fell somewhat over the year. However, many other markets in Europe, as well as Chile and South Africa, showed very positive development.

A winning strategy

The spread of risk that we have through our presence in a large number of countries (85), with a range of finished products and also as an ingredient in infant formula, among other things, has proven to be a wise strategy since it protects us from sharp fluctuations in sales.

In 2013 the sales focus for new contracts has been on the BRIC countries, and it is encouraging to see that we have made real progress here. In Brazil we have signed a contract with the large and well reputed company Aché, which will start selling our products after the summer of 2014. We have good hopes that Brazil will become a highly important market for us. In Russia we already have a distributor but have realised that several partners are needed in order to reach the large Russian market, and we now have started the process of appointing an additional distributor there.

In India, which is an extremely complex market, we are working at full steam to find one or more suitable partners. In China we signed a distribution contract with the government-owned company Keyuan, which will start selling our products during 2014.

Our collaboration with Nestlé has continued and deepened. In the early summer we signed a new agreement with Nestlé for a whole new category of products. The launch will take place in the second half of 2014, but we have already started to earn revenue under the contract. We are also working on a number of additional development projects with Nestlé.

In Japan we launched yoghurt products in the second half of 2013, which has led to increased sales but at lower margins. We are naturally continuing to work with direct sales of our oral health products via dentists. We expect to attain profitability in Japan during 2014.

Good cost control

Operating profit improved by 16 per cent including foreign exchange effects thanks to effective control of our costs, which rose by only 6

per cent despite the fact that we have launched a project to develop a drug for the fatal disease NEC, which can affect premature infants. This initiative is being carried out through a new subsidiary, Infant Bacterial Therapeutics. In the summer we were granted an orphan drug designation from the U.S. Food and Drug Administration (FDA), which means support in the registration process, certain tax credits and an extension of our exclusivity. BioGaia's Board has decided to finance development during the two first years, after which we will seek external financing.

Another key event during the year is that we acquired the remaining 50 per cent of TwoPac, which manufactures products exclusively for us. The acquisition will give us even better potential to develop new and innovative products.

BioGaia has continued to invest heavily in clinical trials. The most important study for the year (which was published in January 2014) was perhaps the major study showing that significantly fewer infants who were supplemented with our drops suffered from colic, regurgitation and constipation than those who were not given the drops. The study was published in JAMA Pediatrics, one of the most respected scientific journals in the world, and there is now reason to claim that *all* newborns should be given our oil drops. This is a real game changer which means that the potential market is four times bigger than if we only target infants who already have colic.

Our study on diabetes patients did not have the outcome we had wished for. Given the results of our earlier pilot study and certain preclinical data, however, we will continue to explore this area in hopes of finding another path to a possible solution.

BioGaia is still a small company, but we have grown rapidly and are working around the world with a large number of products across a range of indication areas. In order to maintain our momentum and preserve short decision-making paths and entrepreneurial spirit in the company, we changed our organisation in the autumn of 2013. The company is now divided into three business areas, Pediatrics, Adult Health and New Business. At the central level we have retained our support functions, but the business areas are responsible for product development and sales to their respective target groups. This will create a better focus and more efficient decision-making. As of 2014, we will report sales and gross profit by business area in our segment reporting and thereby discontinue the earlier division between finished consumer products and component products.

An exciting future

2014 will be a very exciting year as we look forward to major launches in markets like Brazil. We should also have good opportunities to get a grip on our sales in the USA, a market we still believe to have tremendous potential.

As usual, we will introduce new products and start a number of interesting clinical trials. The area we work in is attracting widespread interest from researchers around the world, and BioGaia is superbly placed to take part and capitalise on new findings. I am convinced that BioGaia has a very strong position in both the long and short term.



PETER ROTHSCILD,
FOUNDER AND CEO, BIOGAIA

«I am convinced that BioGaia has a very strong position in both the long and short term.»

PETER ROTHSCHILD,
FOUNDER AND CEO, BIOGAIA

BioGaia is unique

- 1 Interest in the intestinal flora has awakened and BioGaia is at the forefront
- 2 Flexible business model with three global networks
- 3 Scientifically-based claims
- 4 Wide range of products in smart packages
- 5 Partnership with strong local distributors
- 6 A commitment that extends further



Interest in the intestinal
flora has awakened and BioGaia
is at the forefront

Our new organ

By many researchers, the intestinal flora is now regarded as an organ.

From birth we are a habitat for bacteria. Our gastrointestinal tract works in harmony with these bacteria and we need the good to combat the bad – a classic theme.

Our new organ weighs around two kilos. In the gastrointestinal tract, an eight metre long tunnel, bacteria live in an ongoing symbiosis with us. At birth the tract is uninhabited, but directly afterwards the bacteria move in and their numbers are vast. Although bacteria have been studied for more than 100 years, the research field on bacteria has exploded over the past decade. And what is the situation today? You could sum it up by saying that we have realised that bacteria are vitally important to us and that we are gaining a better understanding of them.

THE INTESTINAL FLORA HAS been the long lost cousin in medical research. A great deal of research on metabolic diseases has focused on our own genes and the food we eat. For example, we know that the cholesterol in food and our genetic makeup affect the level of blood lipids and illnesses such as cardiovascular disease, but the third party, bacteria, is still somewhat shrouded in mystery.

One can compare this with how long we thought that ulcers were due to stress, but where it turned out that it was the bacterium *Helicobacter pylori* that caused ulcers. That discovery resulted in a Nobel Prize and today many ulcer patients are cured with antibiotics.

Pathogenic bacteria, such as the ulcer bacterium and salmonella, are relatively easy to study because it is one bacteria that is the trouble-maker. It is significantly more difficult to research the interplay between bacteria. This is partly because they are so numerous and interact with other organs in the body, and partly because they exist in every imaginable mix.

However, the past ten years have seen dramatic development now that researchers can map out which bacteria inhabit the bodies of healthy and sick people with the help of sequencing technology. So far this technology has been used in cross-sectional studies on disturbances in the intestinal flora, for example in connection with diabetes. The question is whether it is the bacteria that are causing the disease or whether the disease is causing changes in the intestinal flora.

“To know that we must conduct forward-looking studies. If we should see that the bacterial flora has changed before the onset of the disease and is thereby possibly causing the disease, it might be possible to treat with probiotics for preventative purposes. And then you can either look at the probiotics that exist today and use them for new indications or find whole new probiotics,” answers *Fredrik Bäckhed*, Professor of Molecular Medicine at Sahlgrenska Academy, University of Gothenburg.

BIOGAIA IS ONE OF THE LEADING companies in research on lactic acid bacteria. The company cooperates with clinics and universities around the world and conduct both preclinical and clinical research. When it comes to research on how metabolic diseases are related to the intestinal flora, Sweden is at the leading edge worldwide.

Is research in this area nearing a breakthrough?

“There are some promising theories with major potential. If the studies have a favourable outcome, it means that we might have to do some rethinking in our approach to medicine for metabolic diseases,” says *Fredrik Bäckhed*.

In the future, analysis of bacteria, alongside the clinical symptoms and blood samples, can provide doctors with a basis for making the right diagnosis. Probiotics could then be one of several forms of treatment.

Probiotics is a collective name for bacteria that have proven health effects. Research shows that different probiotic strains have different attributes and thereby have varying effects on the patient’s disorder. The patient’s intestinal flora can be influential in determining which effect is achieved. This is something researchers still know very little about.

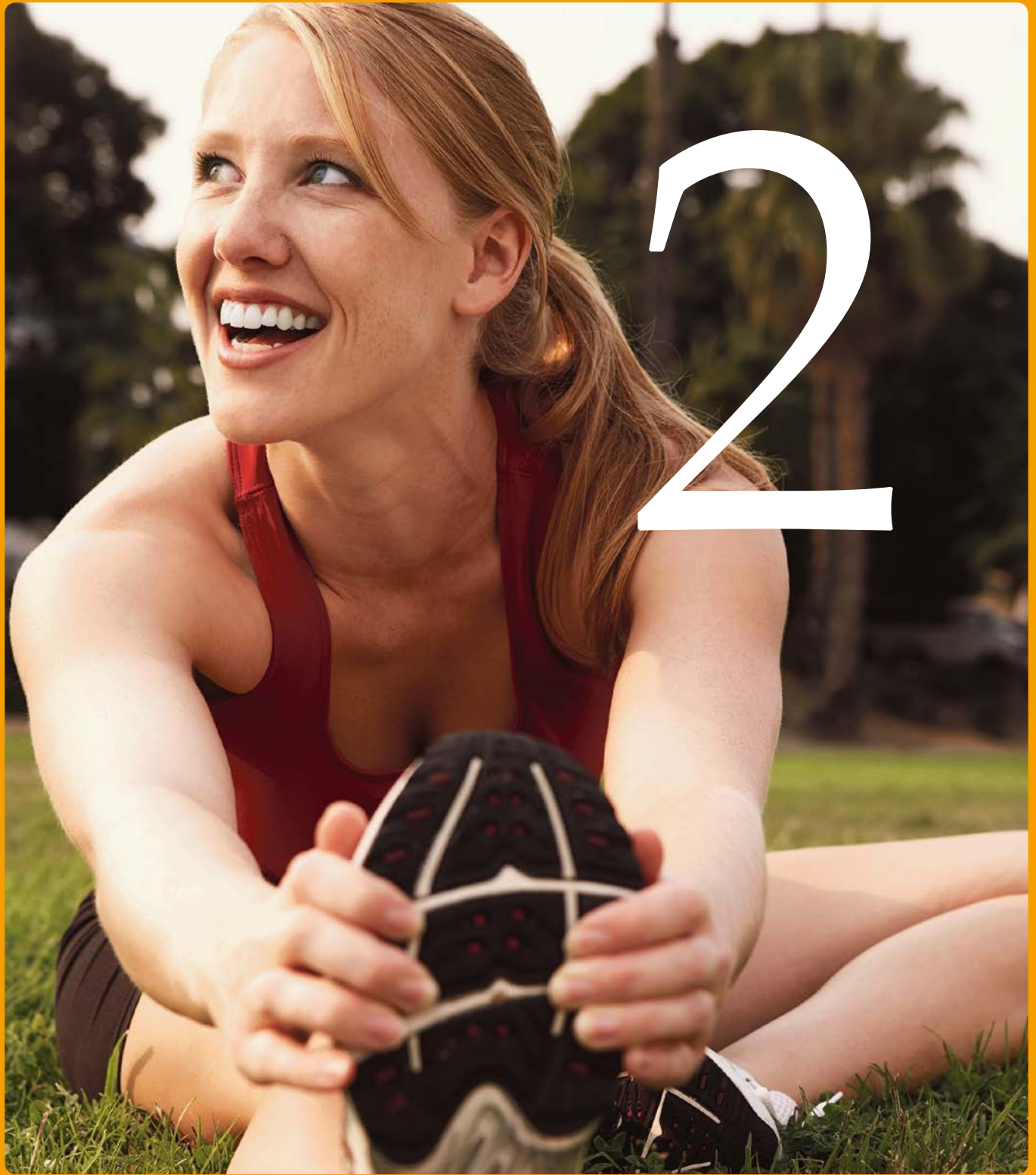
So much basic research remains to be done, because when it comes to the intestinal flora the researchers have merely scratched the surface. Our new organ has become one of the hottest fields of research in medicine today. ■



« If the studies have a favourable outcome, it means that we might have to do some rethinking in our approach to medicine for metabolic diseases. »

Fredrik Bäckhed,
Professor of Molecular
Medicine, Sahlgrenska
Academy, University
of Gothenburg

HELENA THORÉN, SCIENTIFIC JOURNALIST



Flexible business model with
three global networks

Cooperation the basis for the business model

BioGaia's business model is based on three external networks for research, production and distribution. In these areas, there are close and longstanding collaborations with companies around the world.

In the research area there are collaborations with more than 40 research institutes and clinics worldwide (see page 17). Many of the researchers are among the foremost in their fields. A few collaborations have been underway since BioGaia was founded, while others are newer.

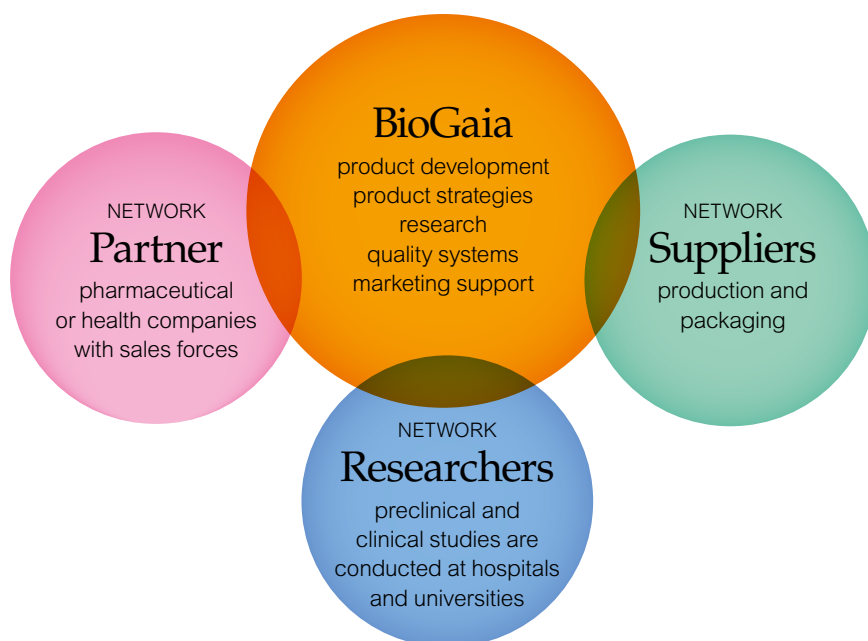
THE PRODUCTS ARE MANUFACTURED and packaged at six different facilities in Europe and the USA. Long-term and close collaborations with the suppliers make it possible to continuously optimise production and logistics. The suppliers – above all the wholly owned subsidiary TwoPac – are also important partners in product development, both in the creation of new products and in further development of existing products.

THE DISTRIBUTION NETWORK is made up of some 50 partners with sales in around 85 different countries. Most of these companies have sales staff

that visit doctors and other healthcare professionals. By informing them about the published results of clinical trials, the sales staff creates interest and confidence among doctors who then recommend the products to their patients, who in turn buy the products in pharmacies and similar sales outlets.

In many countries the same partner markets all or large parts of BioGaia's product portfolio, but in a number of markets there are two or more partners. In the 20 countries where the oral health products are sold, the partner in most cases is a company specialised in oral health products, of which Sunstar is the largest, with sales in six countries.

The distribution collaboration with Nestlé covers some 50 countries and applies to infant formula where *Lactobacillus reuteri* Protectis is included as an ingredient in products that are marketed under Nestlé's own brand. In a few cases, like Gerber in the USA and Nestlé Mexico, Nestlé sells BioGaia's drops. ■



BioGaia's global network

BioGaia's business model is based on three external networks, research, production and distribution. In the research area, BioGaia collaborates with over 40 research institutes and clinics. The products are manufactured and packaged at six different units in Europe and the USA. The distribution network is made up of some 50 partners with sales in around 85 countries.





Short decision-making paths and entrepreneurial spirit preserved

Despite having sales around the world in several different indication areas, BioGaia has succeeded in remaining a small company thanks to its business model with external networks.

NEW ORGANISATION. In the past year the company grew by nine employees, and in order to retain the short decision-making paths and entrepreneurial spirit that are distinctive for BioGaia, a reorganisation was carried out at the end of 2013. Read more about this in the Message from the CEO on page 6.

NEW EMPLOYEES. During the year BioGaia hired 11 new employees, of whom seven at TwoPac, and two employees left the company. In total, BioGaia now has 85 employees. The average term of service is six years and the average age is 42 years.

HIGH LEVEL OF EXPERTISE. The level of expertise is high, 55 employees have a university education or the equivalent, and three of these hold a doctor's degree.

EQUALITY. Of the total number of employees, 46 are women and 39 are men. Among senior executives, five are women and four are men.

LOW SICKNESS ABSENCE. Sickness absence in the company is low, and in 2013 the employees had an average of three sick days. ■

UNIT	NUMBER OF EMPLOYEES
CEO	1
Sales	13
Marketing	6
Production planning, order and logistics	6
Research	6
Product development and laboratory	6
Regulatory affairs and quality	6
Accounting, finance, administration, legal affairs and IT	11
BioGaia Japan	6
CapAble	1
TwoPac	23
TOTALT	85



BioGaia has succeeded in maintaining a flat and efficient organisation since the start. The ambition is to preserve this even when the company grows.



«BioGaia is growing steadily: We constantly seek new business opportunities and prioritise development that is backed up by our research and a clear commercial rationale.»

Hok Ting Yau, Market Analyst, Stockholm



«If we are not visible, we don't exist! That's what defines our participation in different national and international conferences and meetings. For our various regional partner activities, it is simply an excellent opportunity to meet and communicate with our partners around the world. Without them, BioGaia would not have become successful.»

Victoria Ikomi-Kumm, Event Manager, Lund



«Working with websites, social media and other digital platforms is an important ingredient in building BioGaia's brand. Today, communication and interaction with partners, healthcare professionals and consumers increasingly takes place in digital form in some way or another, and therefore demands continuous development.»

David Sparf, Webmaster, Stockholm



«The purpose of laboratory operations is to ensure the quality of our products. Those of us who work here strive to deliver the best quality and service both internally and to external partners.»

Our work is permeated by flexibility, the will to develop, environmental thinking and openness to continuous changes and improvements.»

Alma Popara, Biomedical Scientist, Lund

3



Scientifically-based claims

10 000 in clinical studies

***Lactobacillus reuteri* is one of the world's most well researched probiotics, especially in young children. To date, 124 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on more than 10,000 individuals of all ages. The results have been published in 90 articles in scientific journals (February 2014).**

The majority of clinical studies carried out with BioGaia's products are randomised, double blind and placebo-controlled, and are thus fully comparable to pharmaceutical studies in terms of research quality. Furthermore, all studies must be approved by a local ethics review board before starting. Research on BioGaia's products should generate publication of well founded and scientifically-based articles. Therefore BioGaia actively supports publication of the results in well-reputed scientific journals.

ONE FOURTH OF ALL STUDIES are initiated by BioGaia itself, to investigate product safety and health benefits in a specific area, and are monitored by BioGaia's research supervisor. However, there is a widespread interest in research on *Lactobacillus reuteri* and another fourth of the studies are initiated and conducted by independent researchers. Aside from requesting the

researcher's resume and study protocol and requiring ethical approval (these criteria apply to all studies), BioGaia has no insight into or influence over these studies.

Around half of all studies are initiated and conducted by one of BioGaia's partners. ■

International medical conferences in 2013

Participation in international medical conferences is a central aspect of BioGaia's support to its partners, but is also a vital forum for meeting and getting a direct response from doctors and other healthcare professionals. During the year BioGaia took part in four conferences and in one of these the company also held a scientific symposium.

A STRONG GLOBAL RESEARCH NETWORK

BioGaia collaborates with specialists at around 40 research institutes and clinics in a unique global research network. To maintain a leading position, it is of the utmost importance to work with and inspire the top researchers in the various indication areas. The research department at BioGaia functions as a central hub and engine.

AUSTRALIA Royal Children's Hospital & Murdoch Children's Research Institute.

BELGIUM Leuven Catholic University.

BULGARIA University Hospital St. Marina.

CANADA The Hospital for Sick Children. McMaster University.

CHILE Pontificia Universidad Católica de Chile.

CROATIA Sveti Duh University Hospital. University Hospital Sestre Milosrdnice.

DENMARK University of Copenhagen.

EGYPT Zagazig University.

FRANCE University Hospital Robert Debré.

GREECE Athens Children's Hospital Agia Sofia.

ISRAEL Shaare Zedek Medical Center. Soroka University Medical Center, Ben-Gurion University.

ITALY University of Bari, Clinica Pediatrica B. Trambusti. Regina Margherita Children's Hospital.

MALAYSIA University Kebangsaan.

PERU Johns Hopkins School of Public Health and Hygiene Satellite laboratory.

POLAND Medical University Children's Health Memorial Institute.

SINGAPORE Singapore Polytechnic, School of Chemical and Life Sciences.

SLOVAKIA Gastroenterology Hepatology Center Thalion.

SLOVENIA University Children's Hospital Ljubljana, University Medical Centre Ljubljana.

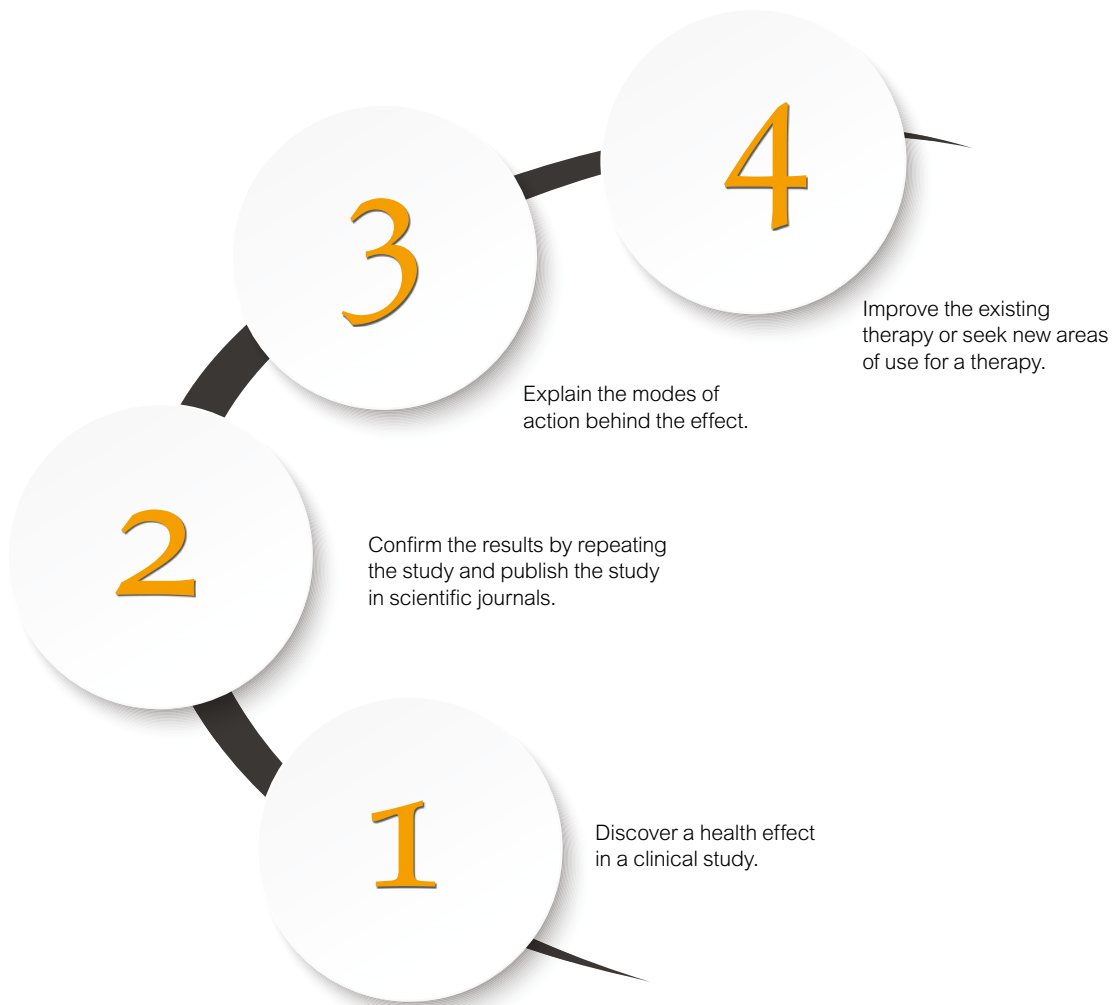
SPAIN University Hospital Ramón y Cajal.

SWEDEN Swedish University of Agricultural Sciences, Akademiska Hospital in Uppsala, Umeå University, Karolinska Institute, Karolinska University Hospital, University of Örebro, Linköping University Hospital, Sahlgrenska University Hospital, Lund University.

TURKEY Yeditepe University Dental School.

USA Case Western Reserve University, University of Nebraska, Women's Hospital of Greensboro, Tulane University, Texas Children's Hospital, University of Texas Medical Center, Michigan State University, Children's Investigational Research Program, University of Miami, Emory University, St Luke's Hospital, Stanford University, Wake Forest School of Medicine.





Research in several stages

Research is an essential part of BioGaia's business strategy. For the past few years the research department works according to a model in four stages.

The first stage involves the discovery of a health effect in a clinical study. To confirm these results, it is desirable to then reproduce the first study, which is stage two of the model. The goal is for three independent studies of high quality and using the same protocol to be published in highly respected scientific journals. Preferably, the studies should also be carried out at different clinics. One such example is colic, where there are now three studies showing that the total crying time for infants with colic is reduced when they are supplemented with *Lactobacillus reuteri* Protectis.

The next task is to explain how it works, to describe the modes of action behind the effect. Here, BioGaia collaborates with some of the world's foremost pre-clinical researchers in the field of probiotics.

The fourth and final stage of the model is to study whether it is possible to improve the existing therapy or to find new application areas for a therapy. In such case, it is important to find researchers who are specialists in their areas and have the ability to think along new lines. In combination with the expertise

and experience found at BioGaia, they can together develop new products or new areas of use for existing products.

STUDIES IN 2013. During the year, 18 clinical studies were published in different indication areas and with different strains of *Lactobacillus reuteri* – Protectis, Gastrus and Prodentis. Two of the most notable were Flavia Indrio's study on newborns which was published in one of the world's most respected medical journals, JAMA Pediatrics (January 2014), and Wim Teughel's study on patients with periodontal disease in a journal of equally high repute in the oral health area, Journal of Clinical Parodontology.

Of the nine preclinical¹ studies from 2013, several have investigated the modes of action behind *Lactobacillus reuteri*. The results from one of these has contributed to explaining how *Lactobacillus reuteri* Protectis affects conditions like colic and constipation in infants. Another explains the mode of action behind the anti-inflammatory effect of a *Lactobacillus reuteri* strain. ■

¹ Preclinical studies consist of studies in vitro (laboratory) and animal testing.

18

During the year, 18 clinical studies were published in different indication areas and with different strains of *Lactobacillus reuteri* – Protectis, Gastrus and Prodentis.

Colic can be prevented

Doctor Flavia Indrio at the Department of Paediatrics at the University of Bari in Italy is the researcher behind the publication in JAMA. She wanted to test if *Lactobacillus reuteri* Protectis was able to prevent colic and other common gastrointestinal disorders in newborn babies.



Dr Indrio, please tell us about the background of your new study.

“Infants who suffer from so-called functional gastrointestinal disorders such as colic, regurgitation or constipation have a higher risk of having for example irritable bowel syndrome (IBS) or psychological problems as they get older. When considering the suffering

– both as infants and later in life – but also from an economic perspective, it is therefore beneficial if these problems can be avoided already when the babies are newborn.

“As it is well known that *Lactobacillus reuteri* Protectis is effective for treating colic, constipation and regurgitation, we wanted to test whether this probiotic also can prevent these conditions.”

And what conclusions can you draw from the results?

“The results are strong and show that the babies given *Lactobacillus reuteri* Protectis had markedly shorter time of inconsolable crying, were less constipated and had fewer regurgitations than the babies in the placebo group. The results on colic and constipation were shown already after one month of intervention.”

You also investigated the health economic benefits of the preventive treatment. How were these calculated?

“We only included the direct costs for the parents and the community, such as visits to the paediatrician, hospitalisation, medications, and the cost to society for loss of days at work. The results showed that every family whose child received *Lactobacillus reuteri* Protectis saved 88 euros. In addition to this, the society saved 104 euros per child.

“If the indirect costs had also been included, such as reduced work due to anxiety or lack of sleep for the parents, the amount would have been considerably higher.”

In conclusion, which implications for the results do you see?

“I want to stress that even if the direct implications for babies, parents and society are very valuable, the main implications could be the long-term consequences of the use of this probiotic strain. We will now follow this group to see if early preventative administration could influence the development of functional gastrointestinal disorders later in life. The children will be followed-up when they are five and ten years of age.” ■

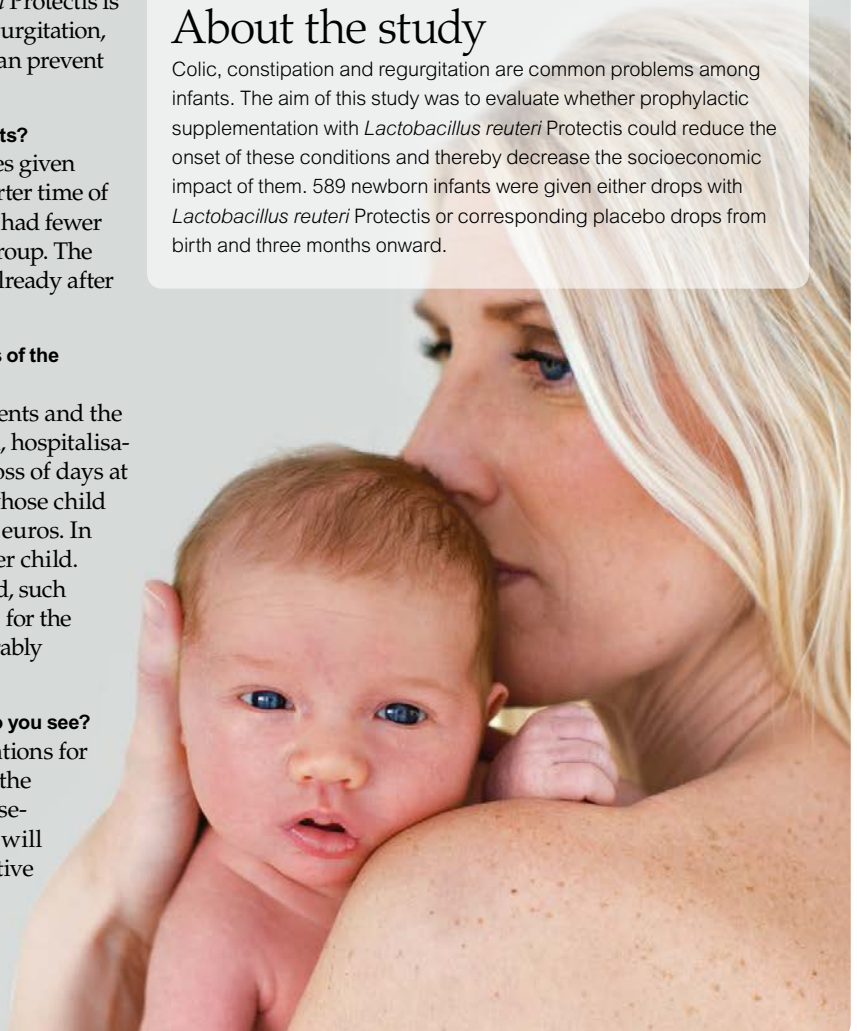
Background

That *Lactobacillus reuteri* Protectis can reduce the risk of suffering from various conditions is already known. A study from 2011 showed that *Lactobacillus reuteri* Protectis could prevent diarrhoea and affect height and weight in children in Indonesia (Agustina). In 2005 a study was published in which *Lactobacillus reuteri* Protectis was shown to reduce the risk of fever, upper respiratory infection and need of antibiotics. The children who received Protectis were healthier and had fewer sick days than the children who received placebo (Weizman).

Several studies have shown that *Lactobacillus reuteri* Protectis can alleviate colic in infants (Savino 2007 and 2010 and Szajewska 2012).

About the study

Colic, constipation and regurgitation are common problems among infants. The aim of this study was to evaluate whether prophylactic supplementation with *Lactobacillus reuteri* Protectis could reduce the onset of these conditions and thereby decrease the socioeconomic impact of them. 589 newborn infants were given either drops with *Lactobacillus reuteri* Protectis or corresponding placebo drops from birth and three months onward.



Improved treatment for patients with periodontal disease

Treatment of periodontal disease has traditionally focused on mechanical cleaning and oral hygiene instructions to reduce the number of harmful bacterial in the oral cavity. Over 20 studies with *Lactobacillus reuteri* Prodentis have shown the benefits of also introducing good bacteria, and a paradigm shift is taking place in treatment of periodontal disease.



Wim Teughels

The latest in a series of positive results studied the effects of *Lactobacillus reuteri* Prodentis as a complement to mechanical cleaning for a period of three months. The study was performed by Professor *Teughels* from the Department of Periodontology at University Hospital in Leuven, Belgium.

Professor Teughels, please briefly describe the results of your latest study with *Lactobacillus reuteri* Prodentis. "The study clearly showed that when *Lactobacillus reuteri* Prodentis was used daily for three months as an adjunct to conventional cleaning in the treatment of periodontal disease, the patients

received a significantly better treatment outcome. We noted a better effect on pocket depth and attachment levels and less recession of the gums."

What are the most important practical and clinical implications of the study?

"With this method we were able to clearly demonstrate that patients who used *Lactobacillus reuteri* Prodentis as an adjunct to conventional treatment were in less need of surgery. Also, when we measured the risk of a deteriorating disease, *Lactobacillus reuteri* Prodentis was significantly better compared to conventional treatment. The results even approached the values reported when antibiotics are being used. The most important aspect is that these two parameters are highly



relevant to the patient. It shows that the differences were not only statistically significant but also clinically relevant.”

Why do you think it is relevant to investigate the potential clinical effects of probiotics in oral healthcare?

“Probiotics not only have antimicrobial properties, but also anti-inflammatory. And since many oral diseases – particularly periodontal diseases – are inflammatory diseases with a bacterial inducer, this combination is of great interest. It was just recently that probiotics were actively introduced in oral healthcare. Therefore, a lot of their potential is still unknown and unexplored.” ■

Facts about the study

The aim of the study was to evaluate the effects of *Lactobacillus reuteri* Prodentis as an adjunct to mechanical cleaning (standard treatment) in patients with chronic periodontitis. After mechanical cleaning, the patients were given either two lozenges of *Lactobacillus reuteri* Prodentis per day or corresponding placebo tablets for a period of three months.

«Three of four adults suffer from gum disease during their lifetime.»

CLINICAL STUDY

Fewer side effects for patients with *Helicobacter pylori*

Two new studies in patients infected with med *Helicobacter pylori* show that supplementation with *Lactobacillus reuteri* Gastrus reduced the side effects of eradication therapy by one third.

In the studies, conducted at university hospitals in Italy and Egypt, the patients supplemented with *Lactobacillus reuteri* Gastrus reported less symptoms and less side effects from the eradication therapy compared to patients given placebo. The probiotic decreased both frequency and severity of side effects and was especially effective in reducing pain, diarrhoea and bloating. Supplementation with *Lactobacillus reuteri* Gastrus also further improved eradication of the *Helicobacter pylori* infection. ■



CLINICAL STUDY

Meta-analysis shows that only BioGaia's probiotic is effective in treating colic

Valerie Sung and her colleagues at Melbourne University in Australia carried out a systematic review of the literature in published studies with different preparations that have studied the effect on infants with colic. Of the 1,180 articles they found, only 12 studies met the established criteria. Of these, only three were treatment studies and showed positive results – the three studies with *Lactobacillus reuteri* Protectis. In the meta-analysis that was performed on these three studies, it was found that supplementation with *Lactobacillus reuteri* Protectis is effective in treating breast-fed infants with colic. ■



Wide range of products
in smart packages

BioGaia a world-leader with unique products

Finished consumer products currently account for around 80 per cent of sales and that is also where BioGaia has its primary focus. The main market is therefore defined as “probiotic dietary supplements that are sold in pharmacies and similar sales outlets”. Finished products are sold in around 70 countries and in total BioGaia’s products are found in some 85 different countries.

BioGaia launched its own consumer brand in 2006 and the strategy is to successively increase sales under this brand, which in 2013 accounted for 55 per cent of finished product sales (including products with a combination of the partner’s own brand and BioGaia’s brand, so-called co-branding). The target for 2014 is to achieve 60 per cent of sales under the BioGaia brand.

Another product category is component products, bacteria cultures of *Lactobacillus reuteri* Protectis that are used as an ingredient in infant formula, infant cereal, yoghurt and other dairy products. Here, Nestlé is the largest customer.

NO SIMPLE SOLUTION FOR PATENTS BioGaia’s business model is based on a network of independent researchers who together with BioGaia contribute to developing the company’s probiotic strains and technologies. The advantages are that this leads to a creative research climate and enables BioGaia to form ties with the top experts in each area. The one possible drawback is the time-consuming and continuous work surrounding administration of patents and contracts with different researchers.

There are no global patents. BioGaia applies for and holds patents in the countries where it is commercially relevant to do so and where there are functioning patent systems. Applying for patents is a cumbersome process that requires extensive documentation. BioGaia handles the

fundamental aspects of the process and then uses representatives in each country where a patent is being sought for contacts with the country’s patent authorities.

Thanks to BioGaia’s forefront position when it comes to new knowledge in the field of probiotics, it has been possible to patent specific new strains and areas of use. New packaging solutions are also protected.

PRODUCT NAMES INTRODUCED In pace with the growing number of launched products, there was a need to more effectively differentiate between them while at the same time strengthening the BioGaia brand. In 2011 product names were therefore added to the overall name BioGaia. All products based on the *Lactobacillus reuteri* Protectis strain have been given the product name ProTectis. As a result, the digestive health tablets are now called BioGaia ProTectis followed by “tablets” to clarify that this refers to tablets and not drops, which instead have the addition “drops”. Products based on *Lactobacillus reuteri* Prodentis are called BioGaia ProDentis, followed by “tablets”, “chewing gum” or “drops”. ■

- BioGaia has 57 Internet domains
- Registered trademarks in some 50 countries, in addition to a number of approved trademarks in Europe
- 302 patents granted in 27 patent families



ProTectis

Indication: Digestive health, children and adults. For prevention and treatment of colic, regurgitation, constipation, diarrhoea.

Products: Drops, for cold storage and those that can be stored at room temperature, drops with Vitamin D, tablets with lemon and strawberry flavour, oral rehydration solution (ORS).

Markets: Drops, 60 countries, of which nearly half have switched to drops that are stored at room temperature (introduced in 2011). Drops with Vitamin D, six countries. Digestive health tablets, over 50 countries. Digestive health tablets with strawberry flavour, 15 countries. Oral rehydration solution (ORS), seven countries.



ProDentis

Indication: Oral health, adults. Periodontal disease and gingivitis.

Products: Lozenges, chewing gum and drops.

Markets: The lozenges are the top-selling product by far, sold in 20 countries.

Gastrus



Indication: Digestive health, adults. Side effects from treatment of *Helicobacter pylori* infection and improved effect on the infection.

Products: Tablets.

Markets: To be launched in a couple of countries in 2014.



FROM SMALL-SCALE EXPERIMENTAL WORKSHOP TO

high-tech production facility

At the end of the 1990s BioGaia focused on selling its *Lactobacillus reuteri* as an ingredient in so-called functional foods and brainstormed frantically about how to ensure the probiotic's survival in different food products. One solution was to deliver the probiotic separately, so that it was not mixed with the juice, yoghurt, water, etc., until the time of consumption.

The idea to place the probiotic in a well sealed straw was born and now the company needed someone to manufacture the new product. This was when *Per Hjalmarsson* entered the picture. With his experience of straw manufacturing from Tetra Pak, he and his colleagues built a prototype that could perform the process. The challenges were many, for example how to insert the probiotic into the straw and how the moisture-sensitive bacteria would then survive in that environment.

“It was more complicated than we had counted on” says Per. “Every time we found a solution, new problems arose. Details that we were not aware of, but which proved necessary to take into account in order for the product to meet BioGaia’s rigorous requirements.”

Together with BioGaia the company TwoPac was founded. A facility was rented in Eslöv, Sweden, and production commenced on a small scale.

SINCE THE VERY START, the subsidiary TwoPac Machine has been a central part of operations. This is where the machinery is built and it is in the interaction between machinery manufacturing and

«Product development and technical development are naturally ongoing processes, but the development that has taken place in the past two years is really extraordinary»

day-to-day production that competence development takes place. Through feedback from production it is possible to make the machinery better, more reliable and faster. In addition, it saves time and money to have a mechanic in place as soon as a problem pops up in production. This collaboration has led to the formation of a unique expertise, a factor that has greatly contributed to TwoPac’s success. Today TwoPac Machine, led by President *Elo Thomsen*, has seven employees.

ANOTHER DECISIVE COLLABORATION is that with BioGaia. BioGaia’s product developers often test new ideas in a laboratory in TwoPac’s facility and in the machine workshop.

For the first few years TwoPac produced only straws, but

BioGaia’s development team worked to come up with additional products based on the many ideas that had been hatched. One of these was to package the bacteria in oil, since oil is a “dry” environment, which is one of the prerequisites for the bacteria’s survival.

The first oil drops were manufactured in 2007 and only two years later production had reached one million bottles. Today the drops are the top-selling product by far and volumes have continued to grow, in the past year by a full 30 per cent.

As a result of increasing volumes, but also higher quality requirements from the authorities and customers, the original facility was no longer suitable. The decision to build a new factory had already been made when one of BioGaia’s largest customers, Nestlé, decided that they wanted the drops they purchased from BioGaia to be made by TwoPac. The conditions for the factory had to be changed to meet Nestlé’s strict requirements, which delayed the project somewhat, but at the beginning of 2013 this new state-of-the-art facility was inaugurated.

“Product development and technical development are naturally ongoing processes, but the development that has taken place in the past two years is really extraordinary,” says Per. “If you compare TwoPac today with where we were just two years ago, it is like two different companies. With the inauguration of the new building we have the external conditions to grow exponentially. Another key factor is the personnel, which, since the very start, has shown both the will and the ability to raise their expertise in pace with the company’s development. Together with our new Plant Supervisor since August, *Peter Persson*, and our Quality Assurance Director, *Sophia Wahlström Björnstedt*, TwoPac is on its way to becoming a very well structured company,” according to Per.

THAT BIOGAIA ACQUIRED the remaining 50 per cent of TwoPac during 2013 is something he sees as a natural step.

“Even through we have worked together continuously, the full ownership creates even greater stability and long-term commitment. And besides, the collaboration with *Peter Rothschild* and *Jan Annwall* is what kept me going at times when I wondered what I had got myself into. They have the ability to make me feel ‘positively overwhelmed.’”

A number of both large and small development projects are underway. Nothing that we can disclose here, of course, but it is no secret that Nestlé is involved in several of them.

“Personally, I will be retiring soon, but if our sales have not multiplied within five years I will be disappointed,” concludes Per. ■



Plant Supervisor Peter Persson
and President Per Hjalmarsson
in the new facility.





Partnership with strong
local distributors

BioGaia's products are sold in 85 countries

BioGaia's products are available in pharmacies around the world. Europe is the largest market, and accounts for around 70 per cent of sales.

The focus on the BRIC countries is starting to show results. During the year agreements were signed with new partners in both China and Brazil. In India, discussions are underway with potential partners, and in Russia, where BioGaia already has a distribution partner, efforts have been started to find an additional distributor.

In May a new production and license agreement was signed with Nestlé regarding a new category of products. The agreement gives Nestlé exclusive rights to utilise *Lactobacillus reuteri* in a new category of products in a large number of countries, with a focus on emerging markets.

ITALY THE LARGEST MARKET Although there are major differences between countries, acceptance and understanding of probiotics are relatively high in Europe among both consumers and healthcare professionals. Probiotics are most firmly established in Finland, Italy and a number of Eastern European countries and this is also where BioGaia has some of its largest markets.

In 2013 sales in Europe grew by 7 per cent, even through BioGaia's sales to its largest markets, Italy and Finland, actually fell somewhat. The explanation in Italy is a decrease in inventories among the two distribution partners and in Finland this was due to large purchases at the end of 2012, which led to a temporary decrease during 2013. In both countries, sales to pharmacies are at a stable level.

NEW EFSA RULES At the end of 2012, new rules were introduced for marketing to consumers in the EU. The interpretation and application of these rules, formulated by the EU agency EFSA (European Food Safety Authority), has varied from country to country. In France, for example, the interpretation has been very strict and in the past year BioGaia's partner PediAct has had to adapt its consumer marketing in compliance with the new directive. However, PediAct's marketing is directly mainly to healthcare professionals and here it has not been necessary to make any changes.

Since most of BioGaia's partners in Europe work according to the same business model as PediAct, the introduction of the new rules has not affected marketing of BioGaia's products to any significant extent.

This has also been visible in the figures – in France, sales of the drops rose by around 30 per cent during the year. In 2014 PediAct plans to launch the room temperature drops and BioGaia ProTectis with Vitamin D. The hope is that these products will not only further boost sales, but will also improve visibility in pharmacies.

Verman in Finland is one of the few partners that successfully markets BioGaia's products – under the Rela brand – directly to consumers. Here, the new EFSA rules have been one of the factors that characterised the past year. The other is the increasingly tough competition in the probiotics market. Despite this, Rela has succeeded in main- →



«Presently, BioGaia's drops are being used primarily to treat infant diarrhoea. We are strongly determined to convince Spanish paediatricians of the great benefit also for colic and thereby achieve double-digit growth in the upcoming year.»

Pedro Varona,
Product Manager
Pediatrics, Casen, Spain

«Protectis has had an excellent year in Belgium! The product has grown 27 per cent in a flat probiotic market. Moreover, Protectis has become the second prescribed probiotic by the doctor.»

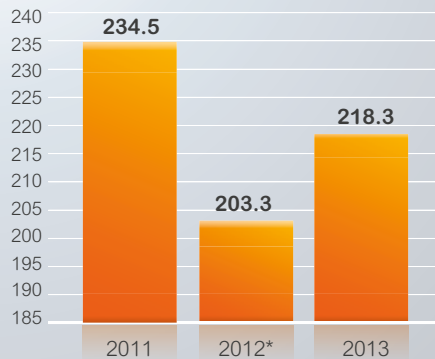
Vicky Vercauteren,
Marketing Manager,
NeoCare, Belgium

«In spite of fierce competition, we have been able to keep the market-leader position and even gained some market share with the Rela tablets.»

Kati Murto,
Marketing Manager for
Rela, Verman, Finland

EUROPE

SALES, SEK M

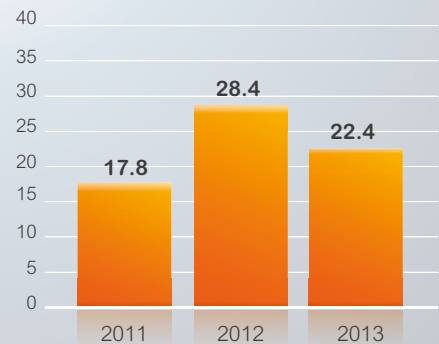


Sales in Europe rose by 7 per cent compared to 2012*. Sales of component products increased. Sales of finished consumer products grew in Ukraine, Sweden, Turkey and France.

*excluding licence revenue from Nestlé.

USA AND CANADA

SALES, SEK M



Sales in the USA and Canada fell by 21 per cent, which is due to lower sales to Fleet. Sales of oral health products were up in both countries.

→ taining its market leading position and has even taken additional market shares with the tablets. With regard to the drops, the competitors have launched low-price products, but Rela has nonetheless defended its leading position. In Finland every newborn baby is given an average of two bottles of Rela drops during the first year of life.

As a result of a better focus on the product portfolio in Turkey, BioGaia's partner there, Eczacibasi, has seen an increase in sales of drops and tablets by more than 50 per cent compared to 2012. Turkey is an important market with major potential where BioGaia will continue to have a strong focus.

CUBE AGAINST THE TREND IN GREECE In spite of the difficult economic situation in Greece, with a sharp downturn over the past five years and an unemploy-

«By cooperating with the largest resellers in the health field in Hong Kong, the Reuteri tablets have succeeded in generating steady growth.»

Joanne Cheung, Partner, J Health, Hong Kong

ment rate of more than 25 per cent, BioGaia's products grew by a full 60 per cent in 2013. Although this improvement was from a very low level, the increase is stable and expected to continue in the next few years.

BioGaia's partner Cube works exclusively with marketing to healthcare professionals. According to a recently conducted survey at a national paediatric

conference, 95 per cent of paediatricians who have tested BioGaia's drops are satisfied with their effect. The goal now is to broaden their usage and Cube therefore plans to take part in a large number of specialist conferences during 2014. They will also increase their penetration at both private and public hospitals and sign agreements with additional pharmacy chains. Furthermore, they will launch BioGaia ProTectis with Vitamin D, which is hoped to contribute to the positive development.

BIOGAIA NUMBER TWO IN UKRAINE BioGaia's products also increased by around 60 per cent in Ukraine, where the brand is now the second largest among probiotics. Delta Medical has set its sights on expansion – this year they launched BioGaia ProTectis with strawberry flavour and ProDentis for oral health, and in 2014 they are planning the launch of ProTectis drops with Vitamin D.

GERBER LAUNCHED BIOGAIA'S DROPS During the summer Gerber, a division of Nestlé in the USA, launched BioGaia's drops under the brand Gerber Soothe Colic Drops in several of the major pharmacy chains such as Rite Aid, CVS Pharmacies and Walgreens. Gerber is the leading childhood nutrition brand in the USA and the long-term expectations are high.

Due to initial logistical problems, some pharmacies did not receive deliveries as planned. At the end of the year distribution was still not satisfactory and BioGaia is currently working with Gerber to address the situation. Despite the problems, sales to consumers have now reached roughly the same level as with the former distributor. However, total sales in the region (the USA and Canada) declined

ASIA

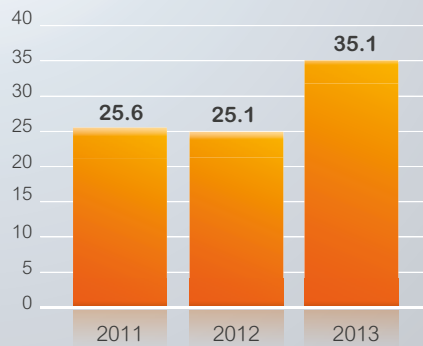
SALES, SEK M



Sales in Asia improved by 24 per cent. Sales of component products increased. Sales of finished consumer products grew in several countries, including Singapore and Hong Kong.

REST OF THE WORLD

SALES, SEK M



Sales in the rest of the world were up by a full 40 per cent, which is explained by increased sales of finished consumer products primarily in South Africa and Chile.

«We have two sales teams for working towards health care professionals and also a campaign in the waiting rooms directed to pregnant mothers. There is great potential for ProTectis in the treatment of colic in infants.»

during the year. This is explained by lower sales of digestive health tablets to Fleet, which had purchased large inventories in connection with the launch in 2012.

MAJOR POTENTIAL IN ASIA Asia saw increased sales of both finished consumer products and component products. The potential for BioGaia's products in Asia is assessed to be large and during the year BioGaia signed new distribution agreements for two important markets, South Korea and China. In both countries the agreements apply to sales under the BioGaia brand of the products ProTectis drops and ProTectis and Gastrus digestive health tablets.

LAUNCHES IN SOUTH KOREA AND CHINA In South Korea the partner is Dong Sung Pharmaceutical Company Ltd, one of the leading pharmaceutical companies in the country. The company has a large sales force that among others visits paediatricians and gastroenterologists, two important target groups for BioGaia's products. The sales channel is pharmacies and launches are planned for the first quarter of 2014.

The Chinese partner, Beijing Keyuan Xinhai Pharmaceutical Co Ltd, is one of the country's largest pharmaceutical companies and is active in several areas, of which pharmaceuticals is only one. Also in China, launches are planned and will be started →

Muhammad Raza Mufti,
Product Manager, Ferozsons
Laboratories Ltd, Pakistan



«In 2013 sales of BioGaia's products increased by 60 per cent. Now we are the second largest probiotic brand in Ukraine!»

Marina Akimenko,
Business Area Manager,
Delta Medical, Ukraine

«In spite of the country's difficult economic situation, BioGaia's products grew by a full 60 per cent in the past year and our assessment is that 2014 will be yet another successful year.»

Nikos Kalofolias,
Vice President, Cube
Pharmaceuticals, Greece

«In a country where probiotics are relatively unknown and are mainly associated with yoghurt, the entire team at PediAct is working determinedly to position BioGaia's products as clinically documented probiotics.»

H el ene Vachet,
Product Manager,
PediAct, France

«Over the past year, we have seen increased educational activity from the dental industry via lectures, webinars, and industry articles surrounding benefits of oral probiotics and understanding of the oral microflora.»

Samantha Nakanishi-Wright,
Marketing Manager, Sunstar
America and Canada

For almost a year, BioGaia itself has been marketing its oral health products in Sweden. The main target group is oral hygienists, since they work with prevention and treatment of gingivitis and periodontal disease.



→ in the first quarter of 2014. The focus is on major cities such as Beijing, Shanghai, Guangzhou and Shenzhen. China naturally has enormous potential in terms of both population size and buying power, but the market also presents many challenges when it comes to achieving adequate distribution and penetration. The regulatory conditions are also very difficult to deal with.

Another market with potential, although significantly smaller than China, is Pakistan, where Forozson Laboratories Ltd launched ProTectis drops and tablets during the autumn.

The volumes among other existing partners in Asia are still relative small, but a few countries have shown positive development in sales of finished consumer products during the year. For example, Age D'Or in Singapore grew by 25 per cent compared to the previous year. Things went even better in Hong Kong, where J Health doubled its sales in 2013 compared to 2012.

In India the strategy is to work non-exclusively with several different partners. Discussions are underway with potential companies and the goal is to sign agreements with at least one of these during the coming year.

IMPORTANT AGREEMENT IN BRAZIL Development in "Rest of the World" has been very positive during the year – with growth of up to 40 per cent – which is mainly due to increased sales of finished consumer products in South Africa and Chile.

As one of the BRIC countries, Brazil is highly prioritised by BioGaia and in November an agreement was signed with Aché, one of the country's leading pharmaceutical companies. The launch of drops and tablets is planned for mid-2014 and preparations are therefore already in full swing. BioGaia is devoting

considerable resources to supporting Aché, among other things through training of the sales, marketing and research staff.

In Chile BioGaia's products have been on the market for five years and the partner Recalcine has succeeded well in establishing the drops in particular. In 2012 sales of the drops rose by more than 60 per cent and penetration among newborns is now almost 50 per cent.

SEVERAL NEW AGREEMENTS IN ORAL HEALTH BioGaia ProDentis is currently sold in 20 countries and in 2013 new distribution agreements were signed for an additional four markets – Switzerland, Greece, the United Arab Emirates and Cyprus. The majority of

«We are pleased to have engaged in a long-term collaboration with BioGaia. Especially in the child health segment, the products will address important medical needs.»

Celso Sustovich, Executive Director, Aché, Brazil

sales still come from BioGaia's Subsidiary in Japan, which sells the oral health tablets via dental care clinics. Here, BioGaia Japan collaborates with Asano, a reseller in the Japanese retail market. The target group is 100,000 dentists and an equal number of oral hygienists.

The Japanese business model is now also being tested in Sweden, here with oral hygienists as the primary target group. ■



In Sweden BioGaia ProDentis is sold exclusively at dental clinics and at www.apotea.se.

Trends in the oral health industry



Paul Valdez, CEO of Valdez Consulting, is an Englishman with long experience of the international oral health industry.

How would you describe the oral care industry today?

Today the oral care industry is dominated by a small number of multinational companies that are focused on building oral care mega-brands on a global scale. Toothpastes and toothbrushes account for the lion's share of the market. Complementary oral care products such as mouthwashes, dental floss, denture care and tooth whiteners have grown quite well over recent years but overall account for a relatively small share of the market.

Can you explain how bacteria can affect oral health?

In a healthy person the oral microflora is stable and diverse, and consists mainly of beneficial bacteria. Our modern lifestyle, however, has caused an ecological catastrophe in our mouths. New research suggests that the diversity of oral bacteria decreased dramatically when processed sugar and flour became widely available. Simultaneously, the number of bacteria associated with gum disease and dental caries, such as *Streptococcus mutans*, has increased in the oral cavity. Restoring these reduced numbers of beneficial bacteria via probiotics might be of considerable interest in the prevention and treatment of plaque-related periodontal diseases.

Do you think periodontal disease will be the most important treatment indication for probiotics in oral care?

The adjunctive use of oral healthcare products containing chemotherapeutic agents for the local use in the oral cavity have taken a variety of forms over the years. Unfortunately the side

effects of the compounds currently available, primarily staining and taste, tend to limit compliance and therefore, reduce efficacy. Probiotics could offer a natural regimen to treat the condition, without side effects. Nevertheless, clinical studies on the effects of probiotics in different fields of oral healthcare have been published and it remains to be seen for which oral indications the probiotics used in oral care will be the most successful.

Which are the crucial factors for players in the oral care industry to commercialise probiotics successfully?

Market research shows that interest in probiotics for oral healthcare is very high among the dental profession and consumers. But as illustrated even by fluoride toothpaste in its early days, new innovations in oral care take a long time to establish themselves. A key to their success will be the endorsement of the new category by the dental community. This will happen through the conducting of large-scale clinical trials that demonstrate the health benefits of specific probiotic strains. A key technical issue is the delivery system. Today, probiotics for oral health are delivered in lozenges and chewing gums, which in spite of their simplicity and convenience, are not yet considered part of a serious oral prevention regime.

There are a very limited number of players in the market today. In my view, in order to be a probiotic leader, a company will really need to fulfil three important criteria. It needs to be able to present peer-reviewed and published, placebo-controlled clinical trials supporting the health benefits of their products, it needs to be able to deliver its probiotics in attractive product formats both for the dentist and the consumer, and finally, it needs to have a defined and well-proven business model applied to selling the products. ■

Macrotrends will drive development in the oral health field

- 1** An aging population, as people grow older they experience increased problems with oral health.
- 2** People are placing higher demands on their oral health, both cosmetically (the desire to have white teeth) and medically (if possible, to keep their teeth for life).
- 3** As in other areas of healthcare, the oral health field is showing a growing trend towards prevention rather than treatment. Governments are eager to try and reduce healthcare costs, and consumers want greater control over their personal health.





A commitment that
extends further

Antibiotic resistance – rethinking and thinking ahead

We don't have a chance against antibiotic resistance in the long term. This is something researchers agree on. Basic research is searching after whole new principles to fight disease, but it takes time. With new antibiotics we can win time, but parallel to this we should also try whole new approaches, of which probiotics can be one. In certain cases, it is only antibiotics that can save lives.

A close collaboration between the academic, industrial and political spheres at the global level topped the wish list of experts and politicians that debated the issue of antibiotic resistance during Sweden's Almedalen Week in the summer of 2013, a debate that was arranged by BioGaia with the help of the industry magazine Dagens Medicin.

LARS ENGSTRAND WAS one of the debaters. He is a Professor of communicable disease control with a focus on clinical bacteriology, and he pointed out the importance of microorganisms during an infant's first months of life, when the foundation is laid for an effective immune defence. Children in the West are given between ten and 20 courses of antibiotics before the age of 18. Each of these creates disturbances in the intestinal flora and disrupts the equilibrium for up to one year. Research shows that a number of antibiotic resistant bacteria can remain for up to four years.

OTTO CARL, Professor of infectious diseases and chairman of ReAct – Action on Antibiotic Resistance, says that the situation is serious. This has also been underlined by the World Economic Forum, which in January 2013 took up antibiotic resistance as one of the major risks in civil society alongside terrorism, flooding and similar events. The Swedish Civil Contingencies Agency also highlights resistance in one of their future scenarios.



To bring about global responsibility, the World Health Organization, WHO, needs to take the lead. At the same time, the member countries also need to assume political leadership in this issue. They must work on a wide front with an action plan, concretise what needs to be done and then do it, according to *Ulrica Sundholm*, a political expert from the Swedish Ministry of Health and Social Affairs.

In the Norrbotten region of Sweden, the patients who don't immediately take antibiotics and instead choose to wait and see are given a free return visit if needed, explains county council member *Agneta Granström* as an example of thinking along new lines.

Peter Rothschild, CEO of BioGaia, agreed on the need for innovative thinking and wanted to turn everything around. The medical system should focus on preventing illness instead of primarily curing the sick. He felt that doctors and other health-care professionals need to be educated in how they can strengthen the body's own immune defence. ■

HELENA THORÉN, FREELANCE JOURNALIST



Support to the Philippines

Every year BioGaia makes donations to the Scandinavian Children's Mission in the Philippines, which takes care of undernourished children, runs a preschool and educates teenagers and young adults. In 2013 BioGaia donated 575 000 kronor.

Sustainability and ethics

BioGaia has an ethical and environmentally beneficial vision, namely to improve the health of people around the world by offering first class probiotic products. When health is improved through the use of natural organisms, without side effects, it is hopefully possible to reduce the use of medications and antibiotics.

In the long term, this will also have positive effects on the environment. On BioGaia's website, www.biogaia.com, you can read more about the company's ethical policy.



Goals for environmental work in 2014

- 1 Report climate impact in 2013.
- 2 Communicate BioGaia's environmental responsibility to the employees and distributors.
- 3 Climate compensate through Vi Agroforestry for emissions in 2013.
- 4 Participate in the CDP Nordic Climate Change Report together with 260 Nordic companies.

Measuring the climate impact of operations

For the first time BioGaia's climate impact has been measured, and it shows that this impact is relatively small. Business travel and packaging account for most of the company's greenhouse gases.

BioGaia's climate impact has been measured for the first time and it shows that emissions of greenhouse gases are relatively low. In total they are equal to 910 tonnes of carbon dioxide equivalents (carbon dioxide and five other greenhouse gases). This means just under 12 tonnes per employee and year. How does that measure up in comparison with other Life Science companies?

"It's not very much. We perform relatively well in comparison with other companies in the health sector. This is partly because we are a research and development company with no manufacturing of our own. For that reason, our direct and indirect emissions are low," answers BioGaia's Market Analyst *Hok Ting Yau*, who is responsible for the environmental measurement.

LESS AIR TRAVEL The largest contributions to greenhouse gases in 2012 came from sources other than the direct and indirect. Business trips accounted for around half of BioGaia's climate impact.

«Our ambition is for the entire company to be permeated by healthiness»

MARGARETA HAGMAN,
EXECUTIVE VICE PRESIDENT AND CFO

"We expected business travel to be our greatest environmental factor. Through greater awareness among the employees, we will now work firstly to reduce air travel. To a certain extent we are already doing this today. Some trips are replaced

by Skype or video- and teleconferences. Secondly, we are climate compensating for the trips that are unavoidable," says *Margareta Hagman*, Executive Vice President and CFO of BioGaia.

TAKING A CLOSER LOOK AT THE CLIMATE IMPACT OF THE PACKAGES The second largest climate impact factor was the product packages. The environmental impact of the packages has been studied in more detail in 2013. A follow-up, more comprehensive life cycle analysis has been performed and shows that the tablet bottles still generate the greatest emissions. Both the analysis in 2013 and the previous one in 2010 were carried out in collaboration with the Swedish Environmental Research Institute (IVL).

THE RAW MATERIALS ARE NOT INCLUDED The probiotic raw materials, manufacturing and transport to the packaging facility are not included in the life cycle analysis or the analysis of climate impact. This is due to the fact that manufacturing is carried out by suppliers and responsibility for reporting the climate impact of the raw materials lies with them.

UNCERTAIN RESULTS This is the first year that BioGaia has measured the climate impact of its operations. This means that not everything has been possible to report, where routines for registration of data have been lacking. For that reason, certain assumptions have been made in the calculations.

CLIMATE COMPENSATION IN TANZANIA BioGaia climate compensated for 910 tonnes of carbon dioxide equivalents by purchasing certificates from Vi Agroforestry, whose development assistance activities to fight poverty and plant trees are carried →

«We have started measuring our climate impact. Now we are working to improve our performance and reduce our emissions. We are taking our responsibility through climate compensation.»

HOK TING YAU,
MARKET ANALYST



«Vi Agroforestry's projects for climate compensation are conducted in the Kagera region of western Tanzania.»

out according to the Plan Vivo standard. Plan Vivo is a certification system for calculating and ensuring a certain carbon binding. The method guarantees that planting is carried out by small family farms in order to achieve social and ecologically sustainable development for smallhold farmers and natural areas. One tonne of carbon dioxide equivalents corresponds to one certificate.

Vi Agroforestry's projects for climate compensation are conducted in the Kagera region of western Tanzania. The goal is to prevent soil erosion and enrich the soil so that the smallhold farmers who cultivate the land in Kagera can achieve better yields of several different crops. They should also be able to grow vegetables so that their families, and especially growing children, have access to varied and nutritious food. The plantations increase the farmers' incomes at the same time that they are educated about the climate and the impact of humans on it.

	CO2E	%
Business trips	462	51
Packages	380	42
Premises	66	7
Office supplies	1	negligible

Source: BioGaia Carbon Assessment for 2012, U&We.

Vi Agroforestry in Kagera covers 434 hectares and provides an output for 870 households. In 2012 over two million trees were planted in Tanzania by Vi Agroforestry.

The projects in Tanzania are reviewed every year by Plan Vivo to guarantee their quality and efficiency and to provide support and advice to the local organisation. Every fifth year, the projects are also reviewed by a third party.

BioGaia will collaborate with Vi Agroforestry with this climate compensation for three years and will then evaluate the results. The first certificates were purchased in December 2013 for 110,000 kronor to cover climate impact in 2012. ■

	KG CO2E PER PACKAGES
Bottles, tablets	77
Sachets, powder	59
Blister, big 30 pack	59
Blister, 10 pack	58
Blister, 30 pack	55
Drops	33

Source: Updated by LCA by BioGaia packages 2013, IVL Swedish Environmental Research Institute.

Financial information and Notes 2013

BioGaia[®]

Table of contents



38	Administration report
	BioGaia
	Key events in 2013
	Key events after the end of the financial year
	Financial performance in 2013
	Research and development activities
	Environmental information
	Business risks and uncertainties
	Financial risk management
	Employees
	Future outlook
	The Board of Directors' proposal to the AGM regarding remuneration and other terms of employment for senior executives
	Most recently adopted guidelines regarding remuneration and other terms of employment of senior executives
	Corporate governance
	Proposed appropriation of profits
44	Group
	Statement of comprehensive income
	Cash flow statements
	Statement of financial position
	Statement of changes in equity
46	Parent Company
	Income statements
	Cash flow statements
	Balance sheets
	Statement of changes in equity
48	Notes to the financial statements and accounting policies
59	Signature of the Board of Directors
60	Five-year summary
61	Audit report
62	Corporate governance report
64	The BioGaia share
66	Board of Directors and Executive Management

Administration report

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 2013.

The financial statements were approved for publication by the Board of the Parent Company on 18 February 2014.

BioGaia

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

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

BioGaia has 85 employees, of whom 32 are based in Stockholm, 22 in Lund, 22 in Eslöv, two in Raleigh, USA, six in Hiroshima, Japan, and one in Shanghai, China.

Business model

BioGaia's revenue comes mainly from the sale of finished consumer products (digestive health tablets, drops, oral rehydration solution (ORS) and oral health products) to distributors, but also from component products such as reuteri cultures, straws and caps.

The products are sold through nutrition, food, natural health and pharmaceutical companies in some 85 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 consumer package as the licensor/patent holder.

Key events in 2013

NEW AGREEMENTS

Agreement for drops and tablets in South Korea At the beginning of May BioGaia signed an agreement with Dong Sung Pharmaceutical Company Ltd for the exclusive rights to sell BioGaia's ProTectis drops and ProTectis and Gastrus digestive health tablets in South Korea. The products will be sold under BioGaia's own brand.

Agreement for drops and tablets in China In mid-May BioGaia signed an agreement with Beijing Keyuan Xinhai Pharmaceutical Co Ltd for the exclusive rights to sell BioGaia ProTectis drops and ProTectis and Gastrus digestive health tablets in China. The products will be sold under BioGaia's own brand.

Agreement with Nestlé for new category of products At the end of May BioGaia signed a new supply and license agreement with Nestlé for the inclusion of BioGaia's patented *Lactobacillus reuteri* in a new category of products. The long-term agreement gives Nestlé exclusive rights to utilise this probiotic in an additional range of products in a large number of countries, with a focus on emerging markets.

This is the third agreement with Nestlé following the sale of the license to use *Lactobacillus reuteri* in infant nutrition to Nestlé in February 2012 (see below under "Financial performance in 2013", Sales). The new agreement illustrates the excellent collaboration between the two companies, with cooperation in both the scientific and commercial fields.

BioGaia expands network in oral health field In October BioGaia signed four different distribution agreements for the exclusive rights to sell its oral health products. Agreements have been made with Streuli Pharma AG for Switzerland, Plac Control for Greece, PharmaPal Drugstore LLC for United Arab Emirates and George Petrou Ltd for Cyprus. Furthermore, Sunstar relaunched the products in Germany during the autumn.

BioGaia signs exclusive agreement for drops and tablets in Brazil In November BioGaia signed a long-term agreement with Aché, for the exclusive rights to sell BioGaia's probiotic drops and tablets in Brazil. The products will be sold under a combination of BioGaia's and Aché's brands (co-branded) and the launch is planned for mid-2014.

CLINICAL STUDIES

New study shows that *Lactobacillus reuteri* Prodentis improves treatment of patients with periodontal disease A double-blind, placebo-controlled study of patients with chronic periodontitis showed that treatment with *Lactobacillus reuteri* Prodentis as an adjunct to standard treatment significantly improved efficacy by 47%. The study was published in mid-August in Journal of Clinical Periodontology.

***Lactobacillus reuteri* Protectis the only probiotic effective in treating colic** According to a recently published review and meta-analysis on prevention and treatment of colic, BioGaia's probiotic strain *L. reuteri* Protectis is the only probiotic shown to significantly reduce crying time in breast-fed infants diagnosed with colic. The study was published in the highly regarded medical journal JAMA Pediatrics on 7 October 2013.

Two new studies on BioGaia Gastrus Two new studies in patients infected with *Helicobacter pylori* show that supplementation with the new probiotic *Lactobacillus reuteri* Gastrus reduced side effects of eradication therapy by a third. In the studies, conducted at university hospitals in Italy and Egypt, the patients supplemented with *Lactobacillus reuteri* Gastrus reported less symptoms and less side effects from the eradication therapy compared to patients given a placebo. The probiotic decreased both the frequency and severity of side effects and was especially effective in reducing pain, diarrhoea and bloating. The studies have been published in Journal of Clinical Gastroenterology, 27 Nov. 2013 (Francavilla) and in Therapeutic Advances in Gastroenterology, 4 Sept. 2013 (Emara).

BIOGAIA INVESTS IN DEVELOPMENT OF DRUG AGAINST NEC

In November, the Board of BioGaia made a decision to invest in phase one 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 can affect premature infants.

BioGaia will invest up to SEK 42 million in the project over a two-year period. The project will be driven by BioGaia's subsidiary Infant Bacterial Therapeutics (IBT), of which 9% is owned by the company's President, Staffan Strömberg, and its Research Director, Eamonn Connolly. The remaining 91% is owned by BioGaia.

IBT will develop a new formulation and a manufacturing process that are wholly adapted to the stringent quality requirements placed by the FDA (the U.S. Food and Drug Administration) for a biological drug and the product's area of use in neonatal intensive care units. The company's assessment is that around SEK 26 million of the total of SEK 42 million will be capitalised in IBT, which will result in costs of approximately SEK 8 million per year in 2014 and 2015. If the drug development is not realised, it is BioGaia's intention to market the formulation under another product category.

In August this year the company was granted Orphan Drug Designation for the use of *Lactobacillus reuteri* in a drug to treat NEC. In addition to tax credits, this qualifies the sponsor of the drug for various incentives from the US government, 7-year exclusivity, an extension of the patent protection and certain support from an department of the FDA in the application process leading to an approved drug.

BIOGAIA ACQUIRES REMAINING 50% OF TWOPAC AB

TwoPac AB was formed in 2002 to manufacture and develop packaging solutions for probiotics. At present the company primarily produces probiotic drops, but also manufactures straws on behalf of BioGaia. The company's revenue consists exclusively of sales to BioGaia. In 2012 the company completed a new factory in Eslöv, Sweden, that was financed mainly with loans from BioGaia. TwoPac is consolidated in the Group since 1 January 2011.

BioGaia has previously owned 50% of TwoPac AB and the remaining shares have been held by TwoPac's management. BioGaia acquired the remaining 50% of TwoPac AB on 1 July 2013 for SEK 30 million. A controlling influence was acquired already on 1 January 2011, although no shares were purchased at the time since the assessment was that BioGaia had a controlling influence as of that date. As a result, only cash and cash equivalents and total equity were affected by the acquisition of the remaining 50% as of 1 July 2013.

TwoPac AB has thus become a wholly owned subsidiary of BioGaia AB. The motives for the acquisition are to gain full control over part of the company's product manufacturing, but above all to join forces with TwoPac in effective development of new products that can be manufactured at a reasonable cost.

LAUNCHES IN 2013

Distributor/licensee	Product	Country	Brand
BG Distribution	Digestive health tablets with strawberry flavour	Hungary	BioGaia
Cube Pharmaceutical	Digestive health tablets with strawberry flavour	Greece	BioGaia
Ewopharma	Drops	Bosnia-Herzegovina	BioGaia
Ewopharma	Digestive health tablets with Vitamin D	Bulgaria	BioGaia
Ferozsons Laboratories	Drops and digestive health tablets with lemon flavour	Pakistan	BioGaia
Gerber Products Company	Drops	USA	BioGaia co-branding
Laboratoire PediAct	Digestive health tablets with strawberry flavour	France	BioGaia
Nestlé	Infant formula with <i>Lactobacillus reuteri</i> Protectis	Colombia, Denmark, Ecuador, Iraq, Israel, Sweden, Syria, Thailand, Yemen and the Central and Western Africa region	Partner brand
Nestlé Mexico	Drops	Mexico	BioGaia
Nippon Acess	Yoghurt with <i>Lactobacillus reuteri</i> Prodentis	Japan	BioGaia
Noos/Italchimichi	Digestive health tablets with Vitamin D	Italy	Partner brand
Pharmaforte	Oral health tablets and oral health drops	Singapore	BioGaia
Semper	Digestive health tablets with strawberry flavour	Denmark	BioGaia co-branding
Sunstar	Oral health tablets and oral health drops	Relaunch in Germany	Partner brand
Verman	Digestive health tablets with Vitamin D	Finland	Partner brand



Key events after the end of the financial year

Publication of study showing that colic can be prevented A study of 468 healthy newborns, which was published in January 2014, shows that infants given the probiotic *Lactobacillus reuteri* Protectis cried less than half as long as infants given a placebo. The infants given *Lactobacillus reuteri* Protectis also had significantly fewer daily regurgitations and were less constipated compared to infants in the placebo group.

The study was published in the highly regarded medical journal JAMA on 13 January 2014.

No significant differences in BioGaia's diabetes study In May 2012 BioGaia initiated a double-blind, placebo-controlled study to investigate the effects of *Lactobacillus reuteri* Protectis on blood glucose in type 2 diabetics. Despite positive results from an earlier pilot study, no significant differences between the groups were seen in this study.

BioGaia is continuing to analyse the results of the study.

BioGaia receives the first instalment of additional payment from Nestlé In February 2012 BioGaia signed several new agreements with Nestlé including the acquisition of a perpetual license to use BioGaia's *Lactobacillus reuteri* Protectis in infant formula during the remaining term of the patent. The purchase price was EUR 50.8 million, of which EUR 40.0 million (SEK 356 million) was received and recognised in the first quarter of 2012. The additional payments of EUR 10.8 million would be received during the period 2014-2017 if predefined milestones were achieved.

The first milestone has now been now achieved and BioGaia has received EUR 3.6 million, which will be recognised in the first quarter of 2014. The balance of EUR 7.2 million will be received if the remaining milestones are achieved.

Financial performance in 2013

Sales Consolidated net sales reached SEK 315.9 million (289.2)¹⁾, which in an increase of SEK 26.7 million (9%).

Most of the company's sales are denominated in foreign currency, primarily EUR but also USD and JPY. With unchanged exchange rates, net sales would have been SEK 7.8 million higher. Excluding foreign exchange effects, net sales (excluding license revenue) thus increased by 12%. Exchange rate fluctuations for EUR, USD and JPY reduce both revenue and expenses. Operating profit would have been SEK 2.2 million higher in the event of unchanged exchange rates, which is an increase of 16% compared to the previous year.

Total net sales for 2012 amounted to SEK 645.2 million and included license revenue from Nestlé of SEK 356 million that is regarded as non-recurring revenue. In February 2012 BioGaia signed several new agreements with Nestlé including the acquisition of a perpetual license to use BioGaia's probiotic in infant formula during the remaining term of the patent. The purchase price was EUR 50.8 million, of which EUR 40.0 million (SEK 356 million) was received and recognised in the first quarter of 2012. An additional payments of EUR 10.8 million would be received during the period 2014-2017 on the achievement of predefined milestones (see above under "Key events after the end of the financial year"). Following the sale of the license, culture sales to Nestlé have fallen since the third quarter of 2012.

Sales by segment

FINISHED CONSUMER PRODUCTS Sales of finished consumer products rose over the previous year by SEK 18.6 million (8%) to SEK 256.2 million. Excluding foreign exchange effects, the increase was 11%.

Sales of finished consumer products grew in Europe, Asia and "Rest of world", but declined in the USA and Canada.

Sales in Europe increased in Ukraine, Sweden, Turkey and France, but fell in Finland, Italy and Eastern Europe, primarily in Poland and Bulgaria. In Finland sales were down from the previous year due to a large inventory build-up in Q4 2012. Consumer sales in Finland remain at a very good level. The drop in sales in Italy is explained by lower sales in Q3 resulting from inventory reduction by the distributor. However, in Q4 sales rebounded in Italy (see below) and part of the decrease from Q3 was recovered. In Poland and Bulgaria, sales are down due to aggressive price competition and the economic situation. The increase in "Rest of world" is mainly attributable to South Africa and Chile. In Asia, the increase in sales was attributable to several countries.

The decrease in North America is attributable to lower sales of tablets to Fleet, since the company purchased large inventories in connection with the launch last year. Gerber launched drops during the summer and sales have risen by 50% compared to the previous year. Sales of dental products were also up in the USA and Canada.

COMPONENT PRODUCTS Sales of component products rose by SEK 8.0 million¹⁾ to SEK 58.6 million (16%) compared in the previous year. Excluding foreign exchange effects, net sales improved by 17%.

Sales were up primarily in Europe¹⁾ but also in Asia.

Since the third quarter of 2012, sales of component products in Europe have fallen as a consequence of the agreement with Nestlé in 2012 (see above). However, due to revenue arising from the new agreement with Nestlé (see below), net sales from Nestlé have now increased compared to the previous year.

The agreement now in force gives Nestlé the right to manufacture *L. reuteri* for use in infant nutrition, which would result in lower sales of cultures. BioGaia has no information about when Nestlé will exercise this right and to what extent this will affect BioGaia's sales.

The sales growth in Asia was attributable to a dairy in South Korea

Sales by geographical market

Sales in Europe increased by SEK 15.0 million (7%)¹⁾. Both sales of finished consumer products and component products increased (see above).

Sales in the USA and Canada declined by SEK 6.0 million (21%), which is due to lower sales to Fleet (see above).

Sales in Asia grew by SEK 7.7 million (24%) to SEK 40.1 million. Both sales of finished consumer products and component products increased (see above).

Sales in "Rest of world" improved by SEK 10.0 million (40%), which is explained by higher sales of finished consumer products primarily in South Africa and Chile.

The BioGaia brand

Of total finished consumer products, 55% (51) were sold under the BioGaia brand, including so-called co-branding.

Gross profit Gross profit amounted to SEK 214.2 million (201.1)¹⁾, which is an increase of SEK 13.1 million (7%) compared to the previous year. Including licence revenue from Nestlé, gross profit for 2012 was SEK 557.1 million.

The total gross margin fell from 70%¹⁾ to 68%.

The gross margin for finished consumer products decreased from 72% to 70%. This is due to a lower margin in Q3 and Q4 since BioGaia's partner in Japan, Nippon Access, launched yoghurt products with a lower margin during the period.

The gross margin for component products decreased from 59%¹⁾ to 57%. This is due to a lower margin on sales of culture to Nestlé following the sale of the perpetual license to use *Lactobacillus reuteri* Protectis in infant nutrition products.

Operating expenses Selling expenses were up by SEK 2.0 million (3%) to SEK 79.4 (77.4) million, which is equal to 25% (27) of net sales. Personnel expenses increased, while external expenses for marketing activities decreased.

Administrative expenses amounted to SEK 14.4 million (13.4), which is equal to 5% (5) of net sales. The increase of SEK 1.0 million (7%) is attributable to higher personnel expenses.

R&D expenses are reported at SEK 40.6 million (35.8), which is equal to 13% (12) of net sales. The increase of SEK 4.8 million (13%) is mainly due to increased external expenses for research and clinical studies, but also higher personnel expenses. Expenses for the Necrotising Enterocolitis (NEC) project (see above) amounted to SEK 2.9 (0) million during the year.

The amortisation component of R&D expenses was SEK 0.3 million (0.6). Investments in capitalised development expenses totalled SEK 0 million (0).

Other operating income/expenses refer to foreign exchange losses on operating receivables and liabilities.

Operating profit Operating profit was SEK 81.7 million (72.1)¹⁾, which is SEK 9.6 million (13%) higher than in the previous year.

Financial items and profit before tax Profit before tax was SEK 83.8 million (86.2)¹⁾, which is SEK 2.4 million (3%) lower than in the previous year, mainly due to a loss on forward exchange contracts.

Net financial items include a foreign exchange loss of SEK 2.9 million on forward exchange contracts in EUR. Profit for the previous year included a corresponding foreign exchange gain of SEK 5.7 million. At 31 December 2013 the company had outstanding forward exchange contracts for EUR 13.7 million at an average exchange rate of SEK 8.79. Forward exchange contracts amounting to EUR 10.0 million will mature for payment in 2014, and the remaining EUR 3.8 million in 2015. The actual exchange gain/loss depends on the exchange rate on the maturity date of the contracts. If the EUR rate on the maturity date is lower/higher than that at 31 December 2013 (8.92), an exchange gain/loss will be recognised in the future.

Profit after tax Profit after tax was SEK 64.2 million (63.7)¹⁾, which is SEK 0.5 million (1%) better than in the previous year.

The tax rate for the Group was 23% (29). The Group pays tax on profits in the Swedish companies. In 2012 the Swedish companies made provisions to untaxed reserves of SEK 112.3 million. Tax allocation reserves were reversed during 2013.

The loss in Japan is not deductible against the Swedish profits. Loss carry-forwards in the Japanese subsidiary at 31 December 2013 amounted to SEK 50.0 million. The deferred tax asset for these has not been recognised, since a sustainable profit level has not yet been shown in the Japanese subsidiary.

Earnings per share Earnings per share amounted to SEK 3.57 (3.52)¹⁾.

Cash flow The Group's cash and cash equivalents at 31 December 2013 totalled SEK 234.3 million (375.0). Cash flow for the period amounted to SEK -140.8 million (203.8). Cash flow for 2012 included the payment of SEK 356.0 million in licence revenue from Nestlé.

Cash flow for 2013 includes dividends of SEK 172.7 million, tax payments of SEK 10.8 million, investments in TwoPac of SEK 14.7 million and the acquisition of shares in TwoPac of SEK 30.0 million.

Equity Consolidated equity amounted to SEK 316.9 million (456.8). The Group's equity/assets ratio was 83% (88).

In June 2012 BioGaia carried out the warrant programme that was resolved on by the Annual General Meeting the same year. A total of 87,000 warrants were subscribed for, of which the management subscribed for 41,000. The warrants were issued at a market price of SEK 14.27 each following valuation according to the Black & Scholes formula, which provided the Parent Company with proceeds of SEK 1.3 million. Each warrant entitles the holder to subscribe for one class B share for SEK 241.90 on 1 June 2015. Volatility was estimated at 40%.

If all of the subscription warrants are exercised, the company's equity will be increased by SEK 21.0 million. This represents a dilutive effect of approximately 0.5% on the share capital and 0.4% on the total number of votes upon the full exercise of warrants.

In order to achieve a high level of participation, the AGM decided to pay a subsidy of SEK 10 per warrant (after 1 June 2015) to the employees who have subscribed for subscription warrants but have not exercised the right to buy shares. No provisions for this obligation have yet been made, since the assessment is that with the applicable market price, all holders should exercise the right to buy shares. However, the need will be continuously evaluated.

Dividend The Board of BioGaia AB proposes to the upcoming AGM an ordinary dividend of SEK 3.35 and an extraordinary dividend of SEK 3.65, for a total dividend of SEK 7.00 per share. For more information, see below under "Proposed appropriation of profits".

Investments in property, plant and equipment Investments in property, plant and equipment amounted to SEK 16.6 million (29.4), of which SEK 14.7 million (27.5) refers to TwoPac AB.

Subsidiary in Japan Net sales in the Japanese subsidiary amounted to SEK 15.2 million (15.1). Operating profit in the Japanese subsidiary was SEK -7.7 million (-4.6). Sales are largely unchanged compared to the previous year, but due to sales of yoghurt products with a significantly lower margin and initial marketing activities in connection with the launch, operating profit has decreased. It is BioGaia's assessment that profitability will be attained in 2014.

Subsidiary TwoPac AB TwoPac AB has been owned 50% by BioGaia and 50% by TwoPac's management. Since 1 January 2011, TwoPac is consolidated in the BioGaia Group. On 1 July 2013 BioGaia acquired the remaining 50% of TwoPac (see above).

Net sales in TwoPac amounted to SEK 37.5 million (29.3). Operating profit was SEK 9.9 million (8.8). Profit after tax was SEK 7.3 million (6.2).

Subsidiary CapAble AB CapAble, which is owned 90.1% by BioGaia AB and 9.9% by the company's president, was started in November 2008 to manufacture and sell the patented LifeTop Cap.

Net sales in CapAble totalled SEK 0.5 million (0.1). Operating profit was SEK -2.5 million (-2.6). Following extensive rebuilding of the production machinery, the first delivery was made to the company's customer in the USA. If no new problems arise in the machinery and the customer continues to order to the same extent as in the fourth quarter, CapAble should attain profitability in 2014.

Parent Company Net sales in the Parent Company reached SEK 304.6 million (634.5) and profit before tax and appropriations was SEK 76.9 million (434.9).

Since it is uncertain whether the receivable from BioGaia Japan will be recovered in the foreseeable future, a provision has been made for the amount in question. This has resulted in an impairment loss of SEK 9.0 million (8.5), which has had a negative impact on profit. In addition, the shares in CapAble have been written down by 2.6 million. For more information, see below under "Significant risks and uncertainties; Group and Parent Company".

Profit after tax was SEK 144.7 million (239.3). A tax allocation reserve of SEK 109.3 million was reversed during 2013.

Cash flow in the Parent Company totalled SEK -143.2 million (209.9).

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.

Lactobacillus reuteri is one of the world's most well researched probiotics, especially in young children. To date, 124 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on around 10,000 individuals of all ages. The results have been published in 90 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).
- Necrotising enterocolitis (NEC)

In 2013, 18 studies were published in different indication areas and using different strains of *Lactobacillus reuteri* (Protectis, Gastrus and Prodentis).

R&D expenses are reported at SEK 40.6 million (35.8), which is equal to 13% (12) of net sales. The increase of SEK 4.8 million (13%) is mainly due to higher external expenses for research and clinical studies, but also higher personnel expenses. Costs for the Necrotising Enterocolitis project (NEC) (see below) amounted to SEK 2.9 million (0) during the year. No development expenses for the project were capitalised during 2013.

The amortisation component of R&D expenses was SEK 0.3 million (0.6). Investments in capitalised development expenses totalled SEK 0 million (0).

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.

Environmental information

BioGaia has a fundamentally ethical vision, namely to improve the health of people around the world by offering first class probiotic products. By offering alternatives that make it possible to improve health through the use of natural organisms, without side effects, the company's hope is to reduce the use of medications and antibiotics. In a longer perspective, this will also have positive effects on the environment.

In 2012 BioGaia measured the company's climate impact for the first time, for the Parent Company and for operations in the USA and Japan (TwoPac was not included in the measurement). The results showed emissions of 910 tonnes of carbon dioxide equivalents (CO² + five other greenhouse gases). This is equal to just under 12 tonnes per employee and year. The largest contribution to greenhouse gases in 2012 came from sources other than the direct and indirect. Business trips accounted for over half of BioGaia's climate impact. The second largest contribution to climate impact came from the product packages.

In 2013 BioGaia carried out a follow-up life cycle analysis for comparison with the results in 2010. The analysis in 2013 showed that the pill bottles still produce the most significant emissions. Both the analysis in 2013 and the previous one in 2010 were carried out in association with the Swedish Environmental Research Institute (IVL).

BioGaia climate compensated for 910 tonnes of carbon dioxide equivalents by purchasing certificates from Vi Agroforestry for approximately SEK 110 thousand, whose development cooperation efforts to fight poverty and promote planting of trees are carried out according to the Plan Vivo method.

¹⁾ Excluding license revenue from Nestlé. Net sales and profit for the previous year also included license revenue of SEK 356.0 million from Nestlé for a perpetual license to use *Lactobacillus reuteri* Protectis in infant formula during the remaining term of the patent, which is regarded as non-recurring revenue. Including license revenue from Nestlé, net sales amounted to SEK 645.2 million, operating profit to SEK 428.1 million, profit before tax to SEK 442.2 million, profit after tax to SEK 329.9 million and earnings per share to SEK 18.93 for 2012.

Goals for environmental work in 2014

1. Report on our climate impact in 2013.
2. Communicate our environmental responsibility to the employees and distributors.
3. Climate compensate via Vi Agroforestry for emissions during 2013.
4. Take part in the CDP Nordic Climate Change Report together with 260 Nordic companies.

BioGaia conducts no operations that require permits.

Business risks and uncertainties

BioGaia's operations are associated with both risks and opportunities of various types. Certain risks are of a general nature, while others are more specific to the company. The following section is not a complete risk analysis, but an indication of the factors of significance for future development.

The Japanese venture The Japanese subsidiary has operated at a loss since the start in 2006. The business model previously used was found to be unsuccessful and in 2010 a decision was made to change the business model in Japan to that which is used in the other markets. On the balance sheet date, assets in the Japanese subsidiary were reported at SEK 9.3 million. BioGaia's assessment is that there is no indication of impairment of these assets. In the Parent Company, all receivables and participations in the Japanese subsidiary have been written down to zero.

Net sales in the Japanese subsidiary amounted to SEK 15.2 million (15.1) and operating profit was SEK -7.7 million (-4.6). Sales are largely unchanged compared to the previous year, but due to the sale of yoghurt products with a significantly lower margin and initial marketing activities prior to the launch, operating profit has decreased. BioGaia's assessment is that the company will attain profitability in 2014.

CapAble AB CapAble, which is 90.1% owned by BioGaia AB, was started in November 2008 to manufacture and sell the patented LifeTop Cap. The shares in the subsidiary CapAble amount to a total of SEK 6.9 million in the Parent Company. CapAble has operated at a loss since the start in 2008. BioGaia made total conditional shareholder contributions of SEK 6 million to CapAble in 2009 and 2010. BioGaia AB has made total group contributions of SEK 9.8 million during the period from 2010 to 2013. Profit before tax for 2013 amounted to SEK -2.6 million (-2.0). On the balance sheet date, the assets in CapAble were reported at SEK 3.3 million. BioGaia's assessment is that CapAble will show profitability in coming years, for which reason there is no indication of impairment on the balance sheet date.

Development of drug against NEC In November, the Board of BioGaia made a decision to invest in phase one 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 can affect premature infants. BioGaia will invest up to SEK 42 million in the project over a two-year period. The project will be driven by BioGaia's subsidiary Infant Bacterial Therapeutics (IBT), of which 9% is owned by the company's President, Staffan Strömberg, and its Research Director, Eamonn Connolly. The remaining 91% is owned by BioGaia. In 2013, costs for the project amounted to SEK 2.9 million.

The project offers major opportunities, but is also associated with substantial risks. If the drug development is not realised, it is BioGaia's intention to market the formulation under another product category.

BioGaia's partners BioGaia does not sell directly to end-users but instead sells its products to companies (partners) which then sell the products to consumers. This means that 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 a number of BioGaia's partners sell products wholly or partly under the BioGaia brand and BioGaia-branded products are currently sold in more than 50 countries. BioGaia also 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 targets. In 2012 and 2013 BioGaia carried out distributor changes in some 10 markets.

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.

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 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 situation BioGaia's products are currently sold in some 85 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 certain markets, like Turkey, Canada, Hong Kong and Peru, 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.

In the EU, the use of nutrition and health claims is regulated by the European Food Safety Authority (EFSA). The new EFSA rules, which went into effect in December 2012, apply to food products that are marketed to consumers with various claims about preventative health effects, for example that a lower intake of cholesterol reduces the risk for cardiovascular disease or a food product's ability to improve the immune defence. 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 show the clinical studies to healthcare professionals (doctors, midwives, etc.) who then recommended 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. In addition, there is an incentive scheme that is open to all employees in the Parent Company.

Product liability insurance 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.

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 minimise 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 has revenue primarily in EUR (around 65% of net sales in 2013) but also in SEK, USD and JPY, and expenses primarily in SEK, EUR, JPY and USD.

In 2013 the company had a cash flow surplus of approximately EUR 17.2 million (55.6) (2012 includes the payment of EUR 40 million from Nestlé), a cash flow deficit of JPY -138.7 million (-81.2) and a cash flow surplus of USD 2.2 million (1.7).

Growth in sales has also led to increased currency risks, for which reason the company has taken currency hedges in EUR. 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 2013 the company had outstanding forward exchange contracts for EUR 13.7 million at an average exchange rate of 8.79, of which EUR 9.9 million will mature for payment in 2014 and EUR 3.8 million in 2015. BioGaia does not apply hedge accounting. For more information see Notes 9, 20 and 22.

A stronger SEK rate, primarily against the EUR, will decrease the value of BioGaia's sales and profit, but through profitable forward exchange transactions and by trying to reallocate a portion of expenses to EUR, the company is trying to minimise the impact on profit. The company is also trying to reallocate a portion of revenue from EUR to other currencies.

Interest rate risk The Group has no loans and therefore no interest rate risks. Excess liquidity is invested mainly in bank accounts.

Credit risk 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 accounts receivable and additional evaluation of the customers' financial position is carried out when needed in order to minimise risks.

The loan from the Parent Company to the subsidiary CapAble AB has been used to purchase equipment for manufacturing of LifeTop Cap. The company's assessment is that the loan entails no credit risk.

The loan from the Parent Company to the subsidiary TwoPac AB has been used mainly to build a new production facility in Eslöv, Sweden, that was completed and taken into operation during 2012. In 2013 an additional loan has been paid to TwoPac for construction of new production machinery. The company's assessment is that credit risk on the loan is low.

Liquidity risk 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.

Cash flow risk In 2013 BioGaia had a positive cash flow from operating activities before changes in working capital of SEK 81.3 million (338.5). After changes in working capital, cash flow was SEK 78.4 million (335.6). Total cash flow was SEK -140.8 million (203.8). Cash flow for 2012 included payment of SEK 356.0 million in licence revenue from Nestlé. Cash flow for 2013 includes dividends of SEK 172.7 million, tax payments of SEK 10.8 million, equipment investments in TwoPac of SEK 14.7 million and the acquisition of shares in TwoPac of SEK 30.0 million.

Because cash and cash equivalents at 31 December 2013 amounted to SEK 234.3 million (375.0), no infusion of capital is necessary.

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

Employees

The number of employees in the Group at 31 December 2013 was 85 (76), consisting of 46 women and 39 men. The management team includes four men and five women. In 2013, 11 new employees were hired and two employees left the company.

BioGaia's incentive scheme for the employees In June BioGaia carried out the warrant programme that was decided by the Annual General Meeting on 8 May 2012. A total of 87,000 warrants were subscribed for, of which the management subscribed for 41,000. The warrants were issued at a market price of SEK 14.27 each following valuation according to the Black & Scholes formula, which provided the Parent Company with proceeds of SEK 1.3 million. Each warrant entitles the holder to subscribe for one class B share for SEK 241.90 on 1 June 2015. Volatility was estimated at 40%.

If all of the subscription warrants are exercised, the company's equity will be increased by SEK 21.0 million. This represents a dilutive effect of approximately 0.5% on the share capital and 0.4% on the total number of votes upon the full exercise of warrants.

In order to achieve a high level of participation, the AGM decided to pay a subsidy of SEK 10 per warrant (after 1 June 2015) to the employees who have subscribed for subscription warrants but have not exercised the right to buy shares. No provisions for this obligation have yet been made, but the need will be continuously assessed. At present, the assessment is that all warrants will be exercised and that there is therefore no need for a provision.

BioGaia has an incentive scheme that is open to all employees in the Parent Company under which an extra bonus (equal to no more than 15% of salary) is payable depending on BioGaia's gross profit. For 2013, no bonuses were expensed and no provisions were made in respect of the company's incentive scheme.

Future outlook

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

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

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

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 time.

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 attain 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 fixed salary, variable remuneration, long-term incentive schemes, pension benefits, other benefits and terms of notice/termination benefits.

Fixed salary Fixed 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 per cent 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 mandatory age of retirement for senior executives who are Swedish citizens is 65 years, and for others according to the pension rules in their respective countries. 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 the other remuneration and shall be consistent with general norms in the respective geographic market.

Terms of notice and termination benefits The President and the company have a mutual notice period of 18 months. The company's Vice Presidents have a corresponding notice period of six months. For other senior executives, the notice period is three months.

The Board of Directors proposes that the Board be authorised 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 of 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.

Proposed appropriation of profits

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

Retained profit	158,427,089
Profit for the year	144,656,186
Together amounting to	303,083,275

The Board of Directors proposes that the profits be disposed of as follows:

To be paid as a dividend to the shareholders	120,896,734,*)
To be carried forward to new account	182,186,541
Total	303,083,275

*) The proposed dividend consists of an ordinary dividend of SEK 3.35 per share and, in view of the company's good liquidity and strong balance sheet, an extraordinary dividend of SEK 3.65 per share, amounting to a total dividend of SEK 7.00 per share.

Group

Statement of comprehensive income

SEK 000s	Note	2013	2012
Net sales	2, 3	315,875	645,252
Cost of goods sold	2	-101,711	-88,179
Gross profit	2	214,164	557,073
Selling expenses	4	-79,396	-77,361
Administrative expenses	4, 5	-14,356	-13,423
Research and development expenses	4, 13	-40,555	-35,788
Other operating income	6	1,796	-
Other operating expenses	7	-	-2,431
Operating profit	8	81,653	428,070
Financial income	9	5,081	14,245
Financial expenses	10	-2,974	-73
Net financial items		2,107	14,172
Profit before tax		83,760	442,242
Tax	11	-19,572	-112,371
PROFIT FOR THE YEAR		64,188	329,871
<i>Other comprehensive income:</i>			
Gain/losses arising on translation of the financial statements of foreign operations:		-1,419	-1,059
Comprehensive income for the year		62,769	328,812
<i>Profit for the year attributable to:</i>			
Owners of the Parent Company		61,722	326,970
Non-controlling interests	12	2,466	2,901
		64,188	329,871
<i>Comprehensive income for the period attributable to:</i>			
Owners of the Parent Company		60,303	325,911
Non-controlling interests		2,466	2,901
		62,769	328,812
Earnings per share			
Basic earnings per share, SEK		3.57	18.93
Diluted earnings per share, SEK		3.56	18.93
Number of shares, thousands		17,271	17,271
Average number of shares, thousands		17,271	17,271
Number of outstanding warrants, thousands		87	87
Number of outstanding warrants with a dilutive effect, thousands		87	-
Average number of shares after dilution, thousands		17,358	17,271

Cash flow statements

SEK 000s	Note	2013	2012
Operating activities			
Operating profit		81,653	428,070
<i>Adjustments for non-cash items:</i>			
Depreciation/amortisation		5,541	4,545
Capital gains/losses on the sale of non-current assets		-86	46
Other non-cash items		-222	300
		86,886	432,961
Realised forward exchange contracts		193	2,818
Interest received		5,080	8,563
Interest paid		-84	-67
Taxes paid		-10,799	-105,736
Cash flow from operating activities before changes in working capital		81,276	338,539
<i>Cash flow from changes in working capital:</i>			
Inventories		7,288	445
Current receivables		-7,123	135
Trade payables		3,192	-2,848
Current interest-free operating liabilities		-6,192	-714
Cash flow from operating activities		78,441	335,557
<i>Investing activities:</i>			
Purchase of property, plant and equipment	14	-16,634	-29,400
Sale of property, plant and equipment		6	9
Purchase of financial assets	15	-30,000	-
Sale of financial assets		90	-
Cash flow from investing activities		-46,538	-29,391
<i>Financing activities:</i>			
New share issue warrants		-	1,253
Dividend		-172,710	-103,626
Cash flow from financing activities		-172,710	-102,373
CASH FLOW FOR THE YEAR		-140,807	203,793
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Exchange difference in cash and cash equivalents		374,974	171,534
		104	-353
CASH AND CASH EQUIVALENTS AT END OF YEAR		234,271	374,974

Statement of financial position

SEK 000s	Note	31 Dec. 2013	31 Dec. 2012
ASSETS			
<i>Non-current assets:</i>			
Intangible assets	13	–	–
Property, plant and equipment	14	60,286	49,193
Deposits		17	17
Total non-current assets		60,303	49,210
<i>Current assets:</i>			
Inventories	17	14,585	20,845
Trade receivables	18, 22	65,066	54,045
Tax receivable		–	6,476
Other receivables	20	4,089	7,596
Deferred expenses and accrued income	21	5,025	3,796
Short-term investments	22	80	80
Cash and cash equivalents	22	234,271	374,974
Total current assets		323,116	467,812
TOTAL ASSETS		383,419	517,022

SEK 000s	Note	31 Dec. 2013	31 Dec. 2012
EQUITY AND LIABILITIES			
<i>Equity</i>			
Share capital	23	17,271	17,271
Other contributed capital		6,053	6,053
Reserves		–835	586
Retained profit		233,130	102,423
Profit for the year attributable to owners of the Parent Company		61,722	326,970
Total equity attributable to owners of the Parent Company		317,341	453,303
Non-controlling interests	12, 15	–484	3,491
Total non-controlling interests		–484	3,491
Total equity		316,857	456,794
<i>Non-current liabilities:</i>			
Deferred tax liability		85	24,710
Total non-current liabilities		85	24,710
<i>Current liabilities:</i>			
Prepayments from customers	22	508	3,118
Trade payables	22	17,808	14,731
Current tax liability		29,340	1,599
Other liabilities	24	3,934	1,266
Accrued expenses and deferred income	25	14,887	14,804
Total current liabilities		66,477	35,518
Total liabilities		66,562	60,228
TOTAL EQUITY AND LIABILITIES		383,419	517,022
Pledged assets and contingent liabilities in the Group			
	26		

Statement of changes in equity

SEK 000s	Share capital	Other contributed capital	Translation reserve	Retained profit incl. profit for the year	Equity attributable to owners of the Parent Company	Non-controlling interests	Total equity
Opening balance, 1 January 2012	17,271	82,501	1,644	128,348	229,764	591	230,355
Dividend				–103,626	–103,626		–103,626
Transfer from the statutory reserve to non-restricted reserves		–77,701		77,701	0		0
Subscription warrants ¹⁾		1,253			1,253		1,253
Total transactions with owners	0	–76,448	0	–25,925	–102,373	0	–102,373
Profit for 2012				326,970	326,970	2,901	329,871
<i>Other comprehensive income</i>							
Gain/losses arising on translation of the financial statements of foreign operations			–1,059		–1,059		–1,059
Comprehensive income for the year	0	0	–1,059	326,970	325,911	2,901	328,812
Closing balance, 31 December 2012	17,271	6,053	586	429,393	453,303	3,491	456,794
Dividend				–172,710	–172,710		–172,710
Total transactions with owners				–172,710	–172,710		–172,710
Profit for 2013				61,722	61,722	2,466	64,188
<i>Other comprehensive income</i>							
Gain/losses arising on translation of the financial statements of foreign operations			–1,419		–1,419		–1,419
Comprehensive income for the year			1,419	61,722	60,302	2,466	62,769
Purchase of 50% of TwoPac AB				–23,553	–23,553	–6,447	–30,000
Sale of 9% of IBT AB					–	4	4
Closing balance, 31 December 2013	17,271	6,053	–835	294,852	317,341	–484	316,857

¹⁾The terms of the subscription warrants are described in the administration report.

Parent Company

Income statements

SEK 000s	Note	2013	2012
Net sales	2, 3	304,624	634,519
Cost of goods sold	2	-108,840	-97,475
Gross profit	2	195,784	537,044
Selling expenses	4	-59,662	-57,673
Administrative expenses	4, 5	-13,302	-12,248
Research and development expenses	4, 14	-40,461	-35,868
Other operating income	6	1,796	-
Other operating expenses	7	-	-2,430
Operating profit	8	84,155	428,825
<i>Result from financial investments</i>			
Impairment loss on receivable from group company	16	-8,960	-8,574
Impairment loss on shares in group companies	15	-2,589	-2,583
Interest income and similar profit/loss items	9	7,279	17,283
Interest expense and similar profit/loss items	10	-2,965	-63
Net financial items		-7,235	6,063
Profit before appropriations and taxes		76,920	434,888
Change in tax allocation reserve	27	109,341	-109,341
Profit before tax		186,261	325,547
Tax	11	-41,604	-86,270
PROFIT FOR THE YEAR		144,657	239,277

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 statements

SEK 000s	Note	2013	2012
Operating activities			
Operating profit		84,155	428,825
<i>Adjustments for non-cash items</i>			
Depreciation/amortisation		1,157	1,510
Capital gains/losses on the sale of non-current assets		-86	8
Other non-cash items		-224	300
		85,002	430,643
Realised forward exchange contracts		193	2,818
Interest received		5,686	9,183
Interest paid		-83	-63
Taxes paid		-9,816	-105,690
Cash flow from operating activities before changes in working capital		80,982	336,891
<i>Cash flow from changes in working capital</i>			
Inventories		8,990	-29
Current receivables		-4,793	-5,079
Trade payables		2,218	-2,970
Current interest-free operating liabilities		-13,633	-5,434
Cash flow from operating activities		73,764	323,379
<i>Investing activities</i>			
Purchase of property, plant and equipment	14	-895	1,462
Sale of property, plant and equipment	14	6	9
Purchase of financial assets	15	-31,000	-
Sale of financial assets		90	-
Payment of loan to subsidiary	16	-12,419	-9,670
Cash flow from investing activities		-44,218	-11,123
<i>Financing activities</i>			
Subscription warrant programme		-	-1,253
Dividend		-172,710	-103,626
Cash flow from financing activities		-17,710	-102,373
CASH FLOW FOR THE YEAR		-143,164	209,883
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		371,448	161,865
Exchange difference in cash and cash equivalents		172	-300
CASH AND CASH EQUIVALENTS AT END OF YEAR		228,456	371,448

Balance sheets

SEK 000s Note 31 Dec. 2013 31 Dec. 2012

ASSETS

Non-current assets

<i>Intangible assets</i>	13		
Capital development expenditure		–	–
<i>Total intangible assets</i>		–	–
<i>Property, plant and equipment</i>	14		
Production equipment		1,048	758
Office equipment and computers		1,010	1,517
<i>Total property, plant and equipment</i>		2,058	2,275
<i>Financial assets</i>			
Participations in group companies	15	52,394	21,160
Receivables from group companies	16, 29	29,513	24,513
<i>Total financial assets</i>		81,907	45,673
Total non-current assets		83,965	47,948

Current assets

Inventories	17	9,704	18,694
<i>Current receivables</i>			
Trade receivables	18	59,437	49,455
Receivables from group companies	19	271	–
Tax receivable		–	6,461
Other receivables	20	2,742	7,385
Deferred expenses and accrued income	21	4,360	2,934
<i>Total current receivables</i>		66,810	66,235
Short-term investments	22	80	80
Cash and cash equivalents		228,456	371,448
Total current assets		305,050	456,457
TOTAL ASSETS		389,015	504,405

Balance sheets

SEK 000s Note 31 Dec. 2013 31 Dec. 2012

EQUITY AND LIABILITIES

Equity

<i>Restricted equity</i>	23		
Share capital		17,271	17,271
Other restricted equity		1,253	1,253
		18,524	18,524
<i>Non-restricted equity</i>			
Retained profit		158,426	91,859
Profit for the year		144,657	239,277
		303,083	331,136
Total equity		321,607	349,660
Untaxed reserves			
Tax allocation reserve		–	109,341
<i>Total untaxed reserves</i>		–	109,341

Liabilities

<i>Current liabilities</i>			
Prepayments from customers		508	3,118
Trade payables		13,542	11,324
Liabilities to group companies	19	10,734	16,990
Current tax liability		26,138	–
Other liabilities	24	3,946	883
Accrued expenses and deferred income	25	12,540	13,089
<i>Total current liabilities</i>		67,408	45,404
Total liabilities		67,408	45,404
TOTAL EQUITY AND LIABILITIES		389,015	504,405
Pledged assets and contingent liabilities for the Parent Company			
Floating charges	26	2,000	2,000
Contingent liabilities		None	None

Statement of changes in equity

SEK 000s	Share capital	Other restricted equity	Retained profit incl. profit for the year	Total equity
Opening balance, 1 January 2012	17,271	77,700	117,785	212,756
Dividend			–103,626	–103,626
Transfer of statutory reserve to non-restricted reserves		–77,700	77,700	0
Subscription warrants ¹⁾		1,253		1,253
Profit for 2012			239,277	239,277
Closing balance, 31 December 2012	17,271	1,253	331,136	349,660
Dividend			–172,710	–172,710
Profit for 2013			144,657	144,657
Closing balance, 31 December 2013	17,271	1,253	303,083	321,607

¹⁾The terms of the subscription warrants are described in the administration report.

Notes to the financial statements and accounting policies

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

Table of contents

48	Note 1 Accounting policies
50	Note 2 Segment reporting
51	Note 3 Revenue
51	Note 4 Employees and personnel expenses, remuneration to senior executives
52	Note 5 Audit fees
52	Note 6 Other operating income
53	Note 7 Other operating expenses
53	Note 8 Operating expenses allocated by type of cost
53	Note 9 Financial income
53	Note 10 Financial expenses
53	Note 11 Tax on profit for the year
53	Note 12 Non-controlling interests
54	Note 13 Intangible assets
54	Note 14 Property, plant and equipment
55	Note 15 Financial assets
55	Note 16 Non-current receivables from subsidiaries and associated company
56	Note 17 Inventories
56	Note 18 Trade receivables
56	Note 19 Related party transactions
57	Note 20 Other receivables
57	Note 21 Deferred expenses and accrued income
57	Note 22 Financial assets and liabilities
57	Note 23 Equity
58	Note 24 Other liabilities
58	Note 25 Accrued expenses and deferred income
58	Note 26 Pledged assets and contingent liabilities
58	Note 27 Tax allocation reserve
58	Note 28 Policy for financial risk management
59	Note 29 Critical accounting estimates and assumptions



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) as adopted for application by the EU. Furthermore, the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Rules for Consolidated Financial Statements, has been applied.

The Parent Company applies 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 Companies Act limits the applicability of IFRS in the Parent Company.

Standards, interpretations and amendments applied as of 1 January 2013

Standards and interpretations that are not yet effective and are awaiting approval from the EU have not been evaluated by BioGaia.

IFRS 10 Consolidated Financial Statements

The standard changes the definition of control and provides extensive new guidance on how it is to be applied. The new requirements have the potential to affect which of the Group's investments are to be regarded as subsidiaries and can therefore change the scope of the Group. Management has determined that it will not change the classification of any of the Group's holdings during the current period or the comparison periods covered in these financial statements.

IFRS 12 Disclosure of Interests in Other Entities

The standard integrates supplementary disclosures for different types of investments, including unconsolidated structured entities. The standard introduces new requirements for supplementary disclosures about the risks that a company is exposed to through its involvement in structured entities. Note 15 illustrates the application of IFRS 12 during the current year.

IFRS 13 Fair Value Measurement

The standard clarifies the definition of fair value and provides related guidance and requires additional disclosures about fair value measurement. The Group applies IFRS 13 in the current year, see Note 22.

Standards, amendments and interpretations of existing standards that are not effective and are not subject to early adoption by the Group These are not assessed to have any material impact on the results and financial statements of the Parent Company or the Group aside from increased disclosures.

IFRS 9 Financial Instruments

The IASB intends to replace IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) in its entirety with IFRS 9. So far, the sections dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been published. These sections are effective for financial periods beginning on or after 1 January 2015. Management has not yet assessed the potential effects of this new standard on the consolidated financial statements. Management does not expect to apply IFRS 9 until it has been completed and the total effect can be evaluated.

Basis of presentation The financial statements have been prepared in accordance with the cost method of accounting unless otherwise stated.

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.

Scope of consolidation The consolidated financial statements include the operations of the Parent Company and the subsidiaries up to and including 31 December 2013. The Parent Company has controls the subsidiaries, and is exposed to, or has rights, to variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries. All subsidiaries have their balance sheet date on 31 December.

All inter-company transactions and balances are eliminated on consolidation, including unrealised gains or losses arising from inter-company transactions. In cases where unrealised losses on inter-company 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 recognised from the date on which the acquisition or sale went into force, according to what is applicable.

Non-controlling interests, which are recognised as component of equity, represents 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 interests based on their respective holdings.

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 recognised 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 recognised in operating profit, while foreign exchange gains/losses on financial receivables and liabilities are recognised in net financial items.
- **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 calculated quarterly. Exchange differences arising on translation of foreign operations are recognised 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 reporting The Group has applied IFRS 8, Operating Segments, since 1 January 2009. The Executive Management has analysed the Group's internal reporting and determined that the Group's operations are monitored and evaluated based on the following segments:

- **Finished consumer products:** Sales of digestive tablets, ORS, drops and oral health products, etc.
- **Component products:** Sales of cultures as an ingredient in licensee products (such as infant formula and dairy products), royalties for the use of *Lactobacillus reuteri* and sales of LifeTop Straw and LifeTop Cap
- **Other products:** Animal Health, etc.

New segment reporting as of 2014 In the autumn of 2013 BioGaia changed its organisation. The company is now divided into three business areas, Pediatrics, Adult Health and New Business. At the central level BioGaia has retained its support

functions, but the business areas are responsible for product development and sales to their respective target groups. As of 2014 BioGaia will therefore report sales and gross profit by business area in its segment reporting, and will thereby discontinue the earlier division between finished consumer products and component products. In the first quarter of 2014 the division between the new segments will be established and in Q1 2014, segment information will be provided based on the new organisation. Comparative figures for the new segments will be reported for 2013. The company has not yet fully established the division between the new segments and can therefore not provide information for the 2013 figures in the annual report according to the new segmentation.

Revenue recognition BioGaia's net sales consist primarily of revenue from the sale of finished consumer products (tablets, drops, ORS and oral health products) to distributors, but also revenue from the sale of component products (such as *Lactobacillus reuteri*) for use in licensee products (such as infant formula and dairy products), and to a certain extent royalties for the use of *Lactobacillus reuteri* in licensee products and revenue from the sale delivery systems such as straws and caps.

Revenue from the sale of goods is recognised 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.

Royalties are measured as a percentage of the licensee's reported sales value for consumer products containing BioGaia's products, and are recognised monthly or quarterly. License revenue received in connection with the signing of agreements is accrued in cases where it intended to cover costs until the time of launch. In other cases, the revenue is recognised immediately. Royalties from the sale of licences (rights), such as the previous year's 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 recognised 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.

Interest income is recognised in the income statement for the period in which it arises.

Leases 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 recognised 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 law, currently at the age of 65 years. 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 the year's taxable profit. Deferred tax refers to the tax calculated partly on the basis of temporary differences and partly on taxable deficits. At every closing date, an assessment is made to determine whether to recognise deferred tax assets not previously recognised in the balance sheet. Such tax assets are recognised to the extent that it is deemed likely that sufficient taxable profits will be available in the future.

Research and development Costs related to research undertaken with the prospect of gaining new scientific or technical knowledge in the Group's operations are expensed as incurred.

Costs for development, where knowledge and understanding gained from research and practical experience are directed towards producing new products, processes or systems, are recognised as intangible assets in the balance sheet when they meet the criteria for capitalisation according to IAS 38, i.e. only when the technical and commercial feasibility of the product or process has been established, the Group has adequate resources to complete development and the Group intends and is able to complete the intangible asset and either use it or sell it. It should also be probable that the future economic benefits attributable to the asset will flow to the company and the cost of the asset can be reliably measured. The reported value includes all directly attributable costs, such as those for materials, purchased services and compensation to employees engaged in R&D activities. Other development costs are expensed as incurred. Individual assessment is made of all ongoing research and development projects to determine which costs for the respective project are capitalisable and to look for any indications of impairment.

The company has a number of projects that meet the criteria for capitalisation and were thus recognised in the balance sheet in previous years. These had been amortised in full at 31 December 2012. In 2013 no development projects were assessed to have reached the phase where capitalisation of development costs is appropriate according to these criteria, for which reason all of the year's development costs have been expensed in full.

Intangible assets and property, plant and equipment Intangible assets and property, plant and equipment are recognised at cost with a deduction for accumulated amortisation/depreciation and impairment.

The following amortisation schedules are applied:

	Group	Parent Company
Intangible assets		
Capitalised development expenditure	5–10 yrs	5–10 yrs
Licenses	5 yrs	5 yrs
Trademarks	5 yrs	5 yrs
Property, plant and equipment		
Production equipment	5–10 yrs	5 yrs
Equipment and computers	3–5 yrs	3–5 yrs
Buildings	20–60 yrs	–

Amortisation of intangible assets is started when a project has been completed and the product begins generating revenue.

The amortisation period varies between 5–10 years depending on the estimated useful life of the project. The only project with an amortisation schedule of more than 5 years is the Animal Health project, for which the amortisation period is matched to the term of the contract.

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. 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 recoverable amount.

Depreciation of a building is started when construction is completed. The depreciation period is 20–30 years for electricity and internal construction work, etc., and 60 years for the framework and foundation.

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

Cash and cash equivalents Cash and cash equivalents comprise cash in hand and at bank.

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

The financial assets recognised in balance sheet include cash and cash equivalents, short-term investments, trade payables and loans. 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.

A financial asset or liability is recognised in the balance sheet when the company initially becomes party to the contractual provisions of the instrument. Financial liabilities are recognised 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 amortised cost less provision for impairment. Impairment losses on trade receivables are recognised in profit or loss. Trade payables are recognised when an invoice has been received.

The purchase or sale of a financial asset is recognised on the trade date, which is the date on which the company commits to purchase or sell the asset.

A financial asset is derecognised from the balance sheet when the company's rights under the agreement are realised, expire or the company has relinquished control of the asset. The same applies to a part of a financial asset. A financial liability is derecognised 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 based on observable in the market data.

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:

- **Subsidiaries** In the Parent Company, shareholdings in subsidiaries are accounted for in accordance with the cost method of accounting.
- **Income taxes** In the Parent Company, untaxed reserves are recognised including deferred tax liability. In the consolidated financial statements, however, untaxed reserves are divided between deferred tax liability and equity.

Note 2 Segment reporting

The Executive Management, which is BioGaiA's chief operating decision-maker, has analysed the Group's internal reporting and determined that the Group's operations are steered and evaluated based on the following segments:

- **Finished consumer products:** Sales of tablets, drops, ORS and oral health products, etc.
- **Component products:** Sales of cultures as an ingredient in licensee products (such as infant formula and dairy products), royalties for the use of reuteri and sales of LifeTop Straw and Life Top Cap.
- **Other products:** Animal Health, etc.

The management monitors net sales and gross profit. Other expenses are not broken down at the segment level, but only at the group level.

Revenue by segment:

	Group		Parent Company	
	2013	2012	2013	2012
Finished consumer products	256,164	237,583	245,418	226,950
Component products	58,592	50,577	58,087	50,477
License revenue (component products) ¹⁾	–	356,004	–	356,004
Other products	1,119	1,088	1,119	1,088
	315,875	645,252	304,624	634,519

Gross profit by segment:

	2013		2012	
	2013	2012	2013	2012
Finished consumer products	180,088	170,275	161,809	150,246
Component products	33,384	29,935	33,283	29,934
License revenue (component products) ¹⁾	–	356,004	–	356,004
Other products	692	859	692	859
	214,164	557,073	195,784	537,043

¹⁾ The license revenue refers to revenue from Nestlé. The license revenue is included in component products but is reported on a separate line in order to achieve better comparability between years.

The cost of goods sold for the Group includes cost for obsolescence of SEK 4.1 million (2.5).

Trade receivables by segment:

	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
Finished consumer products	63,462	50,142	58,275	45,683
Component products	1,595	3,830	1,154	3,699
Other products	8	73	8	73
	65,065	54,045	59,437	49,455

In 2013, SEK 106.7 million, or 33.8% of the revenue, was related to three customers, two in the Finished Consumer Products segment and one in the Component Products segment (2012: SEK 103.0 million or 35.6 per cent).

Net sales by geographical market:

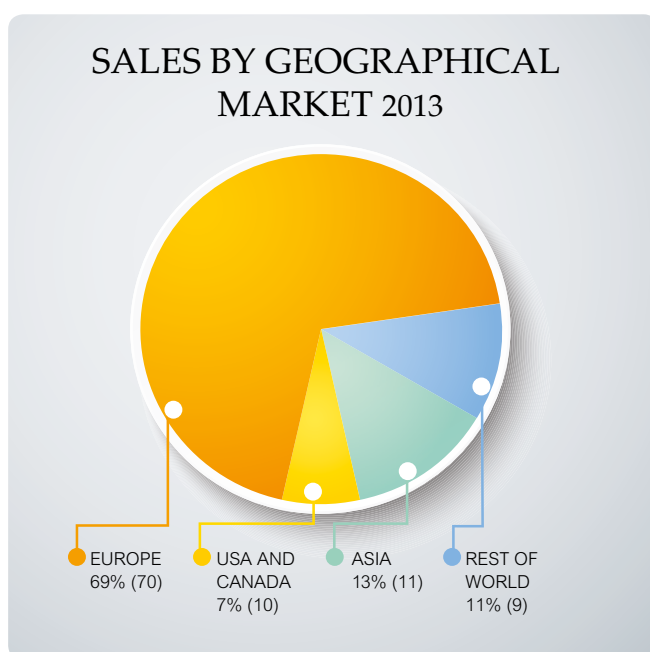
	Group		Parent Company	
	2013	2012	2013	2012
Europe	218,301	203,328	218,301	203,328
License revenue (Europe) ²⁾	-	356,004	-	356,004
USA and Canada	22,412	28,422	21,907	28,320
Asia	40,100	32,420	29,354	21,789
Rest of world	35,062	25,078	35,062	25,078
	315,875	645,252	304,624	634,519

²⁾ The license revenue refers to revenue from Nestlé. The license revenue is included in Europe but is reported on a separate line in order to achieve better comparability between years.

More than 90% of the Group's total assets, amounting to SEK 383,419 thousand (517,022), are located in Europe.

Of the Group's capital expenditure on property, plant and equipment and intangible assets, totalling SEK 16,634 thousand (29,400), more than 90% pertained to Europe. Sales in Sweden amounted to SEK 14.6 million (11.4), or 4.6% (3.9%), excluding the license revenue.

The Group's non-current assets amount to SEK 60.3 million, of which SEK 60.1 million is located in Sweden and SEK 0.2 million in other countries (the USA and Japan).



Note 3 Revenue

	Group		Parent Company	
	2013	2012	2013	2012
Product revenue	311,966	280,484	300,715	269,751
Royalties	3,909	8,764	3,909	8,764
License revenue	-	356,004	-	356,004
	315,875	645,202	304,624	634,519

Note 4 Employees and personnel expenses, remuneration to senior executives

Average number of employees by country:

	of whom,		of whom,	
	2013	men	2012	men
<i>Parent Company:</i>				
Sweden	53	19	47	16
<i>Subsidiaries:</i>				
Sweden	21	14	15	12
Japan	6	5	6	5
USA	2	0	2	0
Total subsidiaries	29	19	23	17
Total Group	82	38	70	33

The number of employees in the Group at 31 December 2013 was 85 (76).

Salaries and other remuneration divided by country and between the Board/President and other employees:

	2013	2012	2013	2012
	Board and President	Board and President	Other employees	Other employees
<i>Parent Company:</i>				
Sweden	3,364	3,267	30,978	23,703
<i>Subsidiaries:</i>				
Sweden	1,962	1,935	6,406	4,315
Japan	1,980	1,870	2,402	4,009
USA	-	-	1,048	1,144
Total subsidiaries	3,942	3,805	9,856	9,468
Total Group	7,306	7,072	40,834	33,171

Total salaries and social security expenses:

	Group		Parent Company	
	2013	2012	2013	2012
Salaries and other remuneration	48,141	40,242	34,342	26,970
Pension expenses for the Board and President	1,501	737	1,155	443
Pension expenses for other employees	4,536	3,400	4,109	2,898
Other social security expenses	14,341	12,074	11,556	9,682
Total	68,519	56,453	51,162	39,993

Pensions and health insurance:

All employees in Sweden are subject to mandatory retirement in accordance with Swedish law, currently at the age of 65 years. The company has no pension commitments other than payment of annual pension insurance premiums. For all employees 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	6%	25%	0%

All employees aside from the President (for the President, see below) are covered by health insurance, with benefits, in addition to compensation from the Swedish Social Insurance Agency. 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 per cent of salary after a qualifying period of 3 months (depending on the level of salary).

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.

Board member Jan Annwall was Vice President until 1 April 2010 and has thereafter worked for BioGaia to a limited extent in the capacity of consultant.

In 2013 the Company purchased services from Board member Jörgen Thorball's partly owned company XOventure for approximately SEK 670 thousand. The services related to preclinical work, documentation and product development.

Remuneration to the President and other senior executives employed by the company consists of basic salary and other benefits. Other senior executives consist of the 8 persons who together with the President make up the executive management team. One senior executive works on a consulting basis since May 2003.

In the event of termination by the company, the President is entitled to full salary during an 18-month period of notice. For Vice Presidents, the corresponding period is 6 months. Other senior executives have a statutory notice period of at least 3 months in the event of termination by the company. For the President the company paid an extra pension of SEK 750 thousand during 2013. For the President the company pays the cost of health insurance that provides sickness benefits equal to 75 per cent of salary after a qualifying period of 3 months. In other respects, the President has the same benefits as other employees. Otherwise, no agreements for termination benefits exist for the President or other senior executives.

Remuneration and other benefits during the year:

	Director's fees	Basic remuneration	Variable remuneration	Pension insurance including health insurance	Other remuneration	Total
Board Chairman:						
David Dangoor:	300					300
Board member:s						
Jan Annwall	150				225	375
Stefan Elving	150					150
Thomas Flinck	150					150
Inger Holmström	150					150
Jörgen Thorball	150					150
Paula Zeilon	150					150
President: Peter Rothschild		2,164		1,155		3,319
Other senior executives (8 persons):		8,823	375	2,046	0	11,244
	1,200	10,987	375	3,201	225	15,988

BioGaia's incentive scheme for the employees:

In June 2012 BioGaia carried out the warrant programme that was decided by the Annual General Meeting on 8 May 2012. A total of 87,000 warrants were subscribed for, of which the management subscribed for 41,000. The warrants were issued at a market price of SEK 14.27 each following valuation according to the Black & Scholes formula, which provided the Parent Company with proceeds of SEK 1.3 million. Each warrant entitles the holder to subscribe for one class B share for SEK 241.90 on 1 June 2015. Volatility was estimated at 40%.

If all of the subscription warrants are exercised, the company's equity will be increased by SEK 21.0 million. This represents a dilutive effect of approximately 0.5% on the share capital and 0.4% on the total number of votes upon the full exercise of warrants.

In order to achieve a high level of participation, the AGM decided to pay a subsidy of SEK 10 per warrant (after 1 June 2015) to the employees who have subscribed for subscription warrants but have not exercised the right to buy shares. No provisions for this obligation have yet been made, but will be continuously assessed. At present, the assessment is that all warrants will be exercised and that there is therefore no need for a provision.

Gender distribution:

	2013 Women	2012 Women	2013 Men	2012 Men
Board members	2	2	5	5
Management including President	4	4	5	4

Note 5 Audit fees

	Group		Parent Company	
	2013	2012	2013	2012
Grant Thornton Sweden AB:				
Audit assignments	473	408	325	325
Audit services in addition to audit	181	120	120	120
Audit advice	104	70	59	37
Tax advice	101	50	93	30
Other assignments	4	11	-	-
Cherry, Bekaert & Holland, L.L.P.:				
Audit assignments	59	41	-	-
Other assignments	124	129	-	-
Nakashima Accounting Firm:				
Audit assignments	20	18	-	-
Other assignments	-	-	-	-

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 6 Other operating income

	Group		Parent Company	
	2013	2012	2013	2012
Exchange gains on operating receivables and liabilities, net	1,796	-	1,796	-
	1,796	-	1,796	-

Note 7 Other operating expenses

	Group		Parent Company	
	2013	2012	2013	2012
Exchange losses on operating receivables and liabilities, net	-	2,430	-	2,430
	-	2,430	-	2,430

Note 8 Operating expenses allocated by type of cost

	Group		Parent Company	
	2013	2012	2013	2012
Cost of goods	101,711	88,179	108,840	97,475
Personnel expenses	68,961	56,435	51,515	39,887
Depreciation/amortisation	5,541	4,545	1,157	1,510
Other operating expenses	59,804	68,022	60,753	66,822
	236,017	217,181	222,265	205,694

Operating expenses include lease payments of SEK 192 thousand (191).

Total minimum future lease payments fall due as follows:

Within one year: 105

Within two to five years: 24

The Group's future payment commitments for rents amount to SEK 4.8 million, of which SEK 1.9 million refers to the Parent Company. The Group's rents fall due for payment in an amount of SEK 4.1 million within one year and SEK 0.7 million within two to five years.

Note 9 Financial income

	Group		Parent Company	
	2013	2012	2013	2012
Interest income	5,081	8,569	7,280	11,607
Exchange gains on forward exchange contracts	-	5,676	-	5,676
	5,081	14,245	7,280	17,283

The Parent Company and the Group have entered into forward exchange contracts in EUR for a total of EUR 13.7 million (10.7) at an average exchange rate of SEK 8.79 of which EUR 9.9 million will mature in 2014 and EUR 3.8 million in 2015. The unrealised foreign exchange loss is reported as a financial income/expense.

Note 10 Financial expenses

	Group		Parent Company	
	2013	2012	2013	2012
Exchange loss on forward exchange contracts	2,882	-	2,882	-
Other financial expenses	93	74	83	63
	2,975	74	2,965	63

Note 11 Tax on profit for the year

	Group		Parent Company	
	2013	2012	2013	2012
Current tax	-44,195	-87,846	41,605	-85,591
Tax on group contributions paid	-	-	-	-679
Deferred tax	24,623	-24,525	-	-
	-19,572	-112,371	41,605	-86,270

Deferred tax expense/tax income:

	Group		Parent Company	
	2013	2012	2013	2012
Deferred tax income attributable to loss carryforwards capitalised during the year	-85	-24,525	-	-
	-85	-24,525	-	-

Deferred tax liabilities:	2013	2012	2013	2012
	Opening balance deferred tax liabilities	24,710	185	-
Reversal of deferred tax	-24,710	-	-	-
Provision for deferred tax	-	24,525	-	-
Closing balance deferred tax liabilities	85	24,710	-	-

Reconciliation of nominal tax and actual tax expenses:

	Group		Parent Company	
	2013	2012	2013	2012
Reported profit before tax	83,760	442,243	186,261	325,547
Domestic tax	22.0%	26.3%	22.0%	26.3%
Nominal tax rate	-18,427	-116,310	-40,977	-85,619
Tax effect of non-capitalised loss carryforwards	-2,381	-2,436	-	-
Tax effect of other non-deductible and non-taxable items	783	1,543	-1,079	-651
Tax effect of group adjustments	-	-	-	-
Tax effect of temporary adjustments	-	4,832	-	-
Other tax adjustment	453	-	451	-
Actual tax	-19,572	-112,371	-41,605	-86,270

The Group's loss carryforwards amounted to a total of SEK 50.0 million (52.5) at 31 December 2013. Loss carryforwards of SEK 0 thousand (0) are attributable to the Swedish companies. No deferred tax has been recognised on loss carryforwards amounting to SEK 50.0 million (52.5). These carryforwards are attributable to the Japanese subsidiary and will expire as follows: SEK 2.1 million will expire in the financial year 2015, SEK 8.0 million in 2016, SEK 6.9 million in 2017, SEK 7.9 million in 2018, SEK 9.7 million in 2019, SEK 3.6 million in 2020, SEK 4.3 million in 2021 and SEK 7.5 million in 2023.

In the event of a negative outcome, ongoing tax matters could result in an additional tax expense of SEK 3.1 million.

Note 12 Non-controlling interests

	2013	2012
At beginning of year	3 492	591
Acquisition of 50% of TwoPac	-6 447	-
Sale of 9% of IBT	5	-
Profit for the year attributable to non-controlling interests	2 466	2 901
At end of year	-484	3 492

The non-controlling interests refer to a 9.9% stake in the subsidiary CapAble AB that is held by its Managing Director and a 9% stake in the subsidiary IBT that is held by the company's Managing Director Staffan Strömberg and its Research Director Eamonn Connolly

Note 13 Intangible assets

GROUP AND PARENT COMPANY:

	Capitalised development expenditure	Licenses and brands	Total intangible assets
<i>Accumulated cost:</i>			
Opening balance, 1 January 2012	26,875	2,528	29,403
Purchases	–	–	–
Closing balance, 31 December 2012	26,875	2,528	29,403
Opening balance, 1 January 2013	26,875	2,528	29,403
Purchases	–	–	–
Closing balance, 31 December 2013	26,875	2,528	29,403
<i>Accumulated amortisation:</i>			
Opening balance, 1 January 2012	26,611	2,528	29,139
The year's amortisation	264	–	264
Closing balance, 31 December 2012	26,875	2,528	29,403
Opening balance, 1 January 2013	26,875	2,528	29,403
The year's amortisation	–	–	–
Closing balance, 31 December 2013	26,875	2,528	29,403
<i>Carrying amounts:</i>			
At 1 January 2012	264	0	264
At 31 December 2012	0	0	0
At 31 December 2013	0	0	0

Capitalised expenses include internally generated and externally acquired assets.

Amortisation is recognised on the following lines in the income statement:

	Group		Parent Company	
	2013	2012	2013	2012
Research and development expenses	–	264	–	264
	–	264	–	264

Amortisation begins when a project has been completed. The amortisation period varies between 5–10 years depending on the estimated useful life of the project. All capitalised development expenses were fully amortised at 31 December 2013.

Total research and development expenditure:

	Group		Parent Company	
	2013	2012	2013	2012
Total R&D expenditure	40,260	35,185	40,169	35,267
The year's capitalisation of development expenses	–	–	–	–
Uncapitalised R&D expenditure	40,260	35,185	40,169	35,267
Amortisation/depreciation recognised in R&D expenses	294	603	292	601
R&D expenses with an effect on income	40,554	35,788	40,461	35,868

Note 14 Property, plant and equipment

GROUP:

	Land and buildings	Prod- uction equip- ment	Work in pro- gress	Office equip- ment and com- puters	Total property, plant and equip- ment
<i>Accumulated cost:</i>					
Opening balance, 1 January 2012	506	18,733	14,516	12,517	46,272
Purchases	315	1,879	25,407	1,771	29,372
Sales and disposals	–	–2,421	–	–30	–2,451
Reclassifications	34,165	1,614	–35,779	–	0
Translation difference	–	–	–	–86	–86
Closing balance, 31 December 2012	34,986	19,805	4,144	14,172	73,107
Opening balance, 1 January 2013	34,986	19,805	4,144	14,172	73,107
Purchases	4,842	3,515	7,314	1,014	16,685
Sales and disposals	–	–	–	–63	–63
Reclassifications	–	–	–	–	0
Translation difference	–	–	–	–149	–149
Closing balance, 31 December 2013	39,828	23,320	11,458	14,974	89,580
<i>Accumulated amortisation:</i>					
Opening balance, 1 January 2012	–	11,526	–	10,587	22,113
Depreciation	165	2,647	–	1,470	4,282
Sales and disposals	–	–2,384	–	–21	–2,405
Translation difference	–	–	–	–77	–77
Closing balance, 31 December 2012	165	11,789	–	11,959	23,913
<i>Accumulated depreciation:</i>					
Opening balance, 1 January 2013	165	11,789	–	11,959	23,913
Depreciation	1,078	3,090	–	1,403	5,571
Sales and disposals	–	–	–	–58	–58
Translation difference	–	–	–	–132	–132
Closing balance, 31 December 2013	1,243	14,879	–	13,172	29,294
<i>Carrying amounts</i>					
At 1 January 2012	506	7,207	14,516	1,930	24,159
At 31 December 2012	34,821	8,016	4,144	2,213	49,194
At 31 December 2013	38,585	8,441	11,458	1,802	60,286

PARENT COMPANY:	Production equipment	Office equipment and computers	Total property, plant and equipment
<i>Accumulated cost:</i>			
Opening balance, 1 January 2012	2,315	10,182	12,497
Purchases	704	758	1,462
Sales and disposals	–	–30	–30
Closing balance, 31 December 2012	3,019	10,910	13,929
Opening balance, 1 January 2013	3,019	10,910	13,929
Purchases	540	407	947
Sales and disposals	–	–63	–63
Closing balance, 31 December 2013	3,559	11,254	14,813
<i>Accumulated depreciation:</i>			
Opening balance, 1 January 2012	2,097	8,332	10,429
Depreciation	164	1,082	1,246
Sales and disposals	–	–21	–21
Closing balance, 31 December 2012	2,261	9,393	11,654
Opening balance, 1 January 2013	2,261	9,393	11,654
Depreciation	249	908	1,157
Sales and disposals	–	–56	–56
Closing balance, 31 December 2013	2,510	10,245	12,755
Carrying amounts			
At 1 January 2012	218	1,850	2,068
At 31 December 2012	758	1,517	2,275
At 31 December 2013	1,049	1,009	2,058

Depreciation is recognised on the following lines in the income statement:

	Group		Parent Company	
	2013	2012	2013	2012
Cost of goods sold	3,006	1,774	–	–
Selling expenses	1,869	1,758	696	734
Administrative expenses	372	412	169	175
Research and development expenses	294	339	292	337
	5,541	4,282	1,157	1,246

Note 15 Financial assets

PARENT COMPANY

Participations in group companies	2013	2012
At beginning of year	21,160	21,160
Group contribution to CapAble AB	2,590	2,583
Group contribution to TriPac AB	9	–
Group contribution to IBT AB	229	–
Impairment loss on shares in CapAble AB	–2,590	–2,583
Acquisition of shares in TwoPac AB (50%)	30 000	–
Conditional shareholder contribution to IBT AB	1 000	–
Sale of shares in IBT AB	–4	–
Book value at end of year	52,394	21,160

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	100,00	100	0
TriPac AB /556153-2200/Stockholm	10,000	100	3,577
CapAble AB /556768-3601/Stockholm	9,010	90.1	6,901
Biogaia Japan Inc. /-Hiroshima, Japan	180	100	0
TwoPac AB /556591-9767/Eslöv	10,000	100	40,641
Infant Bacterial Therapeutics AB /556873-8586/Stockholm (formerly Infant Baby AB)	45,500	91	1,275
			52,394

The assets and liabilities of the American subsidiary BioGaia Biologics Inc. have been translated at the closing day rate of exchange, SEK 6.48 (650). All items in the income statement have been translated at the average exchange rate during the year, SEK 6.51 (6.77). The assets and liabilities of the Japanese subsidiary BioGaia Japan Inc. have been translated at an exchange rate of SEK 0.062 (0.076). All items in the income statement have been translated at an exchange rate of SEK 0.066 (0.085). The resulting translation differences have been recognised in consolidated comprehensive income.

CapAble AB was formed in the autumn of 2008. BioGaia owns 90.1 per cent of the company. CapAble's President, Staffan Pålsson, owns 9.9 per cent of the company. The non-controlling interests' share in equity of CapAble amounts to SEK -471 thousand.

TwoPac was formed in 2002 and is 100% owned by BioGaia AB since 1 July 2013, following the acquisition of the remaining 50% that was previously owned by TwoPac's management. The purchase consideration for the acquisition amounted to SEK 30 million and has affected cash flow in the Group and the Parent Company. See also Note 19.

Infant Bacterial Therapeutics (IBT) AB (formerly Infant Baby AB) was formed in 2011 and changed name to Infant Bacterial Therapeutics AB in 2013. BioGaia owns 91% of the company. IBT's President, Staffan Strömberg, and IBT's Research Director, Eamonn Connolly, together own 9% of the company. The non-controlling interests' share of equity in IBT amounts to SEK -13 thousand.

Of total purchases made by the Parent Company, 18.0% (15.4) was attributable to group companies. Of total sales made by the Parent Company, 1.5 per cent (0.7) was attributable to group companies.

Note 16 Non-current receivables from subsidiaries and associated company

Non-current receivables from subsidiaries:

Company	2013	2012
	Parent Company	Parent
At beginning of year	24,513	16,513
Payment of loan to BioGaia Japan Inc.	7,419	1,670
Payment of loan to TwoPac AB	5,000	8,000
Net accounting of liability to Biogaia Japan Inc.	–4,434	–
Sale of products to BioGaia Japan Inc.	4,410	4,518
Interest income from BioGaia Japan Inc.	1,565	2,386
Provisions for receivables ¹⁾	–8,960	–8,574
	29,513	24,513

¹⁾ Because it is uncertain whether the receivable from the subsidiary in Japan will be repaid within the foreseeable future, a provision has been made for this amount.

Non-current receivables from subsidiaries at December 31:

Company	2013	2012
	Parent Company	Parent
CapAble AB	1,022	1,022
TwoPac AB	28,491	23,491
Closing balance at end of year	29,513	24,513

Note 17 Inventories

	Group		Parent Company	
	2013	2012	2013	2012
Raw materials and consumables	2,251	1,904	-	-
Finished goods and goods for resale	12,334	18,941	9,704	18,693
	14,585	20,845	9,704	18,693

The entire inventory value is recorded at cost with a deduction for obsolescence. The Parent Company's provisions for obsolescence amounted to SEK1,413 thousand at 31 December 2013. An individual assessment of the obsolescence reserve has been carried out.

Note 18 Trade receivables

The Group and the Parent Company have recorded a loss of SEK 0 thousand (0) on the write-down of trade receivables in 2013.

Provisions for bad debt losses amounted to SEK 399 thousand (268) at 31 December 2013.

At 31 December 2013, trade receivables of SEK 7,714 thousand (7,643) were overdue without any assessed grounds for impairment.

Of the overdue receivables, SEK 7,378 thousand had been recovered as of the closing date.

An age analysis of overdue trade receivables is shown below:

	Group		Parent Company	
	2013	2012	2013	2012
Less than 3 months	7,714	7,512	7,714	7,512
3-6 months	-	131	-	-
	7,714	7,643	7,714	7,512

The reported amounts for the Group's trade receivables by currency are:

	Group		Parent Company	
	2013	2012	2013	2012
SEK	11,107	6,356	11,108	6,347
EUR	36,664	39,578	36,664	39,578
USD	7,825	3,617	7,384	3,495
CHF	4,180	-	4,180	-
GBP	101	-	101	-
NOK	-	35	-	35
JPY	5,188	4,459	-	-
	65,065	54,045	59,437	49,455

Note 19 Related party transactions

Group Annwall & Rothschild Investment AB holds 740,668 class A shares and 1,259,332 class B shares, corresponding to 11.6 per cent of the share capital and 36.2 per cent of the votes. Annwall & Rothschild Investment AB is owned by Peter Rothschild, President of BioGaia AB, and Jan Annwall, a member of the Board of the Parent Company. The transaction that took place during 2013 is a dividend of SEK 10.00 per share. No other transactions have taken place between BioGaia and Annwall & Rothschild Investment AB.

In 2013 the Company purchased services from Board member Jörgen Thorball's partly owned company XOventure for approximately SEK 670 thousand. The services related to preclinical work, documentation and product development.

Parent Company The Parent Company owns 100 per cent of TwoPac AB, since 1 July 2013. BioGaia has previously owned 50% of TwoPac AB and the remaining shares have been held by TwoPac's management. BioGaia acquired the remaining 50% of TwoPac AB on 1 July 2013 for SEK 30 million. A controlling influence was acquired already on 1 January 2011, although no shares were purchased at the time since the assessment was that BioGaia had a controlling influence as of that date. As a result, only cash and cash equivalents and total equity were affected by the acquisition of the remaining 50% as of 1 July 2013. The Parent Company owns 100 per cent of the shares in BioGaia Biologics Inc, USA, BioGaia Japan Inc. and Tripac AB. The Parent Company owns 90.1 per cent of the shares in CapAble AB. The Parent Company owns 91% of the shares in Infant Bacterial Therapeutics (IBT) AB.

The following transactions have taken place with TwoPac AB:

	Parent Company	
	2012	2012
Interest income	610	643
Loan paid	-5,000	-8,000
Purchase of goods	-37,487	-29,314

Goods are purchased at cost plus profit margin.

The following transactions have taken place with BioGaia Japan Inc.

	Parent Company	
	2013	2012
Interest income	1,565	2,386
Loan paid	-7,419	-1,670
Sale of goods	4,410	4,518

Due to uncertainty as to whether the receivable from BioGaia Japan will be recovered within the foreseeable future, a provision has been made for this amount.

The following transactions have taken place with BioGaia Biologics Inc.:

	Parent Company	
	2013	2012
Purchase of services	-2,371	-2,442

The following transactions have taken place with CapAble AB:

	Parent Company	
	2013	2012
Interest income	30	38
Sales of services	117	137
Group contribution paid	-2,590	-2,583

The following transactions have taken place with Tripac AB:

	Parent Company	
	2013	2012
Group contribution paid	-9	-

The following transactions have taken place with IBT AB:

	Parent Company	
	2013	2012
Group contribution paid	-229	-
Conditional shareholder contribution	-1,000	-

The closing balance was as follows:

	Parent Company	
	31 Dec 2013	31 Dec 2012
Non-current receivables, related parties		
Non-current receivables, TwoPac AB	28,491	23,491
Non-current receivables, CapAble AB	1,022	1,022
	29,513	24,513
Current liabilities, related parties		
Current liabilities, BioGaia Biologics Inc.	-643	-700
Current liabilities, BioGaia Japan	-	-4,241
Current liabilities, CapAble AB	-5,206	-5,592
Current liabilities, Tripac AB	-4,657	-4,648
Current liabilities, IBT AB	-229	-
Current liabilities, TwoPac AB	-	-1,809
	-10,735	-16,990
Current receivables, related parties		
Current receivables, TwoPac AB	271	-
	271	0

For further information, see Note 4, Employees and personnel expenses.

Note 20 Other receivables

	Group		Parent Company	
	2013	2012	2013	2012
VAT refund	2,945	3,595	2,122	3,467
Tax asset	281	129	236	81
Foreign exchange contracts	-	3,296	-	3,296
Other receivables	863	576	384	541
	4,089	7,596	2,742	7,385

Forward contracts have been measured at fair value, taking into account the applicable interest rates and exchange rates on the balance sheet date.

Note 21 Deferred expenses and accrued income

	Group		Parent Company	
	2013	2012	2013	2012
Accrued income	2,895	2,063	2,624	2,063
Prepaid rents	1,079	1,066	841	808
Other deferred expenses	1,051	667	895	63
	5,025	3,796	4,360	2,934

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, loans and receivables and other financial liabilities.

Financial assets measured at fair value through profit or loss

The Group's assets at fair value through profit or loss consist of cash and cash equivalents and short-term investments. The financial assets are recognised in the balance sheet and are valued at the closing day rate of exchange.

	Fair value		Carrying amount	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Assets (SEK 000s)				
Cash and cash equivalents in SEK	219,888	365,744	219,888	365,744
Cash and cash equivalents in EUR	6,706	4,978	6,706	4,978
Cash and cash equivalents in USD	5,985	3,998	5,985	3,998
Cash and cash equivalents in JPY	556	173	556	173
Cash and cash equivalents in DKK	1,136	81	1,136	81
Short-term investments	9	25	80	80
Total assets	234,280	374,999	234,351	375,054

Short-term investments refer to listed securities. The shares are recognised at historical cost less accumulated impairment. The intention is to sell the shares when an appropriate occasion arises. Fair value corresponds to the quoted market price on the balance sheet date.

The company has taken forward currency hedges in EUR. The forward currency hedges have been recognised at their fair value at 31 December 2013. This value is included in other receivables – see Note 24.

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

Loans and receivables The Group's trade receivables amount to SEK 65,065 thousand (54,045). Fair value corresponds to the carrying amount.

Other financial liabilities The Group's other financial liabilities consist of trade payables and prepayments from customers.

	Fair value		Carrying amount	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Trade payables	17,808	14,731	17,808	14,731
Prepayments from customers	508	3,118	508	3,118
Total other financial liabilities	18,316	17,849	18,316	27,849

Note 23 Equity

The share capital in BioGaia AB consists of 740,668 class A shares, carrying 10 votes each, and 16,530,294 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 translation reserve arises in translation of the net assets of foreign operations according to the acquisition method.

Retained profit consists of other equity. The Parent Company's dividend for 2012 as decided by the 2013 AGM was SEK 172.7 million, equal to SEK 10.00 per share. For 2013 the Board and President propose that the company pay an ordinary dividend of SEK 3.35 per share and an extraordinary dividend of SEK 3.65 per share, amounting to a total dividend of SEK 7.00 per share. This is equal to total dividends of SEK 120.9 million.

Non-controlling interests account for 9.9 per cent of equity in the subsidiary CapAble and 9 per cent of equity in the subsidiary Infant Bacterial Therapeutics (IBT) 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 2013, total consolidated equity amounted to SEK 316.9 million (456.8) and equity attributable to owners of the Parent Company amounted to SEK 317.3 million (453.3).

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

Key ratios

	2013	2012
Number of shares at 31 Dec., thousands	17,271	17,271
Average number of shares, thousands	17,271	17,271
Number of outstanding warrants, thousands	87	87
Number of outstanding warrants with a dilutive effect, thousands	87	–
Number of outstanding shares including outstanding warrants with a dilutive effect, thousands	17,358	17,271
Earnings per share, SEK	3.57	18.93
Earnings per share after dilution, SEK	3.56	18.93
Equity per share, SEK	18.37	26.25
Equity per share after dilution, SEK	18.28	26.25
Return on equity, %	16	96
Share price on closing day, SEK	253.50	175.00
Dividend per share, SEK	7.00 ¹⁾	10.00

¹⁾ Dividend proposed but not yet approved. The Board and President propose that the company pay an ordinary dividend of SEK 3.35 per share and an extraordinary dividend of SEK 3.65 per share, equal to a total dividend of SEK 7.00 per share.

Note 24 Other liabilities

	Group		Parent Company	
	2013	2012	2013	2012
Employee withholding tax	1,272	1,036	1,062	883
Other current liabilities	2,662	1,829	2,884	–
	3,934	2,865	3,946	883

Other current liabilities above include forward exchange contracts with a fair value of SEK 2.7 million. All forward exchange contracts are attributable to level 2 in the fair value hierarchy.

Note 25 Accrued expenses and deferred income

	Group		Parent Company	
	2013	2012	2013	2012
Accrued holiday pay	5,986	5,190	4,615	4,169
Accrued social security expenses	1,218	1,077	900	810
Other accrued expenses	7,682	8,537	7,025	8,110
	14,886	14,804	12,540	13,089

Note 26 Pledged assets and contingent liabilities

	Group		Parent Company	
	2013	2012	2013	2012
Pledged assets				
Floating charges	2,000	2,000	2,000	2,000
Contingent liabilities	None	None	None	None

Note 27 Tax allocation reserve

	Parent Company	
	31-dec 2013	31-dec 2012
Tax allocation reserve	-----	109,341
Deferred tax in tax allocation reserve	-----	24,055

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 minimise the risk for negative effects on the Group's earnings. Consequently, the Group's financial investments must have a low risk profile. The Group's assessed risk exposure and related risk management are described below:

Currency risk BioGaia has revenue primarily in EUR (around 65 per cent of net sales 2013) but also in SEK, USD and JPY, and expenses primarily in SEK, EUR, JPY and USD. In 2013 the company had a cash flow surplus of approximately EUR 17.2 million (55.6), (2012 includes the payment of EUR 40 million from Nestlé) a cash flow deficit of JPY -138.7 million (-81.2) and a cash flow deficit of USD 2.2 million (1.7). Growth in sales has led to increased currency risks, for which reason the company has taken currency hedges in EUR. The company's Board of Directors has issued a policy to hedge approximately 50-60 per cent of projected cash flow 12 months forward and approximately 10-40 per cent of projected cash flow 13-24 months forward in order to spread the risk for exchange rate fluctuations. At 31 December 2013 the company had outstanding forward exchange contracts for EUR 13.7 million at an average exchange rate of SEK 8.79, of which EUR 9.9 million will mature for payment in 2014 and EUR 3.8 million in 2015. For more information see Notes 9, 20 and 22. A stronger SEK rate against the EUR will decrease the value of BioGaia's sales and profit, but through profitable forward exchange transactions and by trying to reallocate a portion of expenses to EUR, the company should be able to minimise the impact on earnings. BioGaia is also trying to reallocate a portion of its revenue from EUR to other currencies, primarily SEK.

Interest rate risk The Group has no loans and therefore no interest rate risks. Excess liquidity is invested mainly in bank accounts.

Credit risk 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 accounts receivable and additional evaluation of the customers' financial position is carried out when needed in order to minimise risks.

The loan from the Parent Company to the subsidiary CapAble AB has been used to purchase equipment for manufacturing of LifeTop Cap. The company's assessment is that the loan entails low credit risk.

The loan from the Parent Company to the subsidiary TwoPac AB has been used mainly to build a new production facility in Eslöv, Sweden. The facility was completed and commissioned during 2012. In 2013 an additional loan has been paid to TwoPac for construction of new production machinery. The company's assessment is that the loan entails low credit risk.

Liquidity risk The company's cash and cash equivalents shall 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.

Cash flow risk In 2013 BioGaia had a positive cash flow from operating activities before changes in working capital of SEK 81.3 million (338.5). After changes in working capital, cash flow was SEK 78.4 million (335.6). Total cash flow for the year was SEK -140.8 million (203.8). Cash flow for 2012 included payment of SEK 356.0 million in licence revenue from Nestlé. Cash flow for 2013 includes dividends of SEK 172.7 million, tax payments of SEK 10.8 million, equipment investments in TwoPac of SEK 14.7 million and the acquisition of shares in TwoPac of SEK 30.0 million. Because cash and cash equivalents at 31 December 2013 amounted to SEK 234.3 million (375.0) no infusion of capital is necessary.

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

Note 29 Critical accounting estimates and assumptions

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

BioGaia's Japanese venture The Japanese subsidiary has operated at a loss since the start in 2006. The previously chosen business model was found to be unsuccessful and in 2010 BioGaia decided to change the business model in Japan to that which is used in the other markets. On the balance sheet date, assets in the Japanese subsidiary were reported at SEK 9.3 million. BioGaia's assessment is that the subsidiary will show good profitability in the future, for which reason there was no indication of impairment of these assets on the balance sheet date.

Shares in group companies CapAble, which is 90.1 per cent owned by BioGaia AB, was started in November 2008 to manufacture and sell the patented LifeTop Cap. The shares in the subsidiary CapAble are reported at a total of SEK 6.9 million in the Parent Company. CapAble has operated at a loss since the start in 2008. Loss before tax for 2013 was SEK -2.6 (million (-2.6)). BioGaia made total conditional shareholder contributions of SEK 6 million to CapAble in 2009 and 2010. BioGaia AB made total group contributions of SEK 9.8 million during the period 2010-2013. BioGaia's assessment is that CapAble will show good profitability in the coming years, for which reason there was no indication of impairment on the balance sheet date.

Recognition of license revenue In February 2012 BioGaia signed several new agreements with Nestlé including the acquisition of a perpetual license to use BioGaia's probiotic in infant formula during the remaining term of the patent. The purchase price was EUR 50.8 million, of which EUR 40.0 million (SEK 356 million) was received and recognised in the first quarter of 2012, in accordance with generally accepted accounting principles.

The additional payments of EUR 10.8 million will be received during 2014-2017 on the achievement of predefined milestones.

The company assesses the probability of achieving these milestones as high, but is of the opinion that there is still too much uncertainty to recognise this revenue in accordance with generally accepted accounting principles.

The Board of Directors and the President 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, 18 February 2014

David Dangoor
Chairman

Peter Rothschild
President

Jan Annwall

Stefan Elving

Thomas Flinck

Inger Holmström

Jörgen Thorball

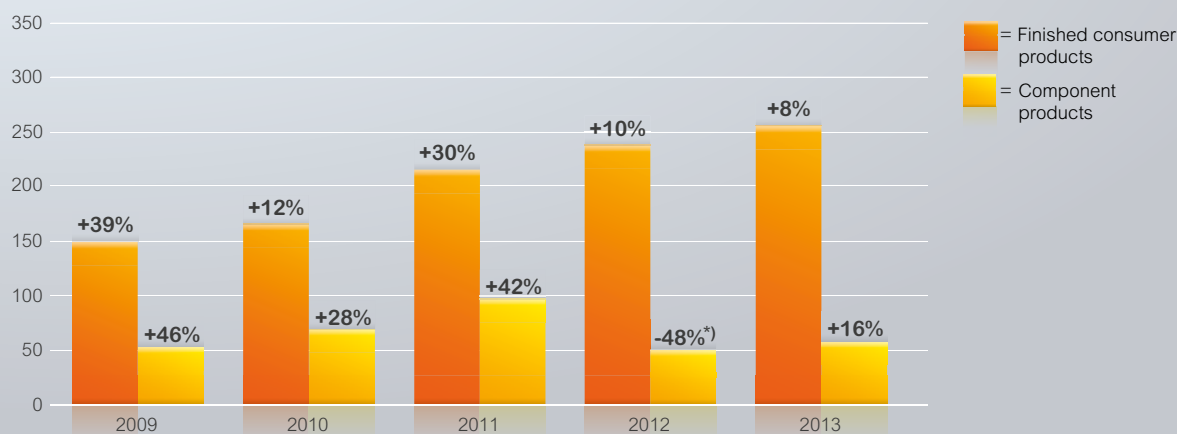
Paula Zeilon

My audit report was submitted on 18 February 2014
Grant Thornton Sweden AB

Lena Möllerström Nording
Authorised Public Accountant

SALES BY SEGMENT (SEK M)

AVERAGE GROWTH: FINISHED CONSUMER PRODUCTS 20%, COMPONENT PRODUCTS 17%



^{*)} Excluding license revenue from Nestlé of SEK 356 million

Five-year summary

Key ratios	2013	2012	2012 ¹⁾	2011	2010	2009
Net sales, SEK M	315.9	645.2	289.2	315.0	236.0	203.5
Net sales, finished consumer products, SEK M	256.2	237.6	237.6	215.4	165.6	147.7
Net sales, component products, SEK M	58.6	406.6	50.6	97.7	68.6	53.8
Operating profit, SEK M	81.7	428.1	72.1	103.2	56.3	47.7
Profit before tax, SEK M	83.8	442.2	86.2	108.9	69.7	53.1
Profit after tax, SEK M	64.2	329.9	63.7	79.5	47.2	36.0
Profit after tax attributable to owners of the Parent Company, SEK M	61.7	327.0	60.8	76.4	47.3	36.3
Growth, %	9 ⁴⁾	105	-8	33	16	40
Operating margin, %	26	66	25	33	24	23
Profit margin, %	27	69	30	35	30	26
Current ratio, times	4.9	13.2	5.1	5.2	5.1	8.2
Equity/assets ratio, %	83	88	82	82	82	90
Capital employed, SEK M	316.9	481.5	195.7	230.5	187.3	161.1
Return on capital employed, %	22	124	40	52	40	36
Return on equity, %	16	96	29	37	27	25
Average number of employees	82	70	70	61	45	43
Data per share						
Number of shares at 31 Dec., thousands ²⁾	17,271	17,271	17,271	17,271	17,271	17,208
Average number of shares, thousands	17,271	17,271	17,271	17,271	17,230	17,208
Number of outstanding warrants, thousands	87	87	87	-	-	129
Number of outstanding warrants with a dilutive effect, thousands	87	-	-	-	-	129
Number of outstanding shares including outstanding warrants with a dilutive effect, thousands	17,358	17,271	17,271	17,271	17,271	17,337
Basic earnings per share, SEK	3.57	18.93	3.52	4.42	2.74	2.11
Diluted earnings per share, SEK	3.56	18.93	3.52	4.42	2.74	2.09
Equity per share, SEK	18.37	26.25	10.83	13.30	10.84	9.37
Equity per share after dilution, SEK	18.28	26.25	10.83	13.30	10.84	9.30
Share price on the balance sheet date, SEK	253.50	175.00	175.00	163.00	96.00	80.00
Dividend per share, SEK	7.00 ³⁾	10.00	10.00	6.00	2.00	1.50

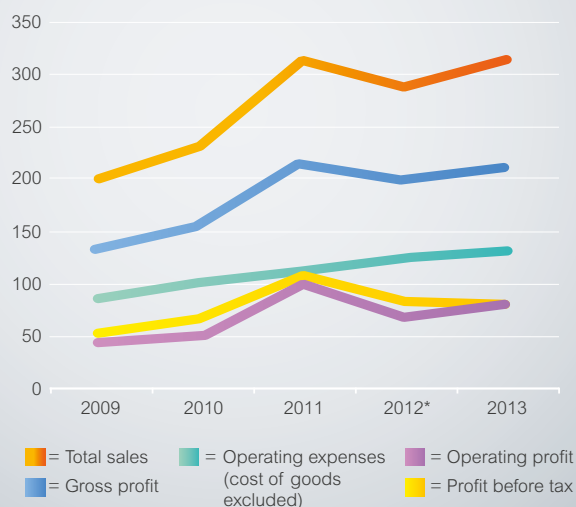
¹⁾ Key ratio excluding license revenue from Nestlé. For more information, see administration report.

²⁾ The share capital consists of 740,668 class A shares and 16,530,294 class B shares. The quota value is SEK 1 per share.

³⁾ Dividend proposed but not yet approved.

⁴⁾ Compared to 2012 year's net sales, excluding license revenue from Nestlé.

5-YEAR DEVELOPMENT (SEK M)



*Excluding licence revenue from Nestlé of SEK 356 million

Definitions

Basic earnings per share Profit after tax attributable to owners of the Parent Company divided by the number of shares.

Capital employed Balance sheet total less interest-free liabilities.

Current ratio Total current assets divided by current liabilities.

Diluted earnings per share Profit after tax attributable to owners of the Parent Company divided by the number of shares plus the number of outstanding warrants with a dilutive effect

Diluted equity per share Shareholders' equity attributable to the owners of the Parent Company divided by the number of shares plus the number of outstanding warrants with a dilutive effect.

Equity/assets ratio Shareholders' equity attributable to the owners of the Parent Company divided by total assets.

Equity per share Shareholders' equity attributable to the owners of the Parent Company divided by the number of shares.

Growth Sales for the current year less sales for the previous year divided by sales for the previous year.

Operating margin Operating profit in relation to net sales.

Profit margin Profit before tax in relation to net sales.

Return on capital employed Profit before financial items plus financial income, divided by average capital employed.

Return on equity Profit after tax equity attributable to the owners of the Parent Company divided by average shareholders' equity attributable to the owners of the Parent Company.

Audit report

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

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of BioGaia AB for the year 2013. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 38-60.

Responsibilities of the Board of Directors and the President for the annual accounts and consolidated accounts The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President 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.

Auditor's responsibility Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions 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 2013 and of its financial performance and its cash flows 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 2013 and of their financial performance and cash flows in accordance with International Reporting Standards, 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 annual meeting of shareholders adopt the income statement and balance sheet for the Parent Company and the statement of consolidated income and financial position for the Group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of BioGaia AB for the year 2013.

Responsibilities of the Board of Directors and the President The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the President are responsible for administration under the Companies Act.

Auditor's responsibility Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

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.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the President is liable to the company. We also examined whether any member of the Board of Directors or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

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

Stockholm, 18 February 2014
Grant Thornton Sweden AB

Lena Möllerström Nording
Authorised Public Accountant

Corporate governance report 2013

Corporate governance in BioGai BioGai 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 President and the Executive Management in accordance with the Swedish Companies Act, the Articles of Association and the Swedish Code of Corporate Governance.

Articles of Association According to BioGai'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 BioGai'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 President. The AGM also elects the company's auditors.

One shareholder, Annwall & Rothschild Investment AB, holds 11.6 per cent of the share capital and 36.2 per cent of the votes in the company. Other individual shareholders hold less than 10 per cent of the share capital and votes each.

2013 AGM BioGai's AGM was held on 26 April 2013 and was attended by shareholders representing 47.5 per cent of the total number of votes in the company. The AGM was also attended by the company's President, the Board members elected by the previous AGM and all of the Board members elected by the year's AGM except Jan Annwall, as well as the company's elected auditor.

2014 AGM The 2014 AGM will be held on 4:00 p.m. on Tuesday, 6 May, 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 shall be published in Svenska Dagbladet no earlier than six weeks and no later than four weeks prior to the AGM.

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

The 2013 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 2013. 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 their 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 2014 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. The same applies of a member of the Nominating Committee leaves the Committee for some other reason.

In accordance with the AGM's resolution, the Nominating Committee was appointed and consists of Per-Erik Andersson, representing Annwall & Rothschild Investment AB, the company's largest shareholder, Allan Ladow, representing Sebastian Jahreskog, who via direct and indirect ownership is the second largest shareholder, and Board Chairman David Dangoor, the third largest shareholder. All three members of the Nominating Committee are independent in relation to the company and its management.

The Nominating Committee will prepare recommendations for the following matters to be put before the 2013 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 2015 AGM.

All shareholders have 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.

Board of Directors According to BioGai'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 2012 the Board consisted of seven members elected by the AGM, with no deputies. One Board member, Jan Annwall, has been a member of the Board since 1990 and is a major shareholder in the company. Jan Annwall 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 six remaining members are independent in relation to both the company and its management. A presentation of the Board is provided on page 66.

BioGai's legal counsel has been appointed to serve as Secretary at Board meetings. The President is not a member of the Board but is 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 the President and the structure of Board activities during the year. Furthermore, the Board has adopted instructions for the President, authorisation instructions including instructions for liquidity management and a policy for foreign exchange management. The rules of procedure, President's instructions and authorisation instructions are reviewed at least once a year.

The Board decides on matters related to the Group's overall strategy, organisation and management. The Board approves both interim reports and the annual report before these are published. The Board held ten minutes meetings and one strategy seminar in 2013. During the year, Paula Zeilon and Inger Holmström were absent from two meetings and Jan Annwall from one meeting. At the meetings the Board has discussed budgetary matters, business plans, financial accounts, investments, financial reports and major agreements. At the strategy seminar, the Board dealt mainly with issues concerning R&D, product development, patent strategy, regulatory and quality issues and related matters.

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

Board fees The 2012 AGM resolved that Board fees would be paid in an amount of SEK 300,000 to the Board Chairman and SEK 150,000 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 President, 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.

President The President 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 President that among other things regulate his management and development of the company and the provision of reports and decision data to the Board. The President prepares the requisite 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 President continuously informs the Board Chairman about the company's financial and business situation. Every year the Board carries out an evaluation of the President's performance in which no member of the Executive Management is present.

Executive Management BioGaia's Group Executive Management consists of the nine individuals who are presented on page 67. The Group's Executive Management is headed by the President 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 President 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 authorisation 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 President 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 four years. The 2010 AGM elected Grant Thornton Sweden AB as the company's auditor until the end of the 2014 AGM. Grant Thornton has appointed Lena Möllerström Nording 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 President and the quality of the company's financial reporting. At the request of the Board, the auditors 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 from 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.

In addition, Grant Thornton has provided certain tax-related advice and performed other audit-related services. Information about remuneration to the auditors can be found in Note 5 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. Instead, the entire Board of Directors meets with the auditors at least once a year without the presence of the President or other members of the Executive Management.

The Board's report on internal control over financial reporting for the 2012 financial year

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.

Financial reporting The Board is responsible for ensuring that the company's organisation 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 President. The rules of procedure state which matters require approval or authorisation from the Board. At Board meetings, the President reports on matters requiring treatment by the Board.

The President 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 President, BioGaia's control structure is based on the company's organisation and its operation in which 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.

BioGaia's values BioGaia also has a set of shared values and the company's employees are well aware of these (see below).

BioGaia's vision is to improve the health of people around the world by offering first class probiotic solutions.

BioGaia and BioGaia's employees

- our mission is to spread our natural products, which improve human health
- we have an ambition to be fast, innovative and informal problem-solvers
- we build strong relationships with our customers by satisfying their needs
- we strive for high quality, delivery reliability and profitability
- we have an ethical attitude, and are open and honest with our colleagues and partners
- we take personal responsibility for the company's development

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 the identification of significant risks for misstatements and deficiencies in the financial reporting. To limit these risks, suitable processes and controls are built into the company's operations. 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. Authorisation 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. In 2012 the company's employees met for two days in May.

Monitoring The Executive Management performs a yearly evaluation of the effectiveness of internal control. Every year, the company's elected auditing firm, Grant Thornton Sweden AB, also audits of 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, 18 February 2014

Board of Directors of BioGaia AB

Auditors' statement on the corporate governance report

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

The Board of Directors is responsible for the corporate governance report for the year 2013 (on pages 62-63) and for ensuring that it has been prepared in accordance with the Annual Accounts Act.

We have read the corporate governance report and based on this reading and our knowledge of the company and the Group we believe we have sufficient grounds for our statement. This means that our statutory review of the corporate governance report has a different focus and scope compared to the focus and scope of an audit according to the International Standards on Auditing and generally accepted accounting principles in Sweden.

In our opinion, a corporate governance report has been prepared and its statutory information is consistent with the annual report and the consolidated accounts.

Stockholm, 18 February 2014

Grant Thornton Sweden AB

Lena Möllerström Nording
Authorised 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 share was moved from the Small Cap list to the Mid Cap list.

In 2013 BioGaia shares were traded for a total of around SEK 906 million (1,077), corresponding to approximately 4.2 million shares (6.0).

The number of shareholders at 31 December 2013 was 7,448 (7,384).

The total registered share capital of BioGaia AB consists of 740,668 class A shares and 16,530,294 class B shares.

Share price development In 2013 the share price increased from SEK 175.00 to SEK 253.50. The highest closing price during the year was SEK 257.00 and the lowest was SEK 165.50. Market capitalisation at 31 December 2013 was approximately SEK 4,378 million (3,022).

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

Incentive scheme In June 2012 BioGaia carried out the warrant programme that was decided by the Annual General Meeting on 8 May 2012. A total of 87,000 warrants were subscribed for, of which the management subscribed for

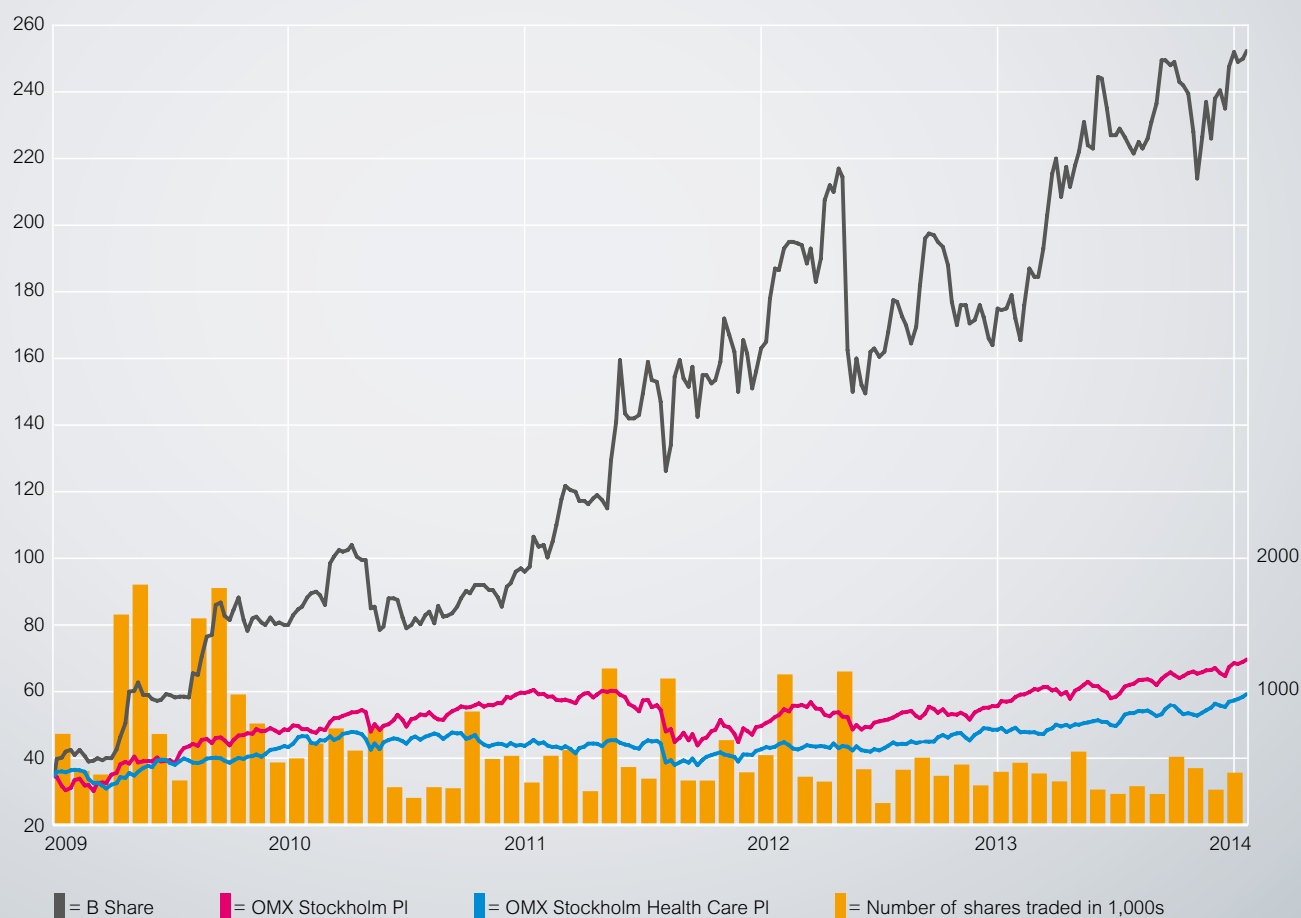
41,000. The warrants were issued at a market price of SEK 14.27 each following valuation according to the Black & Scholes formula, which provided the Parent Company with proceeds of SEK 1.3 million. Each warrant entitles the holder to subscribe for one class B share for SEK 241.90 on 1 June 2015. Volatility was estimated at 40%.

If all of the subscription warrants are exercised, the company's equity will be increased by SEK 21.0 million. This represents a dilutive effect of approximately 0.5% on the share capital and 0.4% on the total number of votes upon the full exercise of warrants.

Distribution of ownership

Number of shares	Total number of shareholders	
	31 December 2012	31 December 2013
1–500	5,933	6,080
501–1,000	733	687
1,001–5,000	502	480
5,001–10,000	80	66
10,001–15,000	24	24
15,001–20,000	23	19
20,001–	89	92
Total number of shareholders:	7,384	7,448

THE BIOGAIA SHARE



Largest shareholders in BioGaia at 31 December 2013 (source: Euroclear Sweden AB)

	A shares, 000's	B shares, 000's	Share capital, SEK 000's	No. of votes, 000's	Holding, %	Votes, %
Annwall & Rothschild Inv. AB	741	1,259	2,000	8,666	11.6	36.2
Sebastian Jahreskog		1,315	1,315	1,315	7.6	5.5
David Dangoor (incl. company)		569	569	569	3.3	2.4
Futuris		530	530	530	3.1	2.2
Pictet & CIE		509	509	509	3.0	2.1
AMF-Försäkring och fonder		388	388	388	2.2	1.6
Swedbank Robur fonder		386	386	386	2.2	1.6
Skandinaviska Enskilda Banken S.A.		374	374	374	2.2	1.6
Handelsbanken Fondbolag RE JPMCB		357	357	357	2.1	1.5
State Street Bank & Trust com., Boston		325	325	325	1.9	1.4
Handelsbanken Fonder AB Re JPMEL		311	311	311	1.8	1.3
Caroline Hamilton		303	303	303	1.8	1.3
JPM Chase NA		297	297	297	1.7	1.2
Banque Carnegie Luxembourg SA		280	280	280	1.6	1.2
Hanvad Invest Aktiebolag		268	268	268	1.6	1.1
Six Sis AG		268	268	268	1.6	1.1
Livförsäkringsaktiebolaget Skandia		263	263	263	1.5	1.1
Försäkringsaktiebolaget Avanza Pension		257	257	257	1.5	1.1
Sten Irwe		210	210	210	1.2	0.9
Nordea Investment Funds		203	203	203	1.2	0.8
Subfund Ruffer European FD		200	200	200	1.2	0.8
JPM Chase NA		174	174	174	1.0	0.7
Fidelity Nordic Fund		170	170	170	1.0	0.7
Lux-Non-Resident/Domestic rates		167	167	167	1.0	0.7
Fjärde AP-fonden		164	164	164	1.0	0.7
Other		6,983	6,983	6,983	40.1	29.2
Total	741	16,530	17,271	23,937	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 proceeds, 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 November	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

* Excluding underwriting costs



Executive Management

1 PETER ROTHSCHILD Born in 1950. M.B.A. President, founder and principal shareholder. Board assignments in Looft Industries AB and Moberg Derma AB. Holds 370,334 class A shares and 629,666 class B-shares via Annwall & Rothschild Investment AB, and 10,000 warrants.

2 EAMONN CONNOLLY Born in 1957. Ph.D. Senior Vice President Research BioGaia and IBT. Employed by the company since 2000, in current position since 2002 (IBT 2013). Holds 0 shares.

3 ANN WENNERSTRÖM Born in 1961. Registered nurse, education in marketing, PR and Public Affairs. Marketing Director. Employed by the company since 2012. Holds 6,000 warrants

4 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. Holds 9,000 class B shares and 3,000 warrants.

5 JESSICA EIDEMO Born in 1974. M.Sc. Biology, education in business economics and marketing. Head of Business Unit Pediatrics. Employed by the company since 2012, in current position since 2014. Holds 6,000 warrants.

6 KATAYOUN WELIN-BERGER. Born in 1968. Ph.D. in Pharmacology. Head of the Department for Strategic Purchasing and Quality. Employed by the company since 2014. Holds 0 shares.

7 URBAN STRINDLÖV Born in 1964. Mechanical Engineer. Executive Vice President and Sales Director. Employed by the company since 2004, in current position since 2014. Holds 10,000 warrants.

8 ULRIKA KÖHLER Born in 1966. B.Sc. Biology with extended studies in microbiology. Head of Business Unit New Business. Employed by the company since 2013. Holds 0 shares.

9 NIGEL TITFORD Born in 1973. M.Sc. Business Administration and Business Law. Head of Business Unit Adult Health. Employed by the company since 1999, in current position since 2014. Holds 940 class B shares.

Executive Management according to the new organisation that went into force in January 2014.



Board of Directors

1 DAVID DANGOOR Born in 1949. Chairman of the Board. Elected to the Board in 2003. M.B.A. Marketing and PR consultant. President of Innovative Partners LLC. Former President of Philip Morris Canada, Former Vice President and Marketing Director at Philip Morris USA and Philip Morris International. Other board assignments: Lifetime Brands, Lorillard, New York City Ballet, BAM, Brooklyn. Holds 518,918 class B shares and 50,000 class B shares via private company.

2 STEFAN ELVING Born in 1941. Elected to the Board in 2001. Former Marketing Director and Executive Vice President of Icahandlarnas AB. Other board assignments: Arcus AS. Holds 0 shares.

3 JÖRGEN THORBALL Born in 1962. Elected to the Board in 2008. Physician. Managing Partner XOventure GmbH, President of Ophiuchus AG. Former international senior positions for example at Novozymes, BioGaia, Aventis and Pharmacia. Other board assignments: ViroGates A/S, Immudex A/S, Anova Pharmaceuticals AG, BeyonDevices Ltd, 1cryobio AG, YourGlobalEye Aps. Holds 0 shares.

4 INGER HOLMSTRÖM Born in 1948. Elected to the Board in 2007. M.A. in language and linguistics and a degree in journalism. Partner and Senior Consultant in the branding and communication agency Priority Group. Former Corporate Communications Director at Vattenfall, Posten and Coop Norden. Holds 500 class B shares.

5 THOMAS FLINCK Born in 1948. Elected to the Board in 1996. M.B.A. Managing Director and partner in Centrecourt AB. Other board assignments: Centrecourt AB, Briggen Tre Kronor AB, Hemverket AB and Indevex AB, among others. Holds 57 class B shares.

6 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. Holds 370,334 class A shares and 629,666 class B shares via Annwall & Rothschild Investment AB.

7 PAULA ZEILON Born in 1962. Elected to the Board in 2003. M.Sc.Eng. Partner in Conlega affärskonsultbolag. President of Life Science Foresight Institute. Former Marketing Director at Amersham Biosciences AB. Holds 1,000 class B shares.

BioGaia is unique



- 1 Interest in the intestinal flora has awakened and BioGaia is at the forefront
- 2 Flexible business model with three global networks
- 3 Scientifically-based claims
- 4 Wide range of products in smart packages
- 5 Partnership with strong local distributors
- 6 A commitment that extends further

Head Office

BioGaia AB

Kungsbroplan 3A
Box 3242
103 64 Stockholm
Sweden
Phone: +46 8 555 293 00
Fax: +46 8 555 293 01
E-mail: info@biogaia.se
www.biogaia.com

BioGaia AB

Stora Södergatan 47
Box 966
220 09 Lund
Sweden
Phone: +46 46 311 900
Fax: +46 46 311 901

BioGaia

Biologics Inc.

6213 - D Angus Drive
Raleigh, NC 27 617 USA
Phone: +1 919 782 33 12
Fax: +1 919 783 69 40

BioGaia

Japan Inc

3-17 Komachi, Naka-Ku
730-0041 Hiroshima
City Japan
Phone: +81 82 244 5021
Fax: +81 82 244 5022

Press

Peter Rothschild
pr@biogaia.se

Investor Relations

Margareta Hagman
mh@biogaia.se