BioGaia AB Press release, 25 April 2018

Interim management statement 1 January – 31 March 2018

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

Comments from the Managing Director:

"Sales for the first quarter of 2018 amounted to SEK 157 million, which was an increase of 13% (excluding foreign exchange effects) compared to the corresponding period last year. Revenue for the first quarter of 2017 included compensation, from the agreement with Kabaya Ohayo in Japan, for knowhow, education and launch preparations. Adjusted for this revenue, sales rose by 18% (excluding foreign exchange effects).
The growth in revenue was fueled mainly by robust development in the EMEA and Americas regions. I am also particularly pleased with the continued fine performance in Eastern Europe and Brazil as well as strong sales to the USA where our close collaboration with our partners is now yielding results," says Axel Sjöblad, Managing Director BioGaia AB.

First quarter 2018

Net sales totaled SEK 156.6 million (141.1), an increase of 11% (excluding foreign exchange effects, 13%).

Net sales in the Pediatrics segment amounted to SEK 131.7 million (110.8), an increase of 19%.

Net sales in the Adult Health segment amounted to SEK 24.4 million (26.5), a decrease of 8%. Revenue for the first quarter of 2017 included compensation, from the agreement with Kabaya Ohayo in Japan, for knowhow, education and launch preparations. Adjusted for this revenue, sales in Adult Health rose by 24%.

Operating profit amounted to SEK 56.2 million (56.1). The company has a changed accounting standard with effect from 1 January 2018, which means that foreign exchange gains/losses on forward contracts are recognized in operating profit or loss (previously among financial items). These amounted to SEK -9.0 million (+0.3). In the event of unchanged standards, operating profit would have amounted to SEK 65.2 million (55.8), an increase of 17%.

Profit after tax was SEK 43.2 million (42.9), an increase of 1%.

Earnings per share amounted to SEK 2.49 (2.47). No dilutive effects arose.

Cash flow amounted to SEK 39.8 million (77.5). Cash and cash equivalents at 31 March 2018 amounted to SEK 347.9 million (305.9).

Key events in the first quarter of 2018

Two additional meta-analyses confirm the positive effect of BioGaia's drops for infant colic.

Agreement with Abbott for the rights to sell BioGaia Protectis tablets in China.

Launch of BioGaia Protectis tablets with vitamin D on the Swedish market.

Launch of BioGaia's products for oral health in Sweden, Denmark, France, Belgium and the Netherlands.

Launch of BioGaia Protectis drops in India.

Key events after the end of the first quarter

BioGaia increases its ownership in MetaboGen.

Teleconference: Investors, analysts and the media are invited to take part in a teleconference on the interim report that will be held today, 25 April 2018 at 09:30 CET with Managing Director Axel Sjöblad. To participate in the teleconference, see www.biogaia.com/investors/agenda for telephone numbers. The teleconference can also be followed at https://tv.streamfabriken.com/biogaia-q1-2018

This information is information that BioGaia AB is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the Managing Director, on 25 April 2018, at 08:00 CET.

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

BioGaia AB (publ.) Interim management statement 1 January – 31 March 2018

The Managing Director of BioGaia AB hereby presents the Interim management statement for the first quarter of 2018.

MANAGING DIRECTOR'S COMMENTS

Sales for the first quarter of 2018 amounted to SEK 157 million (141), which was an increase of 13% (excluding foreign exchange effects) compared with the corresponding period last year. Revenue for the first quarter of 2017 included compensation, from the agreement with Kabaya Ohayo in Japan, for knowhow, education and launch preparations. Adjusted for this revenue, sales rose by 18% (excluding foreign exchange effects).

The growth in revenue was mainly due to robust development in Americas and EMEA. In the Americas, sales were up by 43% and I am particularly pleased with the continued fine performance in Brazil and the strong sales to the USA, where our close collaboration with our partners is yielding results. Sales in EMEA rose by 7%. Growth was driven by very strong sales to Eastern Europe as well as good sales to Sweden, Turkey and South Africa. In Asia Pacific, sales fell by 11%. Continued favorable development in Japan could not fully compensate for the fact that revenue for the first quarter of 2017 included compensation for knowhow, education and launch preparations from the agreement with Kabaya Ohayo in Japan. Adjusted for this revenue, sales rose by 31%.

Sales in the Pediatrics segment increased by 19%. The growth was driven by continued strong sales of drops and good sales of BioGaia Protectis tablets, while total revenue from Nestlé was roughly on a par with the corresponding quarter last year.

In the Adult Health segment, sales decreased by 8%. Very strong sales of Prodentis oral health lozenges, continued good sales of BioGaia Protectis tablets and BioGaia Gastrus tablets could not fully compensate for the compensation from Kabaya Ohayo mentioned above. Adjusted for this revenue, sales rose by 24%.

Operating expenses increased by 14% driven by R&D activities, marketing activities and personnel expenses in line with our strategic plan for future growth. Our operating profit (including change in accounting standard) amounted to SEK 56 million, which was on a par with the first quarter last year and resulted in an operating margin of 36% (40%).

Our growth sets high demands on our supply chain and temporary production disruptions at one of our suppliers means that we, during the year, will be unable to produce the number of easydropper tubes (the new packaging for drops we launched in 2016) we have planned. To ensure that we can meet demand for our drops, we have therefore, together with our Italian distributor, decided to temporarily revert to glass bottles in Italy. We will combine this with increased market support.

Our intensive launch activities continued during the quarter. We launched BioGaia Protectis drops in India and Myanmar, BioGaia Protectis drops with vitamin D in South Africa, BioGaia Protectis tablets in Myanmar, BioGaia Protectis tablets with vitamin D in Sweden, BioGaia Gastrus tablets in Greece, BioGaia Prodentis lozenges in Japan and South Africa, as well as Prodentis under the GUM PerioBalance brand with our partner Sunstar in Sweden, Denmark, France, Belgium and the Netherlands. It is highly gratifying that today our products are sold in one hundred countries.

Finally, I would like to mention that two additional meta-analyses were published during the quarter that confirm yet again the effect of *L. reuteri* Protectis on colic.

Axel Sjöblad. 25 April 2018

FINANCIAL PERFORMANCE IN THE FIRST QUARTER OF 2018

Sales

Consolidated net sales amounted to SEK 156.6 million (141.1) which is an increase of SEK 15.5 million (11%) (excluding foreign exchange effects, 13%) compared to the first quarter of last year. In the past 12-month period, sales totaled SEK 630.5 million (542.0), an increase of 16% (excluding foreign exchange effects, 18%).

PEDIATRICS SEGMENT

Sales in the Pediatrics segment increased by 19% (excluding foreign exchange effects, 21%) to SEK 131.7 million during the quarter. The increase was driven mainly by sales of BioGaia Protectis drops but also of BioGaia Protectis tablets. In the past 12-month period, sales within Pediatrics increased by 18% (excluding foreign exchange effects, 20%).

Sales of drops, which make up the bulk of sales, rose in all regions but above all in the Americas (primarily in the USA but also in Brazil) and EMEA (several countries in Eastern Europe and Turkey) but also in Asia Pacific (China and India). For the past 12-month period the strong positive sales development for drops continued.

Sales of BioGaia Protectis tablets within Pediatrics also increased, compared with the corresponding period last year, mainly in EMEA (primarily in Eastern Europe and Spain) and the Americas (primarily in Brazil) while sales in Asia Pacific decreased slightly. Sales growth was also very good for tablets in the Pediatrics segment during the past 12-month period.

Royalty revenue from sales of growing up milk with *Lactobacillus reuteri* Protectis for children over the age of one year increased marginally compared with the corresponding quarter last year. For the past 12-month period the revenue increase was good.

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

Royalty revenue from the collaboration agreement with Nestlé amounted to SEK 3.0 million (2.4). The collaboration agreement with Nestlé was signed in March 2014. Royalty revenue totaling SEK 91.8 million was paid through 2017 and is divided between the Pediatrics segment and Other Sales in 2014-2018. Up to and including 31 March 2018, BioGaia has recognized SEK 84.7 million of this revenue, of which SEK 42.2 million in Other Sales and SEK 42.5 million in the Pediatrics segment. The assessment is that the remaining revenue of SEK 7.1 million will be recognized as revenue in the Pediatrics segment during 2018.

ADULT HEALTH SEGMENT

Net sales in the Adult Health segment amounted to SEK 24.4 million (26.5) a decrease of SEK 2.1 million (-8%) (excluding foreign exchange effects, -7%) compared to the corresponding period last year. The decrease is mainly due to the fact that revenue for the first quarter of 2017 included compensation from the agreement with Kabaya Ohayo in Japan, for knowhow, education and launch preparations. Adjusted for this revenue, sales increased by 24%. For the past 12-month period, sales in the Adult Health segment increased by 26% (excluding foreign exchange effects, 29%).

Sales of BioGaia Protectis tablets also decreased slightly compared with the corresponding period last year following strong third and fourth quarters in 2017. Sales decreased above all in Asia Pacific (Hong Kong) but also in EMEA (Finland). In the Americas, sales of tablets increased but remain at a low level in the Adult Health segment. For the past 12-month period, the positive sales trend continued.

Sales of oral health products increased compared to the corresponding period last year. Sales increased in Asia Pacific (Japan) and in EMEA (several countries). No oral health lozenges are currently sold in the Americas. The company is actively working on finding additional distribution partners for this product. Development in the past 12-month period was very good.

Sales of BioGaia Gastrus gut health tablets remain at a very low level but increased compared to the same period last year. The increase was attributable to Asia Pacific (Japan) and the Americas (USA). The company is actively working on finding additional distribution partners for this product. Development in the past 12-month period was good.

OTHER SALES

Other sales amounted to SEK 0.5 million (3.8), a decrease of SEK 3.3 million (87%). No foreign exchange effects arose. Other sales included royalty revenue of SEK 0 million (3.5) from the collaboration agreement with Nestlé (see above under Pediatrics).

SALES BY GEOGRAPHIC MARKET

Starting with the interim report for the second quarter of 2017, sales are reported according to the geographic markets EMEA (Europe, Middle East, Africa), Asia Pacific (Asia, excluding Middle East, and including Oceania) and the Americas (North and South America). Previously, sales were reported by geographic market according to the following regions: Europe, Asia, USA and Canada, and Rest of the World.

Sales in EMEA amounted to SEK 101.1 million (94.1), an increase of 7%. The increase was mainly attributable to the Pediatrics segment. For the past 12-month period, sales increased by 8%.

Sales in Asia Pacific amounted to SEK 19.3 million (21.6), a decrease of 11%. Sales increased within Pediatrics while revenue for Adult Health decreased due to compensation from the agreement with Kabaya Ohayo (see under Adult Health above). For the past 12-month period, sales increased by 43%.

In the Americas, sales amounted to SEK 36.3 million (25.4), an increase of 43%. The increase was mainly attributable to Pediatrics (for more information, see above). For the past 12-month period, sales increased by 30%.

THE BIOGAIA BRAND

Of total finished consumer products (drops, gut health tablets, oral health lozenges, oral rehydration solution, etc.) 66% (66%) were sold under the BioGaia brand in the first quarter, including co-branding.

Gross margin

Total gross margin for the quarter amounted to 74% (75%).

Gross margin for Pediatrics was unchanged at 75% (75%).

Gross margin for the Adult Health segment was 67% (72%). The decrease is due to the first quarter last year including compensation for knowhow, etc. (see above under Adult Health segment) from the agreement with Kabaya Ohayo.

Operating expenses

Operating expenses (selling, administrative and R&D expenses) amounted to SEK 55.2 million (48.5), an increase of 14%. The expenses increase in accordance with the company´s strategic plan for future growth. The increase is mainly attributable to higher costs for marketing activities and clinical studies as well as increased personnel expenses.

Other operating expenses/income refer to exchange gains/losses on receivables and liabilities of an operating character. These amounted to SEK -3.9 million (-0,7). The Group has changed its accounting standard (see below under New accounting standards) and with effect from 2018 (and including comparative figures for the previous year) reports exchange gains/losses on forward exchange contracts in operating profit or loss since the assessment is that they are attributable to operations. Other operating expenses/income include an exchange loss/gain relating to forward exchange contracts of SEK -9.0 million (+0.3). At 31 March 2018 the company had outstanding forward contracts for EUR 16.5 million at an average exchange rate of SEK 9.76 and for USD 9.2 million at an average rate of SEK 8.12. The actual exchange gain/loss depends on the exchange rate on the maturity date of the contracts.

Share of profits of associates

Share of profits of associates refers to BioGaia's share (36%) of MetaboGen AB's profit and amounted to SEK -0.5 million (-0.5). BioGaia acquired additional shares in MetaboGen on 6 April 2018 and the participating interest now amounts to 62%. For further information, see below under "Key events after the end of the first quarter".

Operating profit and operating margin

Operating profit amounted to SEK 56.2 million (56.1), an increase of SEK 0.1 million (0%) after change in accounting standard (see below under New accounting standards). Operating margin amounted to 36% (40%). In the event of unchanged standards, operating profit would have amounted to SEK 65.2 million (55.8), an increase of 17%, with an operating margin of 42% (40%).

Financial items and profit before tax

Profit before tax was SEK 56.4 million (56.0), an increase of 1%.

Profit after tax

Profit after tax amounted to SEK 43.2 million (42.9), an increase of SEK 0.3 million (1%). The effective tax rate for the Group was 23% (23%). Owing to the distribution and license agreements signed in Japan at the end of 2016 (see annual reports for 2016 and 2017) it will be possible to utilize a large portion of the earlier loss carryforward in Japan in the Japanese company. In the Group, the exclusivity fees relating to product rights will be recognized successively over the term of the agreement and a deferred tax asset was therefore recognized in 2016. At 31 March 2018, the deferred tax asset amounts to SEK 9.2 million. The Group thus has no loss carryforwards for which no deferred tax is recognized.

Earnings per share

Earnings per share amounted to SEK 2.49 (2.47)[1)]. No dilutive effects arose during the period.

Balance sheet 31 March 2018

Total assets amounted to SEK 625.1 million (576.1). The increase is mainly due to an increase in cash and cash equivalents (see below under Cash flow) and to some extent to an increase in inventories and trade receivables.

Cash flow

Cash flow amounted to SEK 39.8 million (77.5). The higher amount in the previous year is due to payment of exclusivity fees from Kabaya Ohayo (Japan). Cash and cash equivalents at 31 March 2018 amounted to SEK 347.9 million (305.9).

Investments in property, plant and equipment

Investments in property, plant and equipment amounted to SEK 2.8 million (6.7), of which the majority pertains to the subsidiary BioGaia Production.

Parent Company

The Parent Company's net sales amounted to SEK 147.0 million (139) and profit before tax was SEK 47.7 million (75.6). Profit for the previous year included a reversal of a previously impaired receivable on a loan to the subsidiary in Japan of SEK 23.3 million since the subsidiary repaid part of the loan in the first quarter of 2017. Cash flow amounted to SEK 28.0 million (70.8).

Subsidiary in Japan

Net sales from the Japanese business reached SEK 11.4 million (6.3) in the first quarter of 2018. Operating profit for the Japanese operations was SEK 1.3 million (-0.5).

Subsidiary BioGaia Production AB (formerly TwoPac AB)

BioGaia Production is a wholly owned subsidiary of BioGaia that manufactures products, primarily drops, exclusively for BioGaia. Net sales amounted to SEK 25.5 million (19.3). Operating profit was SEK 9.4 million (5.8).

Subsidiary CapAble AB

CapAble is owned 90.1% by BioGaia and 9.9% by CapAble's Managing Director. Net sales in CapAble amounted to SEK 0.4 million (0.2). Operating profit was SEK -0.5 million (-0.6).

Subsidiary BioGaia Pharma AB

In June 2017, BioGaia announced that the company had established a subsidiary, BioGaia Pharma, to take advantage of the opportunities to develop drugs identified in the R&D activities conducted as part of the company's normal business. BioGaia Pharma is owned 96% by BioGaia and 4% by the company's Managing Director. Operating profit for the first quarter was SEK -0.9 million.

KEY EVENTS IN THE FIRST QUARTER

Launches in the first quarter of 2018

Distributor	Country	Product
Abbott	Myanmar	BioGaia Protectis drops and tablets
Ascendis	South Africa	Protectis drops with vitamin D and BioGaia Prodentis lozenges
Cube	Greece	BioGaia Gastrus tablets
Dr. Reddy's	India	BioGaia Protectis drops
Kabaya Ohayo	Japan	BioGaia Prodentis lozenges
Medhouse	Sweden	BioGaia Protectis tablets with vitamin D
Sunstar	Sweden, Denmark, France, Belgium and the Netherlands	Prodentis lozenges

Launch of BioGaia Protectis with vitamin D in Sweden

In the first quarter, BioGaia launched its chewable tablets with *Lactobacillus reuteri* Protectis and vitamin D in Sweden through its partner Medhouse AB. The products, BioGaia Protectis D_3 and BioGaia Protectis D_3+ (with 20 micrograms of vitamin D) are now available at selected pharmacy chains throughout Sweden.

Launch of BioGaia Protectis drops in India.

BioGaia has started a partnership with Dr. Reddy's Laboratories for marketing and distribution of BioGaia Protectis drops in the Indian market. Dr. Reddy's started the launch in the first quarter of 2018 and the product will be marketed under a combination of the BioGaia and Dr. Reddy's brands. With BioGaia Protectis drops Dr. Reddy's will focus on medical marketing mainly directed to pediatricians and other healthcare professionals. The aim is to meet medical needs for treatment of colic with BioGaia's drops.

Launch of BioGaia's oral health products in Sweden, Denmark, France, Belgium and the Netherlands.

During the quarter, BioGaia's distribution partner Sunstar launched Prodentis, BioGaia's probiotic for oral health, in Sweden, Denmark, France, Belgium and the Netherlands. The product will also be launched in Italy later in the year. The product is marketed under the GUM PerioBalance brand and is available at selected local pharmacy chains. Sunstar already markets GUM PerioBalance in Germany, Spain, Portugal and Austria.

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

At the beginning of January two new meta-analyses were published investigating the effects of *L. reuteri* Protectis in colicky infants. Including these two, to date a total of nine systematic reviews have proven the effect of *L. reuteri* Protectis in infants with colic. With six positive randomized, double-blind and placebo-controlled clinical trials and nine meta-analyses, which is considered the highest level of evidence of a health effect, the proof of *L. reuteri* Protectis in infant colic is solid. Further, *L. reuteri* Protectis is the only probiotic with proven efficacy in colic.

Agreement with Abbott for the rights to sell BioGaia Protectis tablets in China

In January 2018, BioGaia signed an exclusive agreement with Abbott for the rights to sell BioGaia Protectis tablets in China. The product will be co-branded under a combination of BioGaia's and Abbott's brands. The launch is planned for 2018, conditional on approval by the Chinese authorities.

KEY EVENTS AFTER THE END OF THE FIRST QUARTER

BioGaia increases ownership in MetaboGen

BioGaia has decided to acquire additional shares in the associated company MetaboGen AB and in April invested SEK 11.7 million in shares in the company. BioGaia's participating interest increased from 36% to 62% and BioGaia thus became the majority shareholder in the company. In addition to the acquisition of shares, BioGaia also receives an option to acquire the remaining 38% in the company within a three-year period. The additional purchase price can amount to a maximum of SEK 40 million depending on the achievement of a number of milestones.

Microbiome research is making very fast progress and pharmaceutical companies are making major investments within this field. Through the investment in MetaboGen, BioGaia can maintain its strong position within probiotic research. BioGaia will initiate a number of research projects in MetaboGen. The cost of these projects is estimated at around SEK 22 million and the projects will be carried out over a three-year period. In addition to this, operations and development already taking place in the company today are expected to cost approximately SEK 10 million per year if no license agreements are signed with third parties.

EMPLOYEES

The number of employees in the Group at 31 March 2018 was 121 (120).

FUTURE OUTLOOK

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

The long-term financial target is a sustainable operating margin (operating profit in relation to sales) of at least 34% with continued strong growth and increased investments in research, product development, brand building and the sales organization.

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

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

SIGNIFICANT RISKS AND UNCERTAINTIES: GROUP AND PARENT COMPANY

Significant risks and uncertainties are described in the administration report of the annual report for 2017, on pages 40 and 41 and in Notes 28 and 29. No significant changes in these risks and uncertainties are assessed to have taken place at 31 March 2018.

ACCOUNTING POLICIES

In all material respects, this interim management statement has been prepared in accordance with Nasdaq OMX Stockholm's Guidelines for preparing interim management statements. Disclosures according to IAS 34 Interim Financial Reporting are provided both in notes and elsewhere in the interim management statement. The accounting policies applied in the consolidated statements of comprehensive income and financial position are consistent with the accounting policies applied in preparation of the most recent annual report with the addition of new accounting standards described below.

The financial statements and segment information are consistent with the presentation used in the interim reports presented in compliance with IAS 34, in order to achieve comparability in presentation between quarters. The interim management statement contains, among other things, comments from the Managing Director, although this is not required according to Nasdaq OMX Stockholm's Guidelines for preparing interim management statements. This information is nonetheless considered important in meeting the users' needs.

New accounting standards

The accounting policies applied correspond to those presented in the 2017 annual report with exceptions relating to "Financial instruments" (IFRS 9 replaces IAS 39) and "Revenue from Contracts with customers" (IFRS 15 replaces IAS 18 and IAS 11).

IFRS 9

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

The adjustment relates to a reserve for uncertainty in trade receivables and has been recognized in changes in equity. At 31 March the reserve amounted to SEK 0.2 million. The difference compared to 1 January 2018 is recognized in profit or loss. The Group has also changed policy from recognition of all derivatives in net financial items to recognition based on the item they hedge. Changes in value in relation to operating receivables, liabilities and derivatives are recognized in operating profit or loss while changes in value of financial receivables, liabilities and derivatives are recognized in net financial items. Forward contract hedges are recognized at fair value through profit or loss in accordance with the items they hedge. This means the company's exchange gains and losses relating to forward exchange contracts are recognized in operations with effect from 1 January 2018.

New accounting standards for financial instruments are provided below.

Financial instruments

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

Recognition and derecognition from the statement of financial position

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

Classification and measurement

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

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

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

Amortized cost and effective interest method

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

Financial liabilities

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

Financial liabilities at amortized cost

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

Financial liabilities at fair value through profit or loss

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

Impairment

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

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

IFRS 15

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

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

Revenue recognition

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

IFRS 16

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

Exchange rate differences

Most of the company's sales are denominated in foreign currency, primarily EUR but also USD, CHF and JPY. With unchanged exchange rates, compared with the corresponding period last year, net sales would have been SEK 2.4 million higher for the quarter. Exchange rate differences affect both income and expenses. Operating expenses (cost of sales, selling expenses, administrative expenses and research and development expenses) would have been SEK 0.1 million higher with unchanged exchange rates compared with the corresponding quarter last year. Expenses mainly arise in SEK but also in EUR, JPY and USD.

Consolidated statements of comprehensive income

(Amounts in SEK 000s)	**Jan-March 2018**	Jan-March 2017	Jan-Dec 2017	April 2017-March 2018	April 2016-March 2017
Net sales	**156,645**	141,133	615,003	630,515	541,976
Cost of sales	**-40,879**	-35,387	-151,655	-157,147	-143,197
Gross profit	***115,766***	*105,746*	*463,348*	*473,368*	*398,779*
Selling expenses	**-30,111**	-26,832	-127,115	-130,394	-111,829
Administrative expenses	**-5,720**	-4,835	-22,063	-22,948	-20,139
Research and development expenses	**-19,405**	-16,819	-75,700	-78,286	-66,993
Share of profits of associates	**-500**	-500	-820	-820	-1,451
Other operating income/expenses	**-3,879**	-670	-4,659	-7,868	1,719
Operating profit	***56,151***	*56,090*	*232,991*	*233,052*	*200,086*
Interest income	**273**	-	112	385	1,419
Financial expenses	**-40**	-111	-192	-121	-198
Profit before tax	***56,384***	*55,979*	*232,911*	*233,316*	*201,307*
Deferred tax	**-160**	-	-1,094	-1,254	10,433
Tax	**-13,068**	-13,093	-51,253	-51,228	-48,250
PROFIT FOR THE PERIOD	**43,156**	42,886	180,564	180,834	163,490
Items that may be reclassified subsequently to profit or loss					
Gains/losses arising on translation of the statements of foreign operations	**-322**	-85	565		
Comprehensive income for the period	**42,834**	42,801	181,129		

Profit for the period attributable to:			
Owners of the Parent Company	**43,156**	42,886	180,564
Non-controlling interests	**0**	0	0
	43,156	42,886	180,564
Comprehensive income for the period attributable to:			
Owners of the Parent Company	**42,834**	42,801	181,129
Non-controlling interests	**0**	0	0
	42,834	42,801	181,129
Earnings per share			
Earnings per share (SEK)	**2.49**	2.47	10.42
Earnings per share after dilution (SEK)	**2.49**	2.47	10.42
Number of shares (thousands)	**17,336**	17,336	17,336
Average number of shares (thousands)	**17,336**	17,336	17,336

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	31 March	31 Dec	31 March
Summary (amounts in SEK 000s)	2018	2017	2017
ASSETS			
Property, plant and equipment	**103,388**	102,465	87,769
Shares in associates	**9,432**	9,932	10,252
Deferred tax asset	**9,179**	9,339	10,433
Other non-current receivables	**40**	39	43
Total non-current assets	***122,039***	*121,775*	*108,497*
Current assets excl. cash and cash equivalents	**155,214**	148,481	134,641
Cash and cash equivalents	**347,871**	305,856	320,617
Total current assets	***503,085***	*454,337*	*455,258*
TOTAL ASSETS	**625,124**	576,112	563,755
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent Company	**506,425**	463,904	457,999
Non-controlling interests	**-16**	-16	-18
Total equity	**506,409**	463,888	457,981
Provision for deferred tax	**778**	778	332
Current liabilities	**117,937**	111,446	105,442
TOTAL LIABILITIES AND EQUITY	**625,124**	576,112	563,755

CONSOLIDATED CASH FLOW STATEMENTS	Jan-March	Jan-March	Jan-Dec
Summary (amounts in SEK 000s)	2018	2017	2017
Operating activities			
Operating profit	**56,151**	56,090	232,991
Depreciation/amortization	**1,845**	1,307	6,573
Unrealized loss on forward exchange contracts	**8,602**	-268	842
Other non-cash items	**-884**	637	1,716
	65,714	57,766	242,122
Realized forward exchange contracts	**-444**	-591	-1,337
Paid tax	**-12,632**	-12,387	-49,547
Interest received and paid	**161**	-111	-157
Cash flow from operating activities before changes in working capital	**52,799**	44,677	191,081
Changes in working capital	**-10,172**	39,506	31,534
Cash flow from operating activities	***42,627***	*84,183*	*222,615*
Acquisition of property, plant and equipment	**-2,823**	-6,653	-26,624
Reduction of non-current receivables	**-**	-	-19
Cash flow from investing activities	***-2,823***	*-6,653*	*-26,643*
Dividends	**-**	-	-130,023
Provision to The Foundation to Prevent Antibiotic Resistance	**-**	-	-2,400
Formation of BioGaia Pharma	**-**	-	2
Cash flow from financing activities	***0***	*0*	*-132,421*
Cash flow for the period	**39,804**	77,530	63,551
Cash and cash equivalents at beginning of period	**305,856**	243,069	243,069
Exchange differences in cash and cash equivalents	**2,211**	18	-764
Cash and cash equivalents at end of period	**347,871**	320,617	305,856

REPORTING BY SEGMENT - GROUP

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

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

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

REPORTING BY SEGMENT- GROUP (amounts in SEK 000s)

Revenue by segment	**Jan-March 2018**	Jan-March 2017	Jan-Dec 2017	April 2017-March 2018	April 2016-March 2017
Pediatrics	**131,735**	110,779	492,550	513,506	435,751
Adult Health	**24,435**	26,505	116,176	114,106	90,683
Other	**475**	3,849	6,277	2,903	15,542
Total	**156,645**	141,133	615,003	630,515	541,976
Gross profit by segment					
Pediatrics	**98,832**	82,793	378,936	394,975	324,851
Adult Health	**16,459**	19,104	78,173	75,528	58,425
Other	**475**	3,849	6,239	2,865	15,503
Total	**115,766**	105,746	463,348	473,368	398,779
Selling, administrative and R&D expenses	**-55,236**	-48,486	-224,878		
Share of profits of associates	**-500**	-500	-820		
Other operating expenses	**-3,879**	-670	-4,659		
Operating profit	**56,151**	56,090	232,991		
Net financial items	**233**	-111	-80		
Profit before tax	**56,384**	55,979	232,911		
Revenue by geographic market and segment					
Asia Pacific					
Pediatrics	**7,302**	5,542	31,237		
Adult Health	**11,923**	15,945	63,992		
Other	**37**	113	246		
Total Asia Pacific	**19,262**	21,600	95,475		
EMEA					
Pediatrics	**89,575**	80,351	338,716		
Adult Health	**11,096**	10,230	49,395		
Other	**438**	3,517	5,359		
Total EMEA	**101,109**	94,098	393,470		
Americas					
Pediatrics	**34,858**	24,886	122,597		
Adult Health	**1,416**	330	2,789		
Other	**0**	219	672		
Total Americas	**36,274**	25,435	126,058		
Total	**156,645**	141,133	615,003		

Date of recognition		
Performance obligations fulfilled on specific date	**138,588**	**114,603**
Performance obligations fulfilled over time	**18,067**	**26,530**
Total	**156,645**	**141,133**

SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in SEK 000s)	Jan-March 2018	Jan-March 2017	Jan-Dec 2017
Opening balance	**463,888**	415,180	415,180
Dividend	**-**	-	-130,023
Provision to the Foundation to Prevent Antibiotic Resistance	**-**	-	-2,400
Formation of BioGaia Pharma	**-**	-	2
Recalculation due to IFRS 9	**-313**	-	-
Comprehensive income for the period	**42,834**	42,801	181,129
Closing balance	**506,409**	457,981	463,888

CONSOLIDATED KEY RATIOS

	Jan-March 2018	Jan-March 2017	Jan-Dec 2017
Net sales, SEK 000s	**156,645**	141,133	615,003
Growth, %	**11%**	5%	15%
Operating profit, SEK 000s	**56,151**	56,090	232,991
Profit after tax, SEK 000s	**43,156**	42,886	180,564
Return on			
- average equity	**9%**	10%	41%
- average capital employed	**12%**	13%	53%
Capital employed, SEK 000s	**507,187**	458,313	464,666
Number of shares, thousands[1)]	**17,336**	17,336	17,336
Average number of shares, thousands	**17,336**	17,336	17,336
Earnings per share, SEK [1,2)]	**2.49**	2.47	10.42
Equity per share, SEK [1)]	**29.21**	26.42	26.76
Equity/assets ratio	**81%**	81%	81%
Operating margin	**36%**	40%	38%
Profit margin	**36%**	40%	38%
Average number of employees	**121**	115	115

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

Definition of key ratios

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

DEFINITION OF KEY RATIOS, CONT.

Return on capital employed	Jan-March 2018	Jan-March 2017	Jan-Dec 2017
Operating profit	**56,151**	56,090	232,991
Financial income	**273**	-	112
Profit before financial items plus financial income	**56,424**	56,090	233,103
Total assets	**625,124**	563,755	576,112
Interest-free liabilities	**-117,937**	-105,442	-111,446
Capital employed	**507,187**	458,313	464,666
Average capital employed	**485,927**	436,913	440,089
Return on capital employed	**12%**	13%	53%

Return on equity	Jan-March 2018	Jan-March 2017	Jan-Dec 2017
Profit attributable to owners of the Parent Company	**43,156**	42,886	180,564
Equity attributable to owners of the Parent Company	**506,425**	457,999	463,904
Average equity attributable to owners of the Parent Company	**485,165**	436,599	439,551
Return on equity	**9%**	10%	41%

	Change in sales by segment	Pediatrics Jan-March 2018	Adult Health Jan-March 2018	Other Jan-March 2018	Total Jan-March 2018
	Description				
A	The previous year's net sales according to the average rate	110,779	26,505	3,849	141,133
B	Net sales for the year	131,735	24,435	475	156,645
C	Reported change (B-A)	20,956	-2,070	-3,374	15,512
	Percentage change (C/A)	19%	-8%	-88%	11%
D	Net sales for the year according to previous year's average rate (D)	133,919	24,691	475	159,085
E	Foreign exchange effects (C-F)	-2,184	-256	0	-2,440
	Percentage change (E/A)	-2%	-1%	0%	-2%
F	Organic change (D-A)	23,140	-1,814	-3,374	17,952
	Organic change percent (F/A)	21%	-7%	-88%	13%

Average key exchange rates	Jan-March 2018	Jan-March 2017	Jan-Dec 2017
EUR	9.96	9.50	9.63
USD	8.11	8.92	8.54
JPY	7.49	7.85	7.61

Key exchange rates on closing date	31 March 2018	31 Dec. 2017	31 March 2017
EUR	10.29	9.85	9.55
USD	8.36	8.23	8.93
JPY	7.85	7.31	7.99

Change of accounting standard (see above for more information)
Effects on assets 1 January 2018

Category	IAS 39 Recognized at 31/12/17 Fair value throught profit or loss	Loans and trade recievables	Recalculation due to IFRS 9	IFRS 9 Recognized at 01/01/18 Businss model Other	Business model hold to collect
Trade receivables [1]		80 101	-313		79 788
Short-term investments [1]	5 000			5 000	
Cash and cash equivalents	305 856				305 856

1) Hold to collect.

Effects on income statement due to change in accounting standard for exchange gains/losses attributable to forward exchange contracts

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

	Jan-March 2017 according to IAS 39	Reclassification	Jan-March 2017 according to new accounting standard
Other operating income/expenses	-938	268	-670
Net financial items	157	-268	-111

	Jan-March 2018 according to IAS 39	Reclassification	Jan-March 2018 according to new accounting standard
Other operating income/expenses	5,167	-9,046	-3,879
Net financial items	-8,813	9,046	233

RELATED PARTY TRANSACTIONS

The Parent Company owns 100% of the shares in BioGaia Biologics Inc. USA, BioGaia Japan Inc, BioGaia Production AB (formerly TwoPac AB) and Tripac AB. The Parent Company also owns 90.1% of the shares in CapAble AB and 96% of the shares in BioGaia Pharma AB. With effect from 6 April 2018 BioGaia owns 62% of the former associated company MetaboGen AB (see above under Key events after the end of the first quarter).

Annwall & Rothschild Investment AB owns 740,668 class A shares and 509,332 class B shares, which is equal to 7.2% of the share capital and 33% of the voting rights in BioGaia AB. Annwall & Rothschild Investment AB is owned by Peter Rothschild, Group President of BioGaia AB, and Jan Annwall, a member of the Board of BioGaia AB. No transactions took place with the company during the period.

FINANCIAL CALENDAR

25 April 2018, 09:30 CET	Teleconference with Axel Sjöblad. To take part in the conference, please see www.biogaia.com/investors/agenda for telephone numbers. The teleconference can also be followed at https://tv.streamfabriken.com/biogaia-q1-2018
25 April 2018, 16:00 CET	AGM at Lundqvist & Lindqvist konferens, Klarabergsviadukten 90, Stockholm. For more information, pleas see www.biogaia.com/investors/agenda
17 August 2018, 08:00 CET	Interim report 1 January – 30 June 2018
24 October 2018, 08:00 CET	Interim management statement 1 January – 30 September 2018

Stockholm, 25 April 2018

Axel Sjöblad
Managing Director, BioGaia AB

This interim management statement has not been reviewed by the company's auditors.

BIOGAIA AB

The company

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

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

BioGaia has 121 employees, of whom 111 are based in Sweden (Stockholm, Lund and Eslöv), two in the USA and eight in Japan.

Business model

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

BioGaia's revenue comes mainly from the sale of drops, gut health tablets, oral rehydration solution (ORS) and oral health products to distributors, but also of revenue from the sale of bacteria cultures to be used in licensee products (such as infant formula and dairy products), as well as royalty revenue for the use of *Lactobacillus reuteri* in licensee products and sales of delivery systems such as straws and caps.

The products are sold through nutrition and pharmaceutical companies in approximately 100 countries worldwide.

BioGaia holds patents for the use of *Lactobacillus reuteri* and certain packaging solutions in all major markets.

The* BioGaia *brand

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

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

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

Research and clinical studies

BioGaia's strains of *Lactobacillus reuteri* are some of the world's most well researched probiotics, especially in young children. To date, 184 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on around 15,500 individuals of all ages. The results have been published in 159 articles in scientific journals.

Studies have been performed on:

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

Latest press releases from BioGaia:

24 April 2018	New initiative in the fight against antibiotic resistance
6 April 2018	BioGaia increases further in MetaboGen
26 March 2018	BioGaia publishes annual report for 2017

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