



BioGaia[®]
Probiotics grounded in evolution
Driven by science

ANNUAL REPORT

2019

15 Education
strengthens
the brand

18 Probiotics
new opportunity
for diverticulitis

27 Contributes
to a healthier
society

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BioGaia's 2019 Sustainability Report is prepared according to the requirements for sustainability reporting in the Swedish Annual Accounts Act. See pages 25–36 and 42–43 (business risks and uncertainties).

The Annual Report is published on BioGaia's website biogaia.com and a printed version distributed to those who have ordered it. The Annual Report can be ordered from BioGaia's head office +46 8 555 293 00 or via info@biogaia.se.

This is a translation of the Swedish version of the annual report. In the event of differences, the Swedish version shall prevail.

📅 Annual General Meeting 2020
Thursday, 7 May 2020 at 16.00 CET
Swedish Society of Medicine's premises,
Klara Östra Kyrkogata 10, Stockholm.

COMPANY PRESENTATION

► **Mission**

BioGaia's mission is to be the ground-breaking leader in probiotics and contribute to improved health by educating people and providing probiotic products for defined indications.

► **Positioning**

Food supplements with clinically-tested, high-quality probiotics that are sold through pharmacies and via online retail platforms. In most markets the products are recommended by doctors or other health-care professionals but BioGaia is meeting rising demand directly from consumers.

► **Values**

My personal commitment is vital for BioGaia's success.

We are innovative and action oriented.

We are business minded and deliver on our promises.

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

► **BioGaia's class B shares**

are listed on the Mid Cap segment of the Nasdaq OMX Nordic Stockholm exchange.

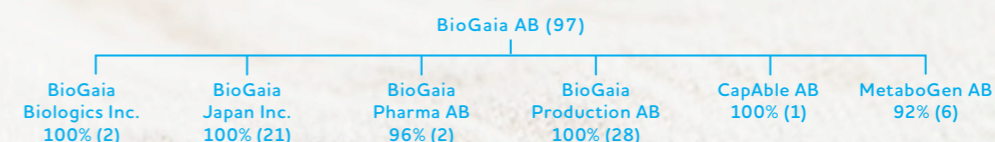
► **Founded in 1990**

by Peter Rothschild and Jan Annwall.

BIOGAIA GROUP

(number of employees December 2019)

BIOGAIA-GROUP (157)



2019

product launches show the breadth of BioGaia as a company in terms of both research areas and geographical establishment. We launched three totally new products during the year within three different applications and in three different continents: BioGaia Osofortis, which maintains bone density, in the USA, BioGaia Prodentis Mum, which prevents gingivitis during pregnancy, in Japan, and BioGaia Protectis vegan capsules for gut health, in Finland. The rollout of existing products continued in seven new markets and in addition our partners launched more than 30 products in different markets worldwide. ▶▶



In 2019 the USA was the largest market for the first time in BioGaia's history. This positive performance was driven by our focus on online sales under the BioGaia brand and by new product launches under the Gerber brand. Our second-largest market was Japan, followed by Brazil and Italy.

On the other hand, the market which saw the biggest sales increase during the year was China, where online sales have been and continue to be a key factor for success. Sales of drops in China increased sharply during the year and most sales were online. BioGaia is already the leading probiotic brand among products for infants in China and with 15 million newborns every year, we see continued major potential.

In Japan, our subsidiary further strengthened its position within oral health. They opened four new local offices during the year and BioGaia Japan is now established in six locations. The company's salesforce are trained dental hygienists who make regular visits to dental clinics, not just in these cities but throughout Japan. Direct consumer marketing also takes place as a complement to this medical marketing model.

These sales successes in the USA and Asia have led to a more even distribution between the three regions the Americas, EMEA and APAC and the aim is for this balance to continue. Europe remains the largest market accounting for more than half of sales.

In France, our distributor has been making active efforts for a couple of years now to broaden its target group which today includes midwives and consumers, in addition to doctors. This strategy has proved successful and sales in France increased sharply during the year.

Italy is an important market for us. Thanks to consumer demand for easydropper (drops in a tube), sales of drops showed a marked increase here in 2019.


On the research side, some 50 clinical studies are underway and we are eagerly looking forward to a number of interesting new study results in the year ahead. In the past year we published a study within a totally new area for BioGaia, diverticulitis. The results offer new opportunities for improved care for people who suffer from these intestinal problems and we are now developing a commercial product ([read more about the study on page 18](#)).

A study was also published in patients with the gut bacterium *Helicobacter pylori*. *H. pylori* is treated with antibiotics and since resistant bacteria are becoming an increasingly major problem at treatment, BioGaia Gastrus in combination with quadruple therapy was now tested for the first time, instead of the previous standard treatment¹. In combination with BioGaia Gastrus, treatment improved and the probiotic supplement also reduced the side-effects of the antibiotic.

As stated in the sustainability report on page 25, during the past year we started work to establish a long-term sustainability strategy which is even more integrated in operations. The fact that our probiotic products contribute to people's health is a given, but our ambitions go further than that and we seek to ensure sustainability in all parts of the business and throughout the value chain.

BioGaia today has 157 employees (41% men, 59% women) from a large number of countries and with a wide range of education, skills and experience. It is this mix of ambitious people that makes BioGaia unique and ensures that we are true to our motto – "do good and have fun".

2020 is a year that started with unease and uncertainty. We are closely following global developments related to the coronavirus. At the same time, 2020 is the year we celebrate BioGaia's 30th anniversary. We do this with both pride in what we have achieved and high ambitions for the future.


Isabelle Ducellier,
President and CEO, BioGaia



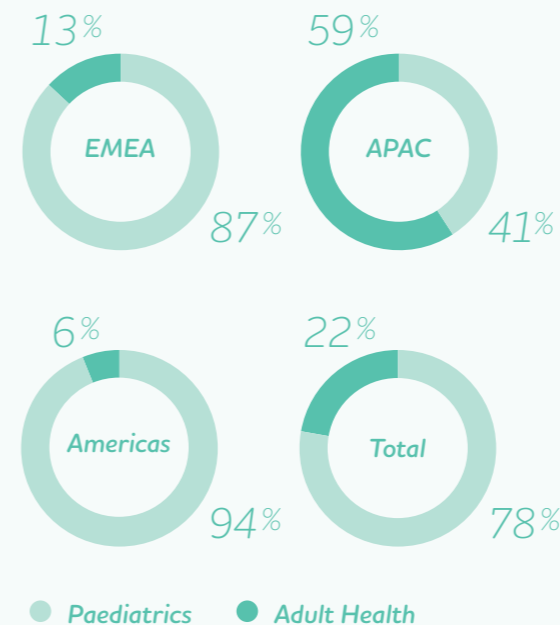
1. Triple therapy, two different antibiotics in combination with a proton pump inhibitor.

Key events 2019

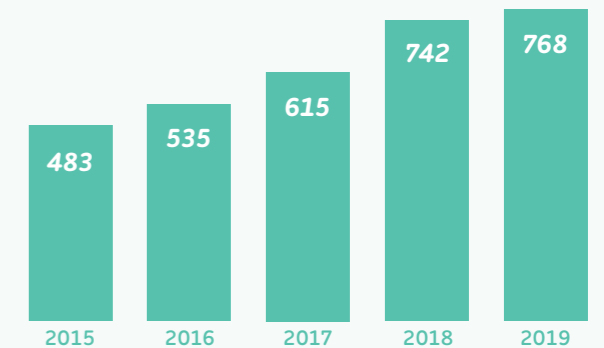
- quarter
- 1**
 - BioGaia's partner in Finland, Oy Verman Ab, becomes the first partner to launch BioGaia's new product BioGaia Protectis capsules.
 - 2**
 - BioGaia Protectis baby drops with vitamin D launched in China and Taiwan, BioGaia Gastrus launched in Honduras and El Salvador, and BioGaia Prodentis launched in Colombia.
 - Launch of BioGaia's new product for bone health, BioGaia Osfortis.
 - BioGaia's probiotic strain *L. reuteri* ATCC PTA 4659 was shown to reduce abdominal pain significantly more than a placebo in patients with acute uncomplicated diverticulitis.
 - 3**
 - Agreement signed with Abbott for the exclusive rights to sell BioGaia products under the BioGaia brand in Uruguay.
 - 4**
 - BioGaia announces that it had suffered delivery delays from one of its external suppliers.
 - Alexander Kotsinas takes up his position as Chief Financial Officer at BioGaia in November 2019.
 - Exclusive agreement with Healthexport for rights to sell BioGaia Protectis drops and tablets and BioGaia Gastrus in Tunisia.
 - Gianfranco Grompone takes up his position as Chief Scientific Officer at BioGaia in January 2020.

Key figures

Sales by market and segment



Annual sales past 5 years (SEKm)



Proportion own brand + co-branding



Development in 2019 confirmed that the broadening of our operations with the microbiome company MetaboGen and BioGaia Pharma, carried out in recent years, is strategically correct.

The probiotics of the future and many drugs will in all probability be found from the results of the massive research efforts now taking place within the microbiome field. These two companies and the research agreements we have entered into with universities and colleges, as well as our more traditional research, put us in the race to develop the innovative and value-creating products of the future.

The opportunities appear almost endless within a number of areas. These include totally new fields such as cancer, autism and stress or more traditional probiotic indications such as inflammatory bowel disease (IBD), irritable bowel syndrome (IBS) and allergies. Naturally, we are unable to invest in all these areas and one of the Board's key tasks is to help management to focus on those investments where we believe that BioGaia can gain a leading and significant role.

Many years ago, we made a strategic choice to invest in therapy areas and products where there was an unmet medical need for a treatment that did not have side-effects and where we could show significant clinical results. When we now view development in today's market, with rising competition from what I would call generic probiotic feel-good products, we can see that this has been a strategically successful strategy and one that we will continue to work with. In the American market we can see a clear trend that these types of general feel-good products are finding it increasingly hard to grow their sales, while BioGaia's sales in the USA are rising steadily. Our strategy represents a longer but more certain route. Here the Board also has a key role to support management in its long-term research and development plans.

We are seeing strong growth in Asia particularly in Japan where we now run a profitable business with some twenty employees. But we must not forget that this is the result of a long-term focus which after a number of loss-making years is now yielding good results. The Board has continually monitored this performance and, despite earlier losses, has supported management's investment in the Japanese

market and now also in the sales hub we are building up in Singapore, from where staff cover the other markets in Asia.

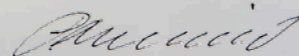
Africa is today a small market for BioGaia but in our opinion could become the next major growth market. We therefore want to be there at an early stage and are looking to broaden our presence on this continent.

BioGaia is a medium-sized company with some 150 employees but we are present in more than 100 geographical markets. It is often forgotten that through our medical marketing model and thousands of salespersons at our distributors, we visit healthcare professionals and thereby can actually affect the global health situation of the world's population, especially children. This knowledge is important to us and for our ability to retain and motivate our employees. It is naturally also important for our ability to attract skilled individuals within our key areas and for our collaboration with researchers at universities and colleges worldwide.

We are grateful for the success we have had with BioGaia's products and try to give something back to children and women who really need help but who lack the financial means to influence their situation. We have therefore been financially involved in a children's home in the Philippines for many years and now also in the Panzi Hospital, run by Nobel peace laureate Denis Mukwege, where women who have suffered from sexual violence are offered treatment.

I also want to highlight the investments being made by BioGaia through its grants to the Foundation to Prevent Antibiotic Resistance. The research projects supported by the Foundation aim to find ways to strengthen the immune systems of people and animals in order to avoid infections and thus reduce the need for antibiotics.

Despite substantial investments in marketing and research, BioGaia continues to be a highly profitable company with good liquidity, favourable sales growth for the product portfolio and debt free. We continuously develop new products that complement our range as well as within totally new indication areas. A strong pipeline combined with good growth for our existing product range, guarantee a continued positive development for BioGaia's shareholders.



Peter Rothschild,
Board Chairman, BioGaia





MARKET TRENDS POINT TOWARDS PROBIOTICS

📌 **Increased ill health and growing interest in health**

As the global population grows and ages, interest in health is increasing. In recent decades, the Western lifestyle has spread around the world as have the lifestyle diseases that follow in its wake. A growing number of people today are falling ill due to stress, sedentary lifestyle and incorrect diet – issues that give rise to both physical and mental symptoms. There is a growing need for action and health policies that address such lifestyle diseases while also encouraging behavioural changes at an individual level.

At the same time, a growing number of consumers of all ages are taking greater responsibility for their own health. People seek information about healthy foods and preventive healthcare on the Internet. Interest in health products and sectors such as organic food and food supplements is therefore expected to continue to rise sharply. Interest in the significance of the gut flora for our health has also increased in recent years with a growing awareness of change and depletion of the gut flora with rising age.

📌 **Sustainable companies are winners**

Interest in health products does not stop at what people eat. It includes how and under what conditions the products are developed. Increased awareness means that consumers assess companies from a sustainability perspective. It is becoming increasingly important that products, including raw materials, are produced in an ethical and sustainable manner. Equally important is that companies are transparent about how they conduct their operations and that they care about their employees.

Many people today, in particular the younger generation, prefer to be customers and employees of companies that show social responsibility throughout the value chain. There are also many indications that sustainable business is a precondition for profitability and that sustainable companies are often better managed in several respects. These include identification of the company's risks and systematic efforts on improvements throughout operations.

📌 **Antibiotic resistance – a growing threat**

According to the World Health Organization, WHO, antibiotic resistance continues to rise and constitutes a major threat to effective treatment of common infectious diseases. One way to lower this risk is to reduce antibiotic use for viral infections such as colds and influenza, where antibiotics are anyway of no benefit. Another way is preventive work. Studies have shown that preventive treatment with probiotics strengthens the immune system and can reduce the need for antibiotics among children. The larger and older the world population becomes, the greater the need for effective treatment of infectious diseases – and thereby the need to avoid antibiotic resistance.

The world population is growing and ageing. More elderly people will put healthcare services under pressure and increase incentives to prevent disease. At the same time, consumer interest in staying healthy for longer is growing. Global developments present both challenges and opportunities for companies and their ability to create value for stakeholders.

According to the UN, the world population is expected to increase by one billion people to reach 8.6 billion by 2030. Of this extra billion, 300 million are expected to be over the age of 65. The increases in the next few years will mainly take place in Africa, Asia (excluding Japan), Latin America and the Caribbean. In Japan and the West, the birth rate is falling while the population is ageing.

More elderly people means higher healthcare costs and in the USA alone these costs are expected to rise by 8% of GDP annually over the next 20 years. This also means that a smaller proportion of individuals of working age will have to support and care for more people. This in turn will lead to a need for changes in health policies worldwide and incentives for both authorities and consumers to investigate alternatives within preventive healthcare.

✔ **Grows where the population grows and through new indications**

BioGaia's largest segment today is Paediatrics and while EMEA is still the biggest market, expansion continues in both Asia Pacific and the Americas. In the Adult Health segment, BioGaia is well positioned for growth with products within gut health, oral health and bone health. A large number of clinical studies with BioGaia's probiotic strains are underway and new indications, such as diverticulitis, provide the basis for continued product development.

Applications for probiotics are increasing and BioGaia continuously develops new products to establish BioGaia as a brand with products that contribute to health throughout life.

BioGaia's probiotics contribute to the health and wellbeing of people in more than 100 countries worldwide. The focus today is on gut and oral health but applications will increase as research within new areas is established.

✔ **Increased focus on sustainability**

BioGaia shall develop and sell sustainable probiotic products and promotes sustainability throughout the entire value chain. This includes efforts to reduce material consumption and improve resource efficiency, safe production, safe products and an ethical approach to everything from research to business relationships and marketing.

BIOGAIA WELL POSITIONED FOR GROWTH

✔ **More probiotics, fewer antibiotics**

If fewer people fall ill, or have milder symptoms, the use of antibiotics can be reduced. This has been shown in studies with BioGaia's *L. reuteri* Protectis strain (read more on page 16). A study published in the European Journal of Public Health shows a correlation between intake of probiotics and a reduced need for antibiotics among children. By strengthening the immune system, probiotics can therefore play a key role in the fight against antibiotic resistance.

In the past decade, extensive research activities, in particular the National Institute of Health (NIH) Human Microbiome Project, have determined that the microbiome is central for among other things the immune system and could play a major role in preventing or treating disease. BioGaia's research here is at the leading edge through the subsidiary MetaboGen. BioGaia has also started a foundation that makes financial contributions to research and information into measures that reduce the need for antibiotics.

Value creation for BioGaia's stakeholders

• **EMPLOYEES**

BioGaia offers its employees a meaningful and stimulating workplace where employees feel job satisfaction

- 50% women in Executive Management
- 1.3% sickness absence 2019
- 157 employees

• **CONSUMERS**

BioGaia offers consumers probiotic products that contribute to improved health

- 3 new products, including one within a new indication area (bone health)
- Over 30 launches in new markets

STAKEHOLDERS

• **DISTRIBUTORS**

BioGaia builds long-term relationships with distributors and supports them within sales and marketing

- 12% increased product sales¹
- 2 new distribution partners

• **SUPPLIERS**

BioGaia contributes to development of suppliers through long-term relationships and being a reliable partner

- 100% have signed the Code of Conduct

• **SOCIETY**

BioGaia contributes to society by being a good citizen and by offering products that contribute to improved health

- SEK 55m in tax²
- SEK 4m to charities
- Lower cost to society for ill health

• **SHAREHOLDERS**

Through good risk management and a long-term strategy BioGaia offers a stable value appreciation for its shareholders

4% growth 32% operating margin

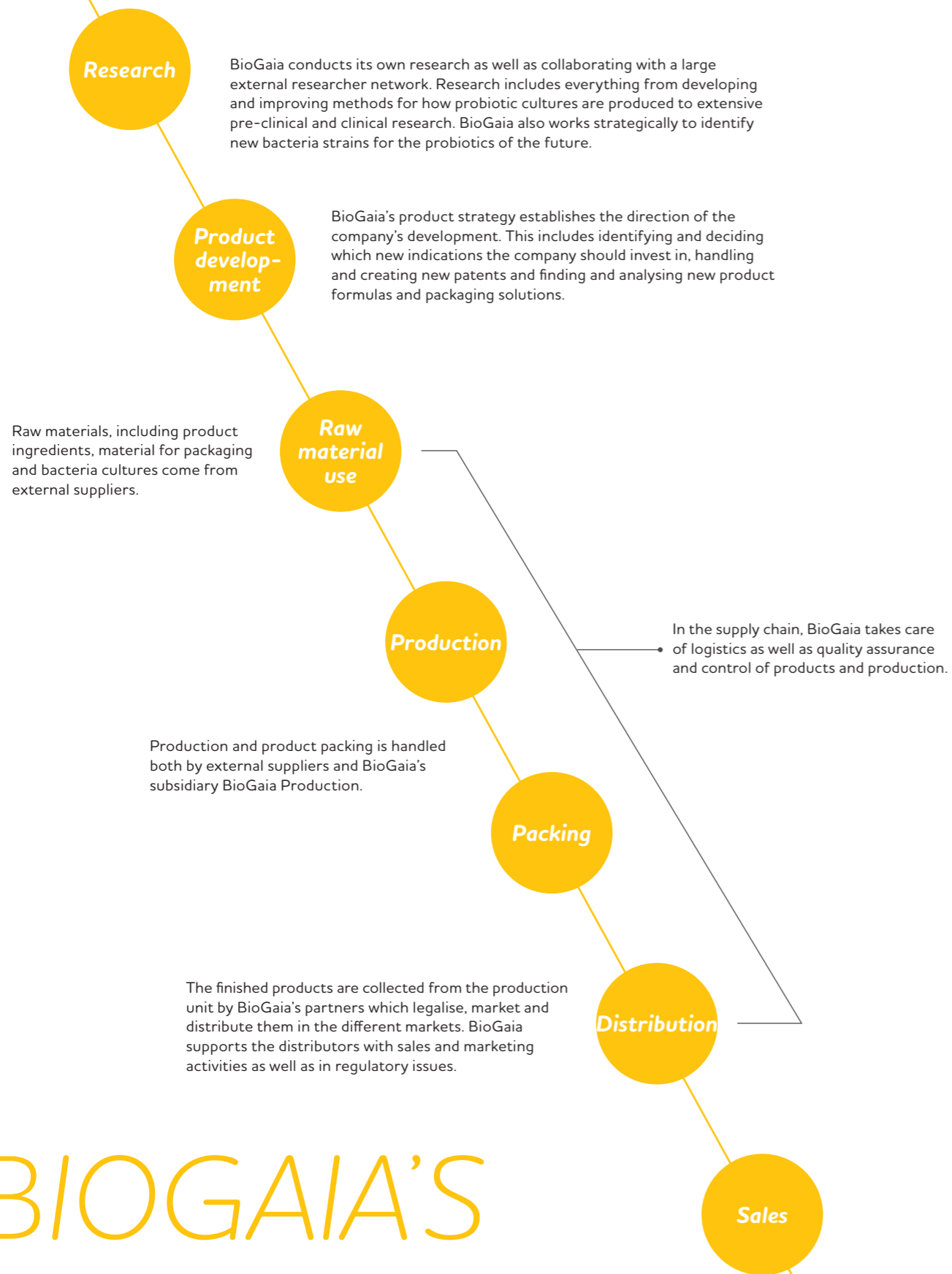
• **RESEARCHERS**

BioGaia contributes to increased knowledge of probiotics

- 14% of net sales to research and development
- 217 completed studies with 18,000 individuals

1. Product sales excluding royalty revenues
2. Tax on profit for the year

BIOGAIA'S VALUE CHAIN



Education strengthens the brand

It is important to understand what to look for when choosing a probiotic product. BioGaia's mission is therefore to improve people's health through education of doctors and other healthcare professionals as well as consumers. BioGaia is a research-intensive company that invests wholeheartedly in the development of health-promoting and clinically-documented probiotic products where efficacy, safety and quality are key.

Knowledge of probiotics among the general population is limited today and BioGaia's aim is to provide knowledge of the microbiota and probiotics in a scientific manner.

The **BioGaia Academy Expert Programme** within paediatrics is one example of a major education activity where BioGaia, together with experts in this field, has developed an education programme that combines online-based modules with physical scientific meetings. In this way BioGaia wants to promote knowledge transfer within probiotics as well as encouraging global scientific collaboration.

"Professional collaboration between industry and research is central to continued positive development within microbiome research," says Ulrika Köhler, Executive Vice President Marketing at BioGaia.

BioGaia represents high-quality and clinically-documented probiotic products that meet different needs and conditions. It is therefore important to continue to build a strong brand among both doctors and consumers through education, communication and transparency. BioGaia is today a recognised global brand, particularly among paediatricians. The products within the paediatric range are often recommended to the parents of small children by both paediatricians and childcare centres. The aim is to reach out more broadly and spread awareness of probiotics and BioGaia's entire range, which also includes products for adults and oral health.

Research shows that the microbiota is in the greatest need of healthy bacteria during the early development of the child as well as later in life in conjunction with normal ageing. BioGaia has therefore chosen to focus its research and development on creating healthy probiotic products that primarily focus on the health of the pregnant mother and the growing child as well as on promoting healthy ageing.

"Reaching out to new target groups is a strategically important step for BioGaia, as new, exciting research has led to new products developed for different conditions among

an adult population. The new target groups include both healthcare professionals and health-conscious consumers," says Ulrika Köhler.

In order to build a strong, global brand BioGaia works with a large distribution network. Doctors' recommendations remain important to BioGaia at the same time as health-conscious consumers are increasingly seeking information about probiotics. In many countries distributors therefore find themselves in a transition phase. The target group for marketing is expanding steadily from a clear focus on healthcare professionals to now also include consumers. BioGaia supports its partners in this expansion through an increased focus on providing communications material tailored for consumers.



SOCIOECONOMIC ADVANTAGES OF PREVENTIVE PROBIOTICS



We are living increasingly long and healthier lives worldwide. But sick leave for everyday ailments in adults and children costs society substantial sums each year. There are significant gains to be made with an increased focus on preventive measures, rather than treatment with drugs when the disease is a fact.

The positive health effects of a good night's sleep, exercise and a healthy diet are undisputed and many studies have been carried out on how vitamins and minerals can prevent illness. But the effects of probiotics are less well known.

Reduced suffering and reduced costs

L. reuteri is a bacterium found naturally in the human intestine. Studies have shown that preventive supplements of the bacterium are effective. In a Mexican study on healthy pre-school children, the frequency and number of days with diarrhoea, as well as the need for antibiotic treatment decreased in children who received supplements of *L. reuteri* Protectis.

An Italian study on newborns showed in a similar way that *L. reuteri* Protectis reduced the occurrence of colic,

vomiting and constipation. The conclusions from the study were that preventive supplements with probiotics could reduce both the children's suffering and society's costs linked to care and absence from work.

Reduced absence due to colds

The costs of short-term sick leave for stomach and cold infections are significant and also lead to loss of income. The fact that a daily supplement of *L. reuteri* Protectis can reduce such absence was confirmed in a Swedish study at two workplaces. The placebo group's absence was 0.9% of working days while absence in the group that received the supplement was only 0.3%.

An Israeli study on pre-school children showed similar results. The children who received a supplement of *L. reuteri* Protectis had markedly fewer days with fever, fewer doctor's visits, less need of antibiotics and fewer absence days than children who received a placebo.

An increased focus on preventive measures with probiotics can thus have positive effects at several levels – in the form of reduced suffering, a higher number of working days and direct savings for society.

BIOGAIÀ'S RESEARCH NETWORK

Belgium	Katholieke Universiteit Leuven	Italy	Università Cattolica del Sacro Cuore	Sweden	Chalmers University of Technology
Botswana	Princess Marina Hospital	Italy	Università degli studi di Bari Aldo Moro	Sweden	Lund University
Brazil	Universidade Guarulhos	Japan	Kubota Children's Clinic	Sweden	Stockholm University
Canada	The Hospital for Sick Children	Mexico	Hospital General Dr. Manuel Gea González	Sweden	Uppsala University
Canada	McMaster University	Peru	Johns Hopkins Bloomberg School of Public Health and Hygiene Satellite laboratory	Sweden	Uppsala University Hospital
Chile	University of Chile	Poland	Medical University of Warsaw	Sweden	Akademiska sjukhuset
China	Shanghai Children's Hospital Jiao Tong University	Russia	Khimki Central District Hospital	Sweden	Skåne University Hospital
Croatia	Children's Hospital Zagreb	Singapore	National University Hospital	Sweden	Swedish University of Agricultural Sciences
Croatia	University of Zagreb	Singapore	Singapore Polytechnic, School of Chemical and Life Sciences	Turkey	Eskisehir Osmangazi University
Denmark	University of Copenhagen	Singapore	National University of Singapore	USA	Texas Children's Hospital
France	Hôpital universitaire Robert-Debré	Slovenia	University Medical Centre Ljubljana	USA	University of Texas Medical Center
Germany	Akademisches Lerkrankenhaus der Charité	South Korea	Korea University	USA	Baylor College of Medicine
Germany	Julius-Maximilians-Universität Würzburg	Sweden	Örebro University	USA	Harvard University
India	Madhukar Rainbow Children's Hospital	Sweden	Linköping University Hospital	USA	Johns Hopkins University
Italy	D'Annunzio University of ChietiPescara	Sweden	Sahlgrenska University Hospital	USA	Massachusetts General Hospital
Italy	Tor Vergata University of Rome	Sweden	University of Gothenburg	USA	U.S. Department of Veterans Affairs
				USA	University of Wisconsin-Madison

30 YEARS OF RESEARCH EXPERIENCE

At BioGaia research on *L. reuteri* has been taking place for 30 years and the company's strains are among the most studied probiotics in the world. Over the years, the company has built up a unique global

network of specialists at over 50 research institutes and clinics which study not only the effectiveness of *L. reuteri* for various indications but also how and why it works. All research must meet the highest possible

scientific and ethical standards and BioGaia encourages publication of studies, regardless of result, in internationally renowned scientific journals. [Read more on page 31.](#)

PROBIOTICS NEW OPPORTUNITY FOR DIVERTICULITIS

In spring 2019 a study was published in the [International Journal of Colorectal Disease](#) which shows that a supplement of probiotics can reduce inflammation and abdominal pain in patients with diverticulitis. The group given probiotics also had a shorter hospitalisation period than the placebo group.

The study on the effects of probiotics on patients with diverticulitis was carried out on 88 patients, both women and men, with acute uncomplicated diverticulitis. All patients were given standard antibiotic therapy for one week and half the group were also given a supplement for ten days of BioGaia's probiotic strain *L. reuteri* ATCC PTA 4659 – which had previously been shown to have strong anti-inflammatory properties. The other half were given a placebo.

The principal investigator for the randomised, double-blind study was Veronica Ojetti, Associate Professor at the Catholic University of the Sacred Heart in Rome, Italy.

Good results on several levels

"We measured the degree of inflammation in the patient group that received probiotics compared to those who were given a placebo. After 72 hours the inflammation in those who received probiotics decreased markedly compared with the placebo group. We could also see very good results as regards abdominal pain," says Veronica Ojetti.

The length of hospital stays was also compared in the two groups. With reduced inflammation and reduced abdominal pain, the patients who had received probiotics could leave the hospital after an average of 93 hours compared to 113 hours for the placebo group.

"Based on these findings, we suggest a supplement of this probiotic, as a complement to antibiotic treatment, to enable faster recovery. This means it is also possible to start treatment directly at A&E and achieve a faster discharge from hospital, which provides economic benefits," she says.

A budding area of research

Veronica Ojetti is now conducting a new study with supplementation of the same strain of *L. reuteri* in patients with acute, uncomplicated diverticulitis who will be treated according to the new guidelines, i.e. without antibiotics. The hope is to achieve the same good results.

"This would also pave the way for a totally new area of research within other inflammations such as appendicitis or inflammatory bowel disease (IBD)," concludes Veronica Ojetti.



DIVERTICULITIS

Small, bulging pouches in the lining of the digestive tract are relatively common, mainly in people over the age of 40. When one or more of these pouches become inflamed or infected, this condition is called diverticulitis.

Diverticulitis can cause severe abdominal pain, and also fever, nausea and changes in bowel movements.

Increasing interest in health and new applications for probiotics have created a sound platform for further growth. The global market for probiotics as food supplements is expected to see annual growth of 5–10%. BioGaia noted good product sales in 2019, primarily in the USA and Asia Pacific.



FOCUS ON LONG-TERM PARTNERSHIPS

Application areas for probiotics are increasing and BioGaia is continuously developing new products to establish the company as a brand that helps people to stay healthy throughout life.

The business model is built on partnerships with local distributors that facilitate global distribution of BioGaia's products. An expanding partner network increases the need for collaboration with the distributors. BioGaia's two regional offices in Singapore and Miami are a valuable source of support in these daily contacts and additional staff were employed at the office in Singapore during 2019.

BioGaia's sales successes in the USA and Asia have led to a more even distribution between the three regions the Americas, EMEA and APAC. However, Europe remains BioGaia's largest market, accounting for over half of net sales.

"The USA is the world's largest market for probiotics and it is highly gratifying that our hard work has yielded results in recent years. We have also seen major successes in Asia Pacific and the region has gone from being a small part of our operations to a significant one of the same size as Latin America," says Urban Strindlöv, Executive Vice President Sales.

The biggest growth in these markets is taking place in digital channels and the focus on e-commerce among BioGaia's partners also contributed to rising sales in 2019.

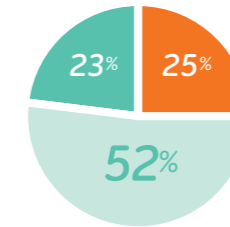
"Our business model is based on partnerships and we work strategically with our partners in the USA and China which have a digital focus and are strong within e-commerce. This mainly involves supporting them with good digital content linked to our products and their application areas.

This focus on online sales does not mean, however, that BioGaia is cutting back on what is the base of its operations – medical marketing. The most important way to establish BioGaia as a brand is through doctors' recommendations.

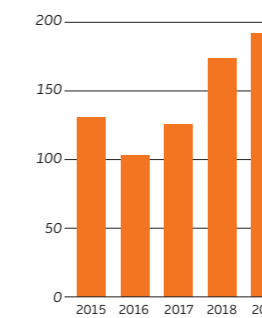
"Recommendations from healthcare professionals raise the credibility of our probiotic products and this is what drives our sales. We will therefore continue to make active efforts to build networks of opinion leaders and to teach them about our products," says Urban Strindlöv.

Sales by geographical market, SEKm

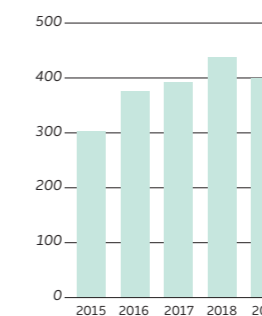
- Americas
- EMEA
- Asia Pacific



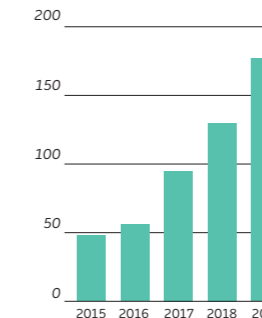
Americas



EMEA



Asia Pacific



AMERICAS: Increased focus on marketing to consumers in the USA

2019 was yet another strong sales year for the Americas, above all in North America. Sales in the region rose by a total of 10%. In Latin America, BioGaia launched a number of new products and entered new markets.

BioGaia works with two partners in the USA – Everidis och Gerber (Nestlé). Everidis sells BioGaia's entire product range under the BioGaia brand, mainly online. Gerber sells BioGaia's drops under its own brand both in physical pharmacies and online. The probiotic market in the USA is highly consumer-oriented and major resources are invested in consumer marketing.

"Consumers in the USA are bombarded with generic messages about probiotics without regard to strains or clinical evidence. This 'noise' leaves consumers struggling to find an effective solution to their problems. Their most trusted source is their doctor, nurse or other healthcare professional. Healthcare professionals have the training and experience to take BioGaia's impressive clinical data and translate it to their patients' needs," says Chris Becker, Vice President Sales, Everidis.

In the USA, BioGaia is focusing on growth in the adult health segment with niched indications, for example bone health in menopausal women and the elderly. During the year BioGaia Osfortis – a product for the prevention of osteoporosis – saw its first launch, in the US market. The assessment is that this product has good market potential.

BioGaia's business model, which is based on doctors recommending the products to their patients, has been successful in the USA for many years. The main emphasis continues to be on medical marketing, but BioGaia works in parallel with a marketing strategy aimed at consumers.

"Today, consumers often seek information about products and solutions to health problems on their own initiative. That is why we focus on producing digital information material that our distribution partners can use to create consumer awareness. This is particularly important with regard to niched indications in adults," says Urban Strindlöv, Executive Vice President Sales. ▶▶

“The USA is the world’s largest market for probiotics and it is highly gratifying that our hard work has yielded results in recent years”

URBAN STRINDLÖV, EXECUTIVE VICE PRESIDENT SALES



“We work to position the product as a high-quality and effective probiotic recommended by doctors”

ANA PÉREZ SANZ, REGIONAL DIRECTOR EMEA



“We are also intensifying support to our partners, with marketing material aimed at both doctors and consumers”

CRISTIÁN CONTRERAS,
REGIONAL DIRECTOR AMERICAS



New markets and launches in Latin America

In Latin America, BioGaia’s growth continued despite intensified competition in the region. This applies especially in Brazil, where BioGaia’s partner Aché faces major competition from existing and new players.

“To meet this competition, we are broadening the market through launches, including Protectis vitamin D drops, Gastrus and Prodentis. We are also intensifying our support to our partners, with marketing material aimed at both doctors and consumers,” says Cristián Contreras, Regional Director Americas.

In Mexico, sales increased underpinned by Abbott’s focus on medical marketing as well as the launch of Gastrus tablets. BioGaia signed a new partner agreement for the oral health product Prodentis and produced new products for Nestlé. Several launches are on the way in 2020.

“We entered a number of new markets in the Caribbean in 2019: Barbados, Bahamas, Bermuda and Curacao. In 2020 we will launch our products in Ecuador and Uruguay – both countries are totally new markets for us,” says Cristián Contreras.

In Latin America, BioGaia works successfully with doctors affiliated to the Latin American Society for Pediatric

Gastroenterology, Hepatology and Nutrition (LASPGHAN) in order to strengthen the brand and build a network of opinion leaders. The aim now is to broaden this network to include specialists within adult health and oral health.

EMEA:

Opportunities for higher growth in a mature region

Product sales in EMEA increased driven mainly by the Paediatric segment. The biggest sales increase was in France but Spain and Italy also saw positive sales development. The market in general is mature and exposed to competition.

EMEA is BioGaia’s largest market with approximately 52% of total sales. Sales include royalty revenues from Nestlé where the agreement was changed at year-end 2018. This has led to lower revenues in 2019. Delayed deliveries from BioGaia’s supplier in Belgium also had an impact on sales.

BioGaia is well established in EMEA with a presence in 57 countries and stable partner relationships. The company’s positions are strongest in Italy, Spain, France, South Africa, Turkey and Finland.

“In EMEA we have a leading position in the Paediatrics segment. During the year drops, tablets and powder products

for children accounted for over 86% of total sales in EMEA. Our goal is to retain this position at the same time as we want to grow and reach new target groups through launches in the Adult Health segment in both new and existing markets,” says Ana Pérez Sanz, Regional Director EMEA.

As in other regions, BioGaia’s successful business model, with its focus on medical marketing, is complemented with increased efforts to be visible in pharmacies as well as marketing focused directly to consumers, especially families.

In order to communicate directly with parents and other care providers, BioGaia works with partners to establish a social media presence, among other things. France has made the greatest progress here and these activities contributed to a significant sales increase.

“There is no magic formula but we have worked with 360 degree communication according to a well-defined strategy. At the same time as continuing to focus on doctors, we have broadened the target group to include midwives and other healthcare professionals. For a couple of years now we have also been working with marketing aimed directly at consumers. The strength of PediAct is our high level of dedication to BioGaia’s products. This has enabled us to successfully build very good brand awareness in the French market,” says Héléne Vachet, Marketing Manager at PediAct.

“In our work with adults as a target group, the focus is on Gastrus. Knowledge of probiotics and confidence about recommending them to patients has long been low in the medical profession, but we have seen a clear change in attitude which opens up new opportunities. We are working to position the product as a high-quality and effective probiotic recommended by doctors,” says Ana Pérez Sanz.

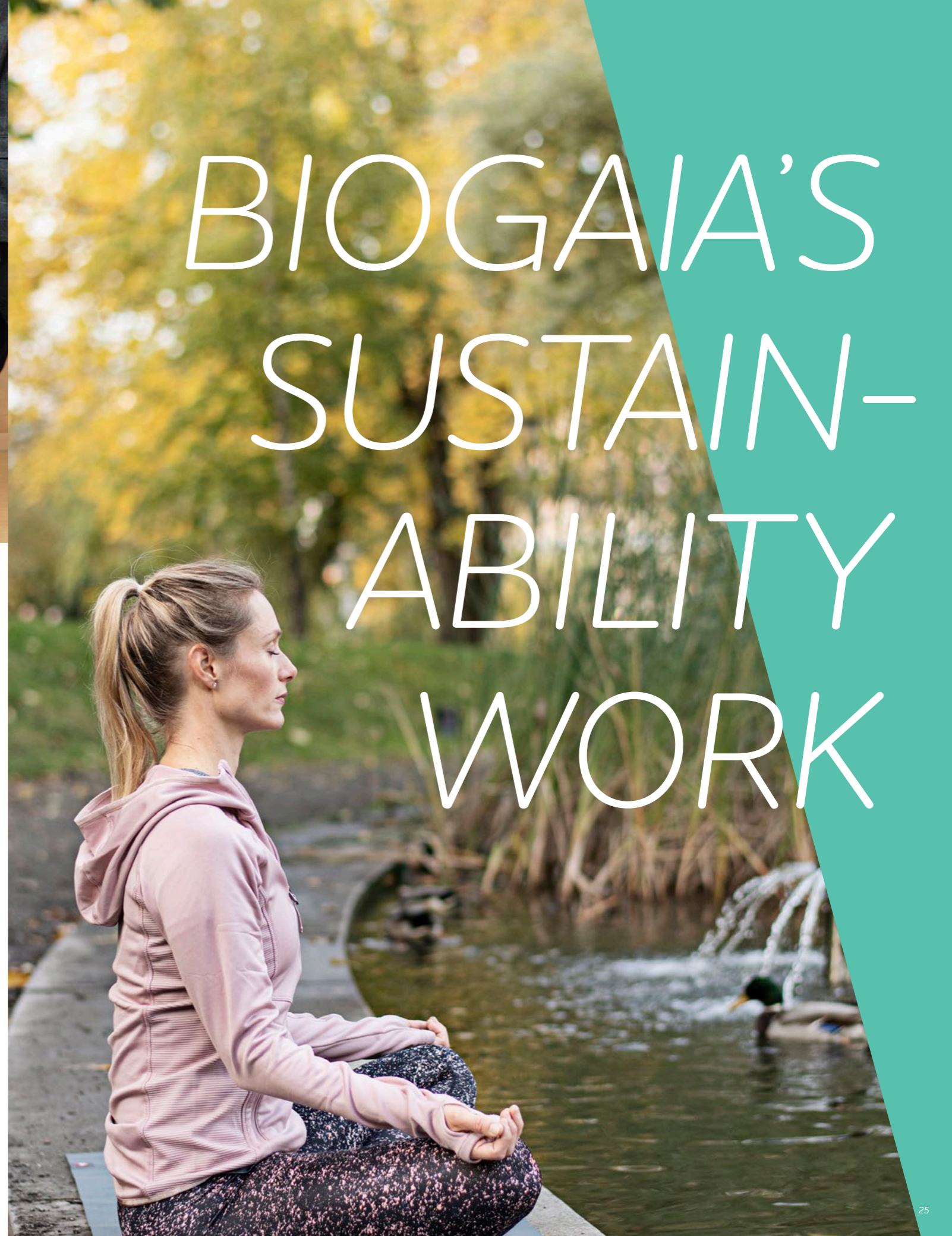
Sales in Finland turned upwards again in 2019 following a tough year in 2018, characterised by competition and price pressure. Finland was the first market to launch a vegan Protectis capsule during the year – a product in high demand.

In BioGaia’s more recent markets, such as countries in the Middle East and Africa, there is considerable interest in the products, not only the paediatrics range but also for adult health. During 2019, BioGaia became established through distribution partners in countries including Ghana, Mauritius and Tunisia and the aim is to launch in more countries in the years ahead. In Kenya, where BioGaia’s products were launched two years ago, a highly positive development was seen during the year with potential for a continued expansion of the product range. ▶▶



"Indonesia is an exciting market where we sell a large part of our gut health portfolio"

JONAS WEIMER,
REGIONAL DIRECTOR ASIA PACIFIC



BIOGAIIA'S SUSTAIN- ABILITY WORK

ASIA PACIFIC: **A region with good growth**

Asia Pacific is a market with good potential and an increased focus for BioGaia. The region comprises a combination of mature and totally new markets. Sales increased by 36%, mainly driven by strong sales in Japan in the first half of the year and increased sales of Protectis drops, especially in China.

BioGaia continued to expand in Japan, the company's largest market for oral health products. The Japanese subsidiary was expanded from two to six sales offices in order to achieve better market coverage. By visiting dental clinics, sales personnel obtain valuable information about how the products are used. In parallel with its own sales force, partner Kabaya Ohayo works with marketing BioGaia's products to consumers, in pharmacies and grocery stores.

"Asia is a step ahead of the other regions when it comes to interest in our oral health products, Prodentis. Japan is out ahead but a growing number of markets have started to see the benefits of these products. Indonesia is an exciting market where we sell a large part of our gut health portfolio and at the end of the year also launched Prodentis," says Jonas Weimer, Regional Director Asia Pacific.

"When we launched BioGaia Protectis drops in 2012, the Indonesian probiotic market was dominated by established brands with a focus on gastroenteritis (diarrhoea) in children. Now, seven years later, we are the market leader within probiotics with a number of indications for both children and adults. Key factors for success have been a clear strategy,

a focus on scientific evidence, education for doctors and the ability to adapt to local needs. In recent years we have also added social media as a way of educating consumers," says Derrick Sukanto, Vice President at Interbat.

In order to consolidate its position in Asia, BioGaia organised an expert meeting for dentists in Singapore during the year. Attendees came from several markets in the region and the hope is that BioGaia can attract more ambassadors who advocate the use of oral health probiotics.

The Chinese market is substantial and has major potential. The business model is based on both e-commerce and medical marketing. Sales of Protectis drops increased sharply during the year. E-commerce is an important success factor since most sales take place online.

"Our online team has been able to benefit from the fast-growing trend with e-commerce in China and has positioned BioGaia's products to exactly the right target groups. Even more important is that we provide all parts of the process: online marketing, customer service, packing and delivery. Furthermore, support from BioGaia and Little Sunflower enables us to continuously develop our offering which allows us to maintain a high pace and increase steadily," says Tan Lei, President of Sunflower.

BioGaia has been well established in Hong Kong for many years and enjoys a very strong position. This is the largest market in the region for Protectis tablets with sales both via physical pharmacies and online. Sales continued to rise during the year, despite intense competition from domestic players.

107 sold BioGaia's products in 2019
markets

105 invested in research and development in 2019 (14% of sales)
SEKm

1.3 sold in 2019
billion doses

BIOGAIA CONTRIBUTES TO A HEALTHIER SOCIETY

BioGaia contributes to improved health by developing existing or creating completely new products, which are launched in new or existing markets, selling more “doses” and contributing to research within probiotics.

BioGaia strives for sustainability in all areas of the business and throughout the value chain and to make a positive impact at every stage.

BioGaia’s sustainability work is based on offering healthy products, which are developed through sound operations where BioGaia’s networks and employees provide the foundation.



	2018	2019
RESEARCH AND DEVELOPMENT*		
SEKm	100	105
% of sales	13	14

* Costs by function including personnel costs for BioGaia Group.

	2018	2019
SALES		
Number of markets	100	107
Number of doses sold (millions)	1,300	1,300
Number of doses sold as finished products (millions)	526	547



HEALTHY PRODUCTS FOR EVERYONE

Offering clinically documented and safe products is the core of BioGaia's business. The company also works on improving the products from an environmental and social perspective to ensure that they are healthy in every way and for everyone.

Well-documented products

BioGaia offers products that are tested in well-executed independent studies. Prior to launching a product, BioGaia requires there to be a robust clinical scientific documentation. One of the company's probiotic strains, *L. reuteri* DSM 17938, is the world's most scientifically studied and still patented probiotic. Read more about how BioGaia works with research on page 31.

Transparent product information

BioGaia aims to ensure that the company's products are of the highest quality and that they comply with international criteria for probiotics.

The company uses The International Scientific Association for Probiotics and Prebiotics (ISAPP¹) criteria for probiotic products and how these should be labelled. BioGaia considers that all products meet these criteria, see table below.

Product quality and product safety

BioGaia Quality Standard is the name of the list of demands that BioGaia makes to maintain high product quality and safety. The requirements cover, for example, how BioGaia shall relate to laws, regulations, customer demands, raw material requirements and manufacturing standards.

Production, both at external suppliers and in our own production unit, BioGaia Production, takes place according to standardised processes and routines and by employees with relevant training in quality and product safety. BioGaia checks every single batch that is produced against the requirements specification and the analysis methods are quality assured.

BioGaia monitors how well suppliers comply with quality requirements through regular inspections where any non-conformances, complaints and quality issues are reviewed. These also ensure that any action plans

are satisfactory. The focus is on preventive measures. BioGaia's contract manufacturers are certified according to the appropriate standards for good manufacturing practice.

BioGaia Production is certified by the Swedish Medical Products Agency according to the appropriate standard for good manufacturing practice (GMP). At both BioGaia Production and the adjacent laboratory, Centre of Excellence, there is systematic work with risk management to ensure that potential risks are handled satisfactorily.

Thanks to high quality demands, BioGaia has never needed to recall products and there are very few complaints.

1. ISAPP is a non-profit organisation that champions probiotic and prebiotic science.

Material and raw material use

In order for BioGaia to contribute to a healthier world, it is essential that the products are not just health-promoting for the user, but also that the indirect health effects on the surrounding community are considered. Demand and expectations from consumers also drive development towards more sustainable packaging and raw materials.

A large part of the products' environmental impact arises in BioGaia's supply chain and depends on which suppliers and raw materials are used. BioGaia therefore strives to improve the products from an overall sustainability perspective and includes both social and environmental factors in product development.

The ambition is to further improve the product development process in order to consider sustainability aspects to a greater extent early in the development phase, regarding both raw materials and packaging.

Raw material – phase-out of palm oil

Palm oil is one example of a raw material where production often has a significant impact on both people and the environment.

Palm oil is used today in several of BioGaia's products but development work is in progress to phase out palm oil. The target is to have developed and be able to offer new versions of all products that currently contain palm oil by 2023, and not to sell any products with palm oil as an ingredient by 2025. At the end of 2019, BioGaia could offer approximately 35% of the company's product variants without palm oil. For the amount of palm oil used today BioGaia buys credits from RSPO-certified independent smallholders in accordance with RSPO's Book and Claim system.

In 2019 a new version of a product that previously contained palm oil as an ingredient was launched with that raw material now removed. BioGaia also launched two completely new products that do not contain palm oil as an ingredient. The task of phasing out palm oil is however challenging since BioGaia must ensure that the transition does not compromise the products' quality or stability. With operations in over 100 markets, phasing out also takes time.

Packaging material

It is a challenge to find packaging solutions that both safeguard the products' shelf life and thus reduce waste at the same time as they are manufactured in an environmentally friendly way.

BioGaia works on developing packages that are both bio-degradable and manufactured in an environmentally friendly way, from environmentally friendly material, while preserving the products' characteristics.

A life-cycle analysis of the packages used for BioGaia's products has allowed the effects of the company's impact to be measured. Today BioGaia's packages account for about 40% of the business's total emissions of greenhouse gases. Further, the packages impact the environment in a number of other ways. More sustainable packaging is therefore a prioritised area for BioGaia. To improve understanding of the impact of packaging, BioGaia will update the earlier life-cycle analysis.

CRITERIA FOR PROBIOTICS AND BIOGAIA'S ASSESSMENT OF LEVEL OF COMPLIANCE.

ISAPP's criteria	BioGaia's level of compliance with the criteria	ISAPP's criteria	BioGaia's level of compliance with the criteria
Backed by science	✓ All BioGaia's products are well documented in a total of more than 190 published clinical studies in all age groups, of which over 30 are safety studies.	Names of the microbes	✓ BioGaia always states the genus, species and strain on the package, in scientific contexts and in market communication.
Provides an effective dose	✓ BioGaia always uses the same quantity of bacteria per dose in products as has been used in clinical studies.	CFU	✓ BioGaia guarantees the quantity of live organisms (CFU content**) per dose at the expiration date for all products.
Provides the benefit I'm seeking	✓ BioGaia's probiotic strains have been studied for several different conditions, such as colic, functional abdominal pain, constipation, side effects of antibiotics, diarrhoea and to prevent infection.	Suggested dose or serving size	✓ BioGaia always states the suggested dose on the package.
It's safe for me	✓ All BioGaia's strains have Qualified Presumption of Safety status (QPS), for more information see EFSA*. Safety for BioGaia's strains has been the subject of more than 30 studies.	Proper storage conditions	✓ BioGaia always specifies how the product should be stored.
		Company contact information	✓ Contact information is always on the package and BioGaia also has an ongoing dialogue with consumers on social media and by email.

* EFSA, the European Food Safety Authority is an agency with the primary purpose of advising legislators in the European Union on matters relating to food safety.
** CFU = Colony Forming Units.

	Strain or strain combination	Published clinical studies
	<i>L. reuteri</i> DSM 17938	144
	<i>L. reuteri</i> DSM 17938 & <i>L. reuteri</i> ATCC PTA 5289	45
	<i>L. reuteri</i> DSM 17938 & <i>L. reuteri</i> ATCC PTA 6475	6
	<i>L. reuteri</i> ATCC PTA 6475	1

	2018	2019
CLINICAL STUDIES		
Published articles	180	198*
PRODUCT QUALITY AND PRODUCT SAFETY		
Number of recalls	0	0
RAW MATERIAL		
Average quantity of palm oil per dose (mg)**	69	69
PACKAGING MATERIAL Climate impact of packages		
Tonnes CO ₂ equivalent	819	845
Grams CO ₂ equivalent per dose	1.56	1.55

* Total number of studies including two studies of a product yet to be commercialised.
** Average quantity of palm oil per dose for all finished products sold by the BioGaia Group in 2019. The average quantity reduces with increased sales of products without palm oil.



A HEALTHY BUSINESS

BioGaia's business must be run in a sustainable manner. Complying with local rules and laws, ensuring good business ethics and taking a clear stand on respect for human rights are obvious. Furthermore, it is important that the company takes responsibility for the environmental impact of operations.

Anti-corruption and anti-bribery

To guide employees, BioGaia has a policy for anti-bribery and anti-corruption. The policy includes the company's definitions of bribes, corruption and conflict of interest as well as overall guidelines for what is acceptable behaviour and also reporting channels to be used when unacceptable behaviour is noticed. The issue has high priority and the person responsible for this work is a member of Executive Management.

Training for employees in anti-corruption is held annually. The training includes open discussions to give employees a chance to discuss challenging situations and identify risks. BioGaia's target is that all employees in the Group should receive training. During the year, 97% (100%) of the Parent Company and 86% (63%) of employees in the Group received training. No corruption incidents were reported in 2019.

In 2020 BioGaia will implement a whistleblower system where employees and external parties can report perceived anomalies anonymously. Another ambition is to further develop the training and also include external consultants in anti-corruption training.

Environmental impact of operations

The Group's climate emissions are mainly caused by product packaging and air travel. Calculations for the year show that during 2018 the Group caused emissions amounting to 1,874 tonnes¹. Starting in 2020, all electricity for BioGaia Group's operations in Sweden will be renewable. During 2018, BioGaia compensated its greenhouse gas emissions of 1,874 tonnes with a contribution of SEK 243,620 to Agroforestry projects in Tanzania and Kenya which are certified by Plan Vivo.

During 2019 the calculations for emissions have been reviewed with the aim of developing these further in 2020. In addition, the ambition is to use a greater understanding of the Group's emissions to take further steps to reduce these for example through less travel, more sustainable packaging solutions and raw materials.

1. The calculations include life-cycle emissions from the company's packages, business travel, commuting, electricity and heating in premises and various office materials. The calculation does not include the effects from production of ingredients in the products.

	2018	2019
ANTI-CORRUPTION AND ANTI-BRIBERY % who have attended anti-corruption training		
BioGaia AB	100%	97%*
BioGaia Group	63%	86%

* The three employees at BioGaia AB who did not attend the training were on parental leave during the period.
 ** The calculation method was updated in 2019 for data from 2018. Emissions have been calculated using the GHG protocol. The emission factors used come from DEFRA, AIB or directly from suppliers. For emissions from transports information from the specific supplier has been used when available. If none is available, calculations have been made with emission factors from DEFRA for wheel to tank (WWT) including the high-altitude factor (RF) for aviation. The adjustment factor used to account for high-altitude effects of air travel is 2.7 or that used by DEFRA. All types of greenhouse gases have been included in the calculated emissions.
 *** Includes emissions from commuting, office materials and energy use in properties.

	2017	2018**
GREENHOUSE GAS EMISSIONS Group total emissions (tonnes CO ₂ e)		
Scope 1	—	6
Scope 2 – market-based method	—	83
Scope 3	—	1,785
Emissions business travel	823	828
Emissions packages	644	819
Other***	150	227
Total emissions	1,618	1,874
Emissions per average employee	12.5	12
Total emissions after climate compensation	0	0



HEALTHY NETWORKS

BioGaia's international networks of researchers, suppliers and distributors is the basis of the business model. A large part of BioGaia's influence and ability to make a difference is therefore in the value chain, outside the company's own operations. BioGaia therefore collaborates continuously with its partners to steer operations in a sustainable direction.

Responsible suppliers and distributors

BioGaia's business model is based on long-term, close relationships with a small number of suppliers, which provide conditions for close collaboration and thus increased insight into their business. Sustainability aspects such as quality, safety and environmental impact are handled in the ongoing dialogue. Some of BioGaia's distributors also inspect suppliers themselves as part of their own sustainability work.

In addition to its own subsidiary BioGaia Production, BioGaia works with external suppliers for production, packaging, culture manufacture and analysis services¹ in Sweden, Denmark, Belgium, Spain and the USA.

Sustainability improvements made by BioGaia's suppliers are noted and encouraged. One example of an improvement made on the supply side during the year is a supplier in Belgium which has invested in wind energy, which is expected to provide about 50% of the supplier's total electricity requirements in the years ahead.

BioGaia has implemented a Code of Conduct for suppliers in order to achieve business ethical behaviour in the supply chain in accordance with the company's values. The Supplier Code of Conduct specifies BioGaia's minimum requirements within areas such as human rights, working conditions, environment, business ethics and anti-corruption.

At the end of 2019, 100% (100%) of BioGaia's contract manufacturers for production, packaging and cultures had signed up to the Code of Conduct or presented their own equivalent. For suppliers of analysis services¹ the figure was 100% (85%).

The ambition is to further develop work in the value chain by carrying out self-assessment questionnaires and sustainability audits at selected suppliers in high-risk countries (according to Transparency International's definition). For manufacturers and analysis laboratories in countries with lower risk, BioGaia will carry out less comprehensive sustainability audits. At present, audits are carried out that ensure quality work at the suppliers.

In 2018, work was also started on implementing a Code of Conduct for BioGaia's approximately 80 distribution partners. At the end of 2019, 85% (40%) had signed up to the Code of Conduct. The ambition is that most of the remaining partners will have signed up to the Code of Conduct or presented their own equivalent by the end of 2020.

BioGaia's distributors are key players in ensuring that the company's products comply with laws and regulations in their respective markets. In this work BioGaia's experts collaborate with their opposite numbers at the local distributors.

	2018	2019
% THAT HAVE SIGNED THE CODE OF CONDUCT		
Contract manufacturers	100%	100%
Analysis services	85%	100%
Distributors	40%	85%

Ethics and safety in clinical trials

BioGaia has built up a unique network of international researchers with whom the company collaborates to ensure that all research complies with the highest possible scientific and ethical standards.

In those studies where BioGaia supplies with study-product the company requires the researchers to follow the Declaration of Helsinki's ethical principles for medical research. In all pre-clinical and clinical research where BioGaia is involved, accepted ethical standards must be applied. Human studies must be approved by a research ethics committee in the host country, all participants must be informed about the study and provide their consent to participate. Further, the study protocol must always be approved by BioGaia and the study must be registered on a public website such as ClinicalTrials.gov.

1. Suppliers of chemical and microbiological analyses for BioGaia AB.



A HEALTHY WORKPLACE

BioGaia must be an employer that can retain and develop existing employees while at the same time attracting new talent. Employees with the right skills and a good working environment create conditions for wellbeing and strong commitment.

Employee wellbeing

Employees who are motivated and feel well contribute to a long-term sustainable business. The foundation for work with creating a workplace with healthy employees is the company's policies for working environment, wellness, and unhealthy workload. In addition, BioGaia offers its employees the possibility to participate in various wellness activities which can include exercise, dietary advice and social arrangements. BioGaia also offers its employees free health checks and fitness allowances.

During 2019 employee turnover at BioGaia AB was 8.2%¹ (11.1%) and in the Group 11.5% (9.7%). Sickness absence was in general low, at 1.3% (1.8%), which is the same level as in previous years. Employees' wellbeing was most recently evaluated in 2018 by the company Great Place to Work. This included an employee survey, which was answered by 99% of employees in BioGaia AB, and an external review of the corporate culture. The evaluation resulted in BioGaia being certified as a "Great Place to Work".

During 2020 BioGaia will carry out work on values with an internal leadership programme. All employees will be involved in this work, both in practice and through participation in a survey regarding values.

Diversity and equal opportunities

Diversity and inclusion affect employees' wellbeing and performance and it is also important that the company's employees reflect the international environment in which BioGaia operates. BioGaia's equality plan and policy are the basis for the company's diversity work. The equality policy states that all employees, regardless of background² shall have the same rights and opportunities regarding work, terms of employment and development opportunities. At recruitment and promotion regard must be paid to any bias in assessments and counteracted in accordance with the adopted policy. The policy also states that BioGaia shall counter and prevent discrimination, sexual harassment and other offensive behaviour. In practice BioGaia handles this by management taking a clear position and acting if incidents occur. Further, in 2020 BioGaia will implement a whistle-blower system where employees can report incidents anonymously.

Development

All BioGaia's employees shall be offered good development opportunities. The company has a tool for structured performance reviews, which is also used to ensure the quality of follow-up from both managers and employees. Carrying out these reviews is a key component in ensuring that employees perceive that their efforts are appreciated.

In 2019, 81% of employees had such a review with their immediate manager. At the end of 2019 BioGaia implemented a new HR system which in time will enable better follow-up of employees' development. During 2020 a process for succession planning will be developed with the aim of identifying key skills and clarifying the possibilities for development within the organisation.

Safety in production

In a small part of BioGaia's operations, in the laboratory and at BioGaia Production, there is an elevated risk of physical injury. BioGaia handles these risks through an overall working environment policy supplemented with specific instructions for each operation. Risk analyses of operations are performed regularly. During the year BioGaia had 1 (1) case of absence resulting from a strain injury in the laboratory which was addressed by changing working routines. BioGaia works continuously with improvements, for example by investing in equipment that minimises the risk of strain injuries. Safety in production at suppliers is handled partly by requiring them to follow the Code of Conduct which covers working conditions and also through ongoing follow-up.

1. BioGaia used other metrics and calculations for employee turnover in 2019 which can lead to minor differences when comparing years.

2. Grounds for discrimination are gender, gender identity or expression, ethnicity, religion or other belief system, functional impairment, sexual orientation and age.

	2018	2019
EMPLOYEE TURNOVER		
BioGaia AB	11.1%	8.2%
BioGaia Group	9.7%	11.5%
SHORT-TERM SICKNESS ABSENCE		
BioGaia AB	1.8%	1.3%
PERFORMANCE REVIEW AND FOLLOW-UP DISCUSSION		
BioGaia AB	100%	81%
ACCIDENTS AT WORK RESULTING IN ABSENCE*		
Number of lost time incidents (LTI)	1	1
Number of incidents per 1,000,000 working hours (LTIF**)	3.7	3.1
Degree of seriousness (days of absence per LTI)	5	5

* Number of incidents in the BioGaia Group. There has never been a fatal accident in the Group.
** LTIF: (LTI × 1,000,000) / (average number of employees × 2,080 hours).

	2018		2019	
	Men	Women	Men	Women
GENDER DISTRIBUTION				
BioGaia AB - Board	57%	43%	57%	43%
BioGaia AB - Executive Management	33%	67%	50%	50%
BioGaia AB - all employees	30%	70%	33%	67%
BioGaia Group	42%	58%	41%	59%

COMMUNITY INVOLVEMENT

During 2019 BioGaia invested SEK 4 million to support organisations that work with health-promoting activities in areas that have a link to BioGaia's business.

The Foundation to Prevent Antibiotic Resistance

Bacteria which develop resistance to antibiotic treatment risk undermining modern healthcare. Resistance to antibiotics is a threat to people in the whole world, where everything from pneumonia and cuts, to organ transplants and caesarean sections are at risk from life-threatening, untreatable infections.

In 2017, BioGaia founded "The Foundation to Prevent Antibiotic Resistance", an independent foundation with the aim of preventing antibiotic resistance through support for research, education and information activities. This area is related to BioGaia's business since probiotics can contribute to strengthening the immune system and thus to reduced use of antibiotics.

During 2019, BioGaia allocated SEK 3.2 million (2.7) to the Foundation. In 2019, the Foundation granted SEK 2 million to research and SEK 150,000 to an information project.



Panzi hospital

BioGaia, through the organisation Friends of Panzi, supports the 2018 Nobel prize laureate Dr Denis Mukwege and his important work at the Panzi Hospital in the Democratic Republic of Congo. During 2019 this support amounted to SEK 100,000. Over the years, the Panzi Hospital has helped more than 50,000 women and child rape victims both with their physical injuries and with building a new future. Panzi also offers maternity care, family planning and healthcare. For example lives of premature babies and undernourished children are saved on a daily basis.



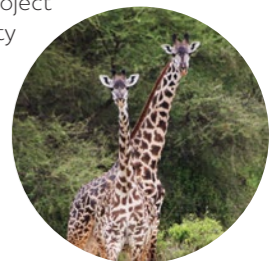
Children's Mission

BioGaia supports Children's Mission with SEK 500,000 for their work with poor children and families in the Philippines. Children's Mission runs schools, offers children opportunities for education and healthcare and runs children's homes as well as a support programme for poor women and their families.



Climate compensation

Since 2013 BioGaia has compensated for a large part of the Group's climate emissions in the value chain. Emissions in 2018 of 1,874 tonnes carbon dioxide equivalent were compensated with SEK 243,620. The climate compensation is in northern Tanzania where the forest is retained in collaboration with the hunter-gatherer peoples of the Hadza tribe. In addition to climate benefit, the project contributes to promoting biodiversity through ecosystem services as well as to added social value. Research has also shown that the Hadzas have a unique gut flora which is totally different from the gut flora of western peoples. The project is certified by Plan Vivo.



1. BioGaia climate compensates for the previous year since data for 2019 is not available. The calculated emissions include climate emissions in the life cycle from product packaging, business travel, commuting, energy use in buildings and premises as well as office materials. For more extensive data on emissions, see page 30.

SUSTAINABILITY ASPECTS	REASON FOR MATERIALITY	RISKS	GOVERNANCE/POLICIES	OUTCOME 2019	OBJECTIVES
Healthy products					
Well-documented products	BioGaia's strength is the number of well-executed independent clinical studies on the products which contribute to ensuring that consumers obtain the value they seek from the products.	<ul style="list-style-type: none"> Confidence and brand risks related to the products' health effects. 	<ul style="list-style-type: none"> Prior to a product launch, BioGaia requires robust clinical documentation. Compliance with ISAPP's criteria for probiotic products. 	<ul style="list-style-type: none"> In BioGaia's opinion, 100% of products comply with ISAPP's criteria. 198 clinical studies of BioGaia's products published (see number per strain and strain combination on page 29). 	<ul style="list-style-type: none"> Continue to work towards being able to better inform consumers about product benefits and areas of application.
Transparent product information	To enable consumers to make the correct choice it is important that information on the products is correct and in accordance with existing scientific documentation.	<ul style="list-style-type: none"> Confidence risk related to inadequate information and labelling of BioGaia's products. 	<ul style="list-style-type: none"> Compliance with ISAPP's criteria for probiotic products related to labelling. Contractual conditions that require distributors' labelling of the product to be correct and in accordance with existing scientific documentation. 	<ul style="list-style-type: none"> In BioGaia's opinion, 100% of products comply with ISAPP's requirements for probiotics. 	<ul style="list-style-type: none"> Continue to work towards being able to better inform consumers about product benefits and areas of application.
Product quality and product safety	For consumers and for retaining confidence it is critical that the products are safe and meet quality demands and expectations.	<ul style="list-style-type: none"> Product quality can be affected by delivery/distribution under unfavourable conditions (e.g. high temperature). Handling during product development, production and packing. 	<ul style="list-style-type: none"> Quality department with an in-house developed quality management system, BioGaia Quality Standard. Annual risk analyses of quality. Supplier audits. Supplier Code of Conduct. 	<ul style="list-style-type: none"> 0 (0) product recalls. 	<ul style="list-style-type: none"> Include additional sustainability parameters in supplier audits.
Material use, raw materials	Through its choice of raw materials and raw-material suppliers, BioGaia can influence both social issues and environmental impact in the supply chain.	<ul style="list-style-type: none"> Brand risk related to choice of raw materials. Increased requests/demands for more sustainable raw materials. Increased costs for less sustainable raw materials due to legislation, raw material prices, etc. 	<ul style="list-style-type: none"> Targets and follow-up of phase-out of palm oil in products. 	<ul style="list-style-type: none"> By 2023, have developed and be able to offer all product variants that currently contain palm oil without palm oil. Launched two new products which do not have palm oil as an ingredient. At year-end 2019, BioGaia could offer some 35% of the company's product variants without palm oil as an ingredient. 	<ul style="list-style-type: none"> Up to 2023 develop and be able to offer all product variants that currently contain palm oil without palm oil. Phase out all products that contain palm oil as an ingredient in all markets by 2025. Evaluate sustainability impacts of raw materials. Commence work on strengthening the product development process to more clearly take sustainability aspects into account.
Packaging material	A large part of BioGaia's environmental impact comes from production and handling of product packaging.	<ul style="list-style-type: none"> Increased demand for more sustainable packaging. Increased costs for less sustainable packaging due to legislation, raw material prices, etc. 	<ul style="list-style-type: none"> Targets and follow-up of development work on sustainable packaging. 	<ul style="list-style-type: none"> Ongoing development project for more sustainable packaging. Several alternative packaging materials have been analysed but a specific material for further study has not yet been identified. 	<ul style="list-style-type: none"> Continue development work within packaging. Include the environmental impact of packaging as part of the product development process. Update lifecycle analysis of packaging. Develop a strategy for more sustainable packaging.
Healthy business					
Anti-corruption and anti-bribery	Sales and marketing take place in more than 100 markets with varying risk of corruption.	<ul style="list-style-type: none"> Corruption/bribes when selling products to distributors. Corruption/bribes when making large purchases. Independence from researchers and doctors. 	<ul style="list-style-type: none"> Policy for anti-corruption and anti-bribery. Annual training in anti-corruption for employees. 	<ul style="list-style-type: none"> 97% of employees in BioGaia AB and 86% in the BioGaia Group have attended anti-corruption training. Anti-corruption training has been extended to cover all companies in the Group. 0 (0) incidents related to corruption were reported. 	<ul style="list-style-type: none"> Implement a whistle-blower system. Further develop anti-corruption training.
Environmental impact of the business	Just as all other companies, BioGaia must act to reduce climate emissions caused by operations both for the company's long-term survival and for society at large.	<ul style="list-style-type: none"> Brand risks for companies with inadequate climate work. Increased costs for emissions due to changes in legislation, raw material prices, etc. Physical risks caused by climate change especially in the supply chain. 	<ul style="list-style-type: none"> Annual calculation of the company's total greenhouse gas emissions. Targets and follow-up of development work with sustainable packaging. 	<ul style="list-style-type: none"> Operations have caused greenhouse gas emissions corresponding to 1,874 tonnes CO₂ equivalent in the value chain which has been climate compensated. The calculation model for emissions was updated and quality-assured during 2019. From 2020 BioGaia will buy green electricity for all operations in Sweden. Ongoing development project for more sustainable packages. 	<ul style="list-style-type: none"> Develop guidelines for business travel. Review and further develop existing videoconferencing systems. Set targets for reduction of carbon dioxide emissions with concrete initiatives. Continue work on developing sustainable packaging.
Healthy networks					
Responsible purchasing	It is important that BioGaia contributes to the improvement of suppliers' sustainability work since most of the company's impact takes place in the supply chain.	<ul style="list-style-type: none"> Brand risks related to suppliers' operations. Inadequate supply of component raw materials. Inadequate deliveries regarding quality, timing, volumes, etc. 	<ul style="list-style-type: none"> Supplier Code of Conduct. Ongoing dialogue with suppliers. 	<ul style="list-style-type: none"> 100% (100%) of contract manufacturers and 100% (85%) of suppliers of analysis services have signed the Code of Conduct. 	<ul style="list-style-type: none"> Self-assessment questionnaires for suppliers. Perform audits of selected suppliers with increased focus on terms of employment, human rights and environment.
Responsible partners	It is important that BioGaia's partners' operations are run responsibly since they affect how the products are distributed and marketed to consumers.	<ul style="list-style-type: none"> Confidence and brand risks related to distribution partners' operations. 	<ul style="list-style-type: none"> Distribution partner Code of Conduct. Contractual conditions that require distributors' labelling of the product to be correct and in accordance with existing scientific documentation. Ongoing dialogue with partners. 	<ul style="list-style-type: none"> 85% (40%) of BioGaia's partners have signed the Code of Conduct. The target that 100% should have signed by 2019 was not achieved mainly because this takes place in connection with contract renewals. 	<ul style="list-style-type: none"> 100% of partners must have signed BioGaia's Code of Conduct. Start an initiative for collaboration with selected partners for increased sustainability impact.
Ethics and safety in clinical trials	It is essential that clinical studies are carried out in a transparent, independent and ethical manner both for the participants and for the reliability of the results.	<ul style="list-style-type: none"> Reduced confidence in the brand if support is given to studies where ethical guidelines are not followed. 	<ul style="list-style-type: none"> For studies where BioGaia provides the product for the study, the study protocol must be approved by BioGaia and the local ethics committee. Compliance with the Declaration of Helsinki. Encourage publication of study results. 	<ul style="list-style-type: none"> During the year 18 new studies of BioGaia's strains have been published which has led to further improved knowledge about these strains and how they contribute to wellness. 	<ul style="list-style-type: none"> Further development of work to promote independent studies with BioGaia's strains.
Healthy workplace					
Employees' wellbeing	Employees who perceive that they are treated well, involved and have time and opportunity to live healthily, feel more engaged in their work and perform and feel better.	<ul style="list-style-type: none"> Inadequate skills provision. Employees with low motivation and loyalty. Increased employee turnover. 	<ul style="list-style-type: none"> Working environment policy. Wellness policy. Unhealthy workload and stress policy. Equality policy. Equality plan. 	<ul style="list-style-type: none"> BioGaia was certified as a "Great Place to Work" in 2018. No employee survey was carried out in 2019. Employee turnover at BioGaia AB was somewhat lower in 2019 at 8.2% (11.1%), but higher in the Group at 11.5% (9.7%). Sickness absence remains relatively low at 1.3% (1.8%). 	<ul style="list-style-type: none"> Carry out work on values with an internal leadership programme. Carry out a survey about values. Implement a whistle-blower system in the organisation.
Development and training	Skills development is decisive to remain a competitive company and for employees to feel stimulated and enjoy their work.	<ul style="list-style-type: none"> Inadequate skills provision. Risk that employees lack correct or sufficient competence. Increased employee turnover. 	<ul style="list-style-type: none"> HR system for structured performance reviews which ensures quality in follow-up from both managers and employees. 	<ul style="list-style-type: none"> 81% of employees had a performance review. 	<ul style="list-style-type: none"> Create a process for succession planning.
Safety in production	Offering a safe workplace for the company's employees goes without saying.	<ul style="list-style-type: none"> Risk of accidents due to inadequate handling of e.g. chemicals or machines. Poor working conditions at suppliers. 	<ul style="list-style-type: none"> Working environment policy. Working environment instructions. Safety officer at each unit. Code of Conduct and supplier audits. 	<ul style="list-style-type: none"> 1 case of absence related to a strain injury occurred in 2019 and was addressed through changed working routines. 	<ul style="list-style-type: none"> Review current handling and routines.

Governance

The basis for sustainability work is the materiality analysis carried out in 2016, to identify where BioGaia has its main impact and where the company can make the biggest difference. Involving stakeholders was key in order to obtain their opinions on the company's challenges and opportunities as well as a better understanding of their expectations on BioGaia from a sustainability perspective.

In 2019 a sustainability manager was employed who has begun the development of a new sustainability strategy which will be further developed during 2020, with clear objectives and key indicators.

Stakeholder dialogue

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

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

*Auditor's report on the statutory sustainability report
To the Annual General Meeting of BioGaia AB (publ),
corporate identity number 556380-8723*

Engagement and responsibility

It is the Board of Directors which is responsible for the statutory sustainability report for the year 1 January 2019–31 December 2019 on pages 25–36 and for ensuring that it has been prepared in accordance with the Swedish Annual Accounts Act.

Scope of the audit

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

Opinion

A sustainability report has been prepared.

Stockholm, 5 March 2020

Deloitte AB

Birgitta Lööf, Authorised Public Accountant



FINANCIAL
INFORMATION

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Administration report

The figures in brackets refer to the previous year

The Board of Directors and the CEO of BioGaia AB (publ) corporate identification number 556380-8723, hereby submit their annual report and consolidated accounts for the financial year 2019.

The financial statements were approved for publication by the Board of the Parent Company on 5 March 2020.

BioGaia

The company BioGaia is a healthcare company that develops, markets and sells probiotic products with documented health benefits. The products are primarily based on different strains of the lactic acid bacterium *Lactobacillus reuteri* 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 157 employees, of whom 131 are based in Sweden (Stockholm, Lund, Eslöv and Gothenburg), two in the USA, three in Singapore and 21 in Japan.

Business model BioGaia works with three international networks within the areas of research, production and distribution.

BioGaia's revenue comes mainly from the sale to distributors of drops, gut health tablets, oral rehydration solution (ORS) and oral health products. Revenue is also earned from the sale of bacterial cultures to be used in licensee products (such as infant formula and dairy products), as well as royalties for the use of *Lactobacillus reuteri* in licensee products.

The products are sold through nutrition and pharmaceutical companies in more than 100 countries.

BioGaia holds patents for the use of certain strains 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 proportion of sales consisting of BioGaia-branded products.

Some of BioGaia's distributors sell finished consumer products under their own brand names. On these products, the BioGaia brand is shown on the consumer package since BioGaia is both the manufacturer and licensor. BioGaia's licensees add *Lactobacillus reuteri* culture to their products and sell these under their own brand names. On these products, the BioGaia brand is most often shown on the package as the licensor/patent holder.

Key events in 2019

New agreements and launches

● **Launch of BioGaia Protectis vegan capsules in Finland** In March, BioGaia's partner in Finland, Oy Verman Ab, launched BioGaia's new product BioGaia Protectis capsules in Finnish pharmacies. Verman is one of the leading healthcare companies in Finland and also one of BioGaia's oldest partners for finished products. The cooperation started in 2004 when Verman launched BioGaia Protectis tablets under their RELA brand. Today, Verman markets the entire BioGaia range of products and RELA is a well-known brand among consumers and healthcare professionals in Finland. BioGaia Protectis capsule is a vegan capsule containing the probiotic strain *Lactobacillus reuteri* Protectis (DSM 17938). The product contains no flavour, colourings or other additives. The capsule is small and easy to swallow but can also be opened and sprinkled on food.

● **Launch of BioGaia Osfortis – a new product for the prevention of osteoporosis** The USA was the first market to launch BioGaia's new product for bone health, BioGaia Osfortis. The product is marketed by Everidis Health Sciences in the USA and has been available since mid-May 2019. In June 2018 a randomised, double-blind, placebo-controlled study with BioGaia's probiotic strain *Lactobacillus reuteri* ATCC PTA 6475 was published. The study showed that loss in bone density was halved in the probiotic group compared with those given placebo. 90 older women with low bone density were included in the study which was conducted at the University of Gothenburg.

● **Exclusive agreement with Abbott LatAm in Uruguay** BioGaia signed an agreement at the beginning of July with Abbott LatAm for the exclusive rights to sell BioGaia products under the BioGaia brand in Uruguay. The launch is planned for 2020.

● **BioGaia signs exclusive agreement in Tunisia** On 20 December, BioGaia announced that the company has signed an agreement with Healthexport for the exclusive rights to sell BioGaia Protectis drops, BioGaia Protectis tablets and BioGaia Gastrus in Tunisia.

Clinical studies

● **BioGaia's probiotic decreases pain in patients with diverticulitis** A randomised, double-blind, placebo-controlled study with BioGaia's probiotic strain *Lactobacillus reuteri* ATCC PTA 4659 was shown to reduce abdominal pain significantly more than placebo in patients with acute uncomplicated diverticulitis. Moreover, since hospitalisation time was shorter in the probiotic group, the probiotic supplementation also had economic benefits. The study was published online on 22 April 2019 in the International Journal of Colorectal Disease.

● **Study published with BioGaia Gastrus tablets** In a double-blind, randomised and placebo-controlled study *Lactobacillus reuteri* Gastrus, in combination with so-called quadruple therapy, was shown to improve the treatment of infections caused by the bacterium *Helicobacter pylori*. Furthermore, supplementation of *Lactobacillus reuteri* Gastrus significantly reduced the side-effects of the treatment. The study was conducted at Thammasat University Hospital in Thailand and published in the September issue of the Asian Journal of Cancer Prevention.

Other key events

● **Lower sales due to delivery delays** On 10 October, BioGaia announced that the company had suffered from delivery delays from one of its external suppliers. The delays were caused by the supplier's implementation of a new IT system in its production. The delays affected sales and earnings in both the third and fourth quarters of 2019.

● **New CFO of BioGaia** On 28 October, BioGaia announced that Alexander Kotsinas starts his position as Chief Financial Officer at BioGaia on 5 November 2019.

Key events after year-end 2019

No key events occurred after the end of the financial year.

Financial performance in 2019

Sales Consolidated net sales totalled SEK 768.3 million (741.9) which is an increase of SEK 26.5 million, 4% (excluding foreign exchange effects, -2%) compared to the previous year. The lower revenue increase is mainly due to reduced royalty revenues from Nestlé. Product sales, net sales excluding royalty revenues, amounted to SEK 743.0 million (662.1) which is an increase of 12% (excluding foreign exchange effects, 7%).

Sales by segment

● **Paediatrics Segment** Sales in the Paediatrics segment amounted to SEK 600.1 million (596.5) an increase of 1% (excluding foreign exchange effects a decrease of 5%) compared to the previous year. Royalty revenues from Nestlé relating to the use of *Lactobacillus reuteri* in Growing Up Milk for children over the age of one, fell sharply. Product sales amounted to SEK 585.1 million (523.5), an increase of 12% (excluding foreign exchange effects, 6%).

Sales of drops, which make up the bulk of sales, increased in all regions but primarily in the Americas and APAC but EMEA also developed well. In APAC, sales increased primarily in China and South Korea. In the Americas, the increase was mainly attributable to the USA and Mexico, while in EMEA sales rose mainly in Italy and France.

Sales of BioGaia Protectis tablets within Paediatrics showed a slight decrease due to delivery problems. The decrease was mainly attributable to EMEA while some growth was seen in the other two regions.

Royalty revenues from the sale of Growing Up Milk with *Lactobacillus reuteri* Protectis for children over the age of one, decreased by SEK 45.8 million compared to the previous year. The reason is that BioGaia's royalty agreement with Nestlé expired at year-end 2018. The agreement has been renegotiated which restricted the number of markets compared with the previous agreement. Royalty revenues from the previous collaboration agreement ceased at year-end 2018 in accordance with the original agreement and amounted to SEK 0 million (10.1), a decrease of SEK 10.1 million.

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

- **Adult Health Segment** Net sales in the Adult Health segment amounted to SEK 167.3 million (141.7), an increase of 18% (excluding foreign exchange effects, 12%), compared to the previous year. Product sales amounted to SEK 157.8 million (136.6), an increase of 16% (excluding foreign exchange effects, 10%).

Sales of BioGaia Protectis tablets increased compared to the previous year despite delivery delays. The increase was mainly attributable to APAC but also to EMEA and the Americas. So far, BioGaia Protectis tablets for adult health are only sold in small volumes in the Americas.

Sales of oral health products increased compared to the previous year. Sales increased in APAC primarily in Japan, while they decreased in EMEA due mainly to delivery delays.

Sales of BioGaia Gastrus stomach health tablets increased substantially compared to the previous year, although from a low level. The increase was primarily attributable to the Americas but also to APAC.

- **Other sales** Other sales amounted to SEK 0.9 million (3.7), a decrease of SEK 2.8 million compared to the previous year.

- **Sales by geographical market** Sales in EMEA amounted to SEK 399.6 million (437.9), a decrease of 9%. Sales within Paediatrics decreased due to lower royalty revenues.

In APAC, sales amounted to SEK 177.0 million (130.1), an increase of 36%. Sales showed a strong increase in both the Paediatrics and Adult Health segments.

In the Americas, sales amounted to SEK 191.8 million (173.9), an increase of 10%. Sales increased in both the Paediatrics and Adult Health segments.

- **The BioGaia Brand** Of finished consumer products (drops, gut health tablets, oral health lozenges, oral rehydration solution, etc) sold in 2019, 71% (69%) were sold under the BioGaia brand including co-branding

Launches in 2019

DISTRIBUTOR	COUNTRY	PRODUCT	BRAND
Abbott	Colombia	BioGaia Prodentis lozenges	BioGaia
Agefinsa	El Salvador and Honduras	BioGaia Gastrus tablets	BioGaia
Verman	Finland	BioGaia Protectis capsules	Partner brand
Ezcasibasi	Turkey	BioGaia Protectis minipack and BioGaia drops with vitamin D	BioGaia
Abbott	Chile	BioGaia Protectis drops with vitamin D	BioGaia
Abbott	Bahamas, Curacao and Barbados	BioGaia Protectis drops	BioGaia
Casen Recordati	Spain	BioGaia Protectis tablets with new flavour (apple)	BioGaia
Everidis	USA	BioGaia Osofortis capsules	BioGaia
Gerber	USA	BioGaia BioGaia Protectis minipack	Partner brand
Monos Pharma	Mongolia	BioGaia Protectis drops and tablets with vitamin D and Gastrus tablets	BioGaia
United Lab	Taiwan	BioGaia Protectis drops with vitamin D	BioGaia
Philips Pharmaceuticals	Ghana	BioGaia Protectis drops and tablets	BioGaia
Cube	Greece	BioGaia Prodentis lozenges	BioGaia
Abbott	Mexico	BioGaia Gastrus tablets	BioGaia
Gerber	USA	BioGaia Protectis tablets	Partner brand
Nestlé	Chile	BioGaia Protectis minipack	Partner brand
Nestlé	Mexico	BioGaia Protectis minipack	Partner brand
Ferring	Qatar	BioGaia BioGaia Protectis drops	BioGaia
Age D'or	Singapore	BioGaia Protectis tablets with new flavour (strawberry) and drops with vitamin D	BioGaia
Interbat	Indonesia	BioGaia Prodentis lozenges	BioGaia

Gross margin The total gross margin amounted to 73% (75%).

The gross margin for Paediatrics was 74% (76%). The lower gross margin was due to lower royalty revenues.

The gross margin within the Adult Health segment was 70% (71%).

Operating expenses Operating expenses (selling, administrative and R&D expenses) for the core business (excluding the research-intensive subsidiaries BioGaia Pharma and MetaboGen) totalled SEK 292.6 million (268.5), an increase of 9%. The increase is attributable to increased marketing activities in a number of countries (including Sweden) as well as brand-related activities such as market surveys. In addition, personnel expenses rose since the number of employees has increased.

The costs of a new ERP system (SEK 6.7 million) were capitalised and will be written off over a three-year period when it goes into operation at 2020. R&D expenses increased mainly due to increased product development and laboratory costs due among other things to the new laboratory in Eslöv, Sweden.

For some time now, the Group has included the two research-intensive subsidiaries BioGaia Pharma AB and MetaboGen AB. Expenses for these companies amounted to SEK 21.4 million (12.0).

Total operating expenses for the Group thus increased by 15% compared to the previous year.

Other operating expenses refers to exchange losses on receivables and liabilities of an operating nature. These amounted to SEK -7.5 million (-4.6). At 31 December 2019, the company had outstanding forward exchange contracts for EUR 12.6 million at an average exchange rate of SEK 10.53 and for USD 6.5 million at an average exchange rate of SEK 8.81. The actual exchange loss/gain depends on the exchange rate on the maturity dates of the contracts.

Share of profits of associates and revaluation of former associate shareholding

Until 6 April 2018, MetaboGen, see below, was an associated company in BioGaia. Share of profits of associates for 2018 refers to BioGaia's share (36%) of MetaboGen AB's profits up to 6 April 2018.

BioGaia increased its shareholding in MetaboGen from 36% to 62% on 6 April 2018. In a step acquisition, all previous equity interests in the acquiree are adjusted to fair value and all gains and losses thus arising are recognised in profit or loss. As a result of this, a gain of SEK 7.0 million was recognised in operating profit for 2018 regarding the former associate shareholding in MetaboGen.

Operating profit and operating margin Operating profit amounted to SEK 242.5 million (270.4), a decrease of SEK 27.8 million (10%). The operating margin was 32% (36%)¹⁾.

Profit after tax Profit after tax amounted to SEK 187.3 million (207.2)¹⁾, a decrease of SEK 20.0 million (10%).

The effective tax rate for the Group was 23% (23%).

Owing to the distribution and license agreement signed in Japan at the end of 2016, it will be possible to utilise a large share of the earlier loss carryforward in Japan in the Japanese company. The exclusivity fees relating to product rights will be recognised successively over the term of the agreement and a deferred tax asset was therefore recognised. At 31 December 2019, the deferred tax asset amounted to SEK 6.5 million (SEK 8.4 million at 31 December 2018).

Earnings per share Earnings per share amounted to SEK 10.81 (11.99). No dilutive effects arose.

Balance sheet, 31 December Total assets amounted to SEK 665.9 million (660.0). During 2019 property, plant and equipment increased by SEK 20.3 million in the item right-of-use assets due to the new leasing standard IFRS 16. The new accounting standard also had an impact on liabilities of SEK 11.4 million in the item non-current liabilities and SEK 8.9 million in the item current liabilities. Investments in both tangible and intangible assets (the ERP system) further increased property, plant and equipment. In addition, cash and cash equivalents decreased mainly due to dividends.

Cash flow Cash flow amounted to SEK -72.3 million (-22.9). Cash flow includes a dividend of SEK 173.4 million (156.0) as well as a provision to the Foundation to Prevent Antibiotic Resistance of SEK 3.2 million (2.7). Furthermore, the decrease compared to last year is mainly related to lower cash flow from operating activities due partly to lower earnings and partly to higher tax payments, partly attributable to the previous year. Cash and cash equivalents at 31 December 2019 amounted to SEK 213.8 million (SEK 285.0 million at 31 December 2018).

¹⁾ Excluding revaluation of former associate shareholding in MetaboGen of SEK 7.0 million

Investments in property, plant and equipment Investments in property, plant and equipment amounted to SEK 32.3 million (13.5). The increase is mainly attributable to increased investments related to production.

Parent Company The Parent Company's net sales amounted to SEK 720.7 million (705.8) and profit before tax was SEK 199.6 million (229.6). The financial performance of the Parent Company is in all material respects in line with that of the Group.

Subsidiary in Japan BioGaia Japan is a wholly owned subsidiary of BioGaia AB. Net sales relating to the Japanese operations amounted to SEK 65.2 million (61.2). Operating profit for the Japanese operations amounted to SEK 10.7 million (7.0).

Subsidiary BioGaia Production AB BioGaia Production is a wholly owned subsidiary of BioGaia AB that manufactures the company's products, primarily drops. Net sales amounted to SEK 122.8 million (104.2). Operating profit amounted to SEK 44.3 million (34.5).

Subsidiary CapAble AB CapAble is a wholly owned subsidiary of BioGaia AB. The company was previously owned to 9.9% by CapAble's Managing Director but in February 2019 BioGaia acquired the remaining shareholding for SEK 1. Net sales in CapAble amounted to SEK 0.8 million (1.7). Operating profit amounted to SEK -1.3 million (-0.6).

Subsidiary BioGaia Pharma AB BioGaia Pharma is owned to 96% by BioGaia and 4% by the company's Managing Director. BioGaia Pharma was formed in 2017 to take advantage of the opportunities to develop drugs identified in the R&D activities conducted as part of BioGaia's normal business. The company does not yet have any revenues. Operating profit for the period was SEK -7.0 million (-4.7).

Subsidiary MetaboGen AB MetaboGen is a research-driven company that was founded in 2011 in Gothenburg. The company's founders include Professor Fredrik Bäckhed at the University of Gothenburg and Professor Jens B. Nielsen at Chalmers University of Technology. These researchers still work with the company. MetaboGen conducts research in the microbiome area to find previously unknown components and patterns in the microbial diversity and link these to health and disease.

MetaboGen has been a subsidiary of BioGaia AB since 6 April 2018 (previously an associated company). MetaboGen is owned to 92% by BioGaia AB and 8% by the former owners. BioGaia will acquire the remaining 8% in the company within a two-year period when most agreed milestones are achieved. Since it is highly probable that BioGaia will acquire the remaining holding for the maximum amount of SEK 11.4 million, the company has recognised a non-current liability for the corresponding amount. Recognition took place in equity. MetaboGen received a shareholder contribution of SEK 15.0 million from the Parent Company during 2019.

MetaboGen and BioGaia have also initiated a research project with the University of Gothenburg and Chalmers University of Technology which involves costs of SEK 22 million over a three-year period. The project started in the third quarter of 2018.

The company does not yet have any sales revenue but part of the costs for a study on intrahepatic cholestasis of pregnancy (ICP) is funded by Ferring. Operating profit for operations in MetaboGen (including the above research project) amounted to SEK -14.4 million (-7.2).

Research and development

BioGaia has an extensive research network and collaborates with universities and hospitals around the world including the Swedish University of Agricultural Sciences (SLU) 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, Italy.

BioGaia's strains of *Lactobacillus reuteri* are among the most studied probiotics in the world, especially in young children. To date, 217 clinical studies with BioGaia's human strains of *Lactobacillus reuteri* have been performed on around 18,000 individuals of all ages.

Studies have been performed on:

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

REPORTING CLINICAL STUDIES

In order to ensure transparency and aim for the highest possible scientific standards, BioGaia encourages researchers to design studies and report results in a way that enables publication in well-renowned medical journals. The aim is that all studies, regardless of result, should be published. Furthermore, BioGaia requires all studies to be ethically approved and registered on a public website, such as ClinicalTrials.gov.

Environmental information

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

BioGaia shows its commitment to the environment by:

- striving to use eco-friendly packages
- encouraging its suppliers and distributors to take environmental aspects into account in their decisions
- measuring the climate impact of the company and its products and compensating for its carbon dioxide emissions

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

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

For more information, see the company's Sustainability Report.

Business risks and uncertainties

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

GROUP

Intangible assets MetaboGen As of the balance sheet date, assets in the Group relating to MetaboGen are recognised at SEK 51.1 million consisting of R&D projects in progress (SEK 45.8 million) and Goodwill (SEK 5.3 million) attributable to the surplus value at the acquisition of MetaboGen in 2018. There is a risk that MetaboGen's research will not achieve the expected results and/or not have the profitability that is expected. Thereby there is a risk that the Group's assets will be written down. BioGaia has tested the intangible assets for impairment and does not consider that an impairment requirement exists on the balance sheet date. For more information, see Note 11.

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

BioGaia is dependent on these partners investing the resources necessary for marketing and sales. So that the company itself can influence this to a greater extent, BioGaia launched its own brand in 2006. Today many of BioGaia's part-

ners sell wholly or partly under the BioGaia brand. BioGaia provides its partners with strong marketing support in the form of education, information about new clinical studies, speakers at symposia, marketing and PR support. There is a risk that BioGaia's partners will not perform according to the company's wishes. However, BioGaia has formulated its agreements so that it is possible to terminate the agreement if a distributor does not meet certain minimum sales targets.

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

Research and clinical studies are carried out at universities and hospitals around the world. To ensure that the clinical studies are performed in accordance with the applicable regulations and provide reliable results, BioGaia's own staff are involved in parts of the work with clinical studies. The study agendas are always approved by BioGaia, the ethics committee and other relevant authorities. Agreements are signed with hospitals and universities in which they undertake to comply with the applicable regulatory requirements. BioGaia monitors the studies to ensure that they are conducted in a correct and ethical manner. BioGaia always urges the researchers to publish the results of their studies.

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

There is always a risk of 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 its business environment.

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

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

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 period.

To minimise this risk and be proactive, BioGaia's regulatory department works closely with equivalent functions at distributors/partners which monitor local regulations.

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

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

For BioGaia, the top priority has always been to ensure that the products that are manufactured and offered to customers are of a high quality and are safe to use. The employees concerned are given relevant training in product safety. The agreements with BioGaia's suppliers include quality requirements and the company has processes in place to ensure that the suppliers comply with the agreements.

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

To ensure that all parties perform their duties in an ethical and, according to BioGaia, correct manner, BioGaia adopted a Code of Conduct in 2017. The

Code of Conduct contains minimum requirements in areas such as human rights, labour rights, environment and business ethics and anti-corruption. For further information, see the company's Sustainability Report.

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

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

One key component of BioGaia's business model is the effort to build close and long-term relationships with a small number of suppliers. All suppliers must read and sign BioGaia's Supplier Code of Conduct.

PARENT COMPANY

Subsidiary BioGaia Pharma AB Operating profit for the period amounted to SEK -7.0 million (-4.7).

On the balance sheet date, assets in BioGaia Pharma were reported at SEK 21.1 million in the Parent Company. Since the company is not profitable, there is a risk of impairment of these assets in the Parent Company. BioGaia has tested the financial assets for impairment and considers that there is no indication of impairment on the balance sheet date.

Subsidiary CapAble AB The company does not yet have any revenue. Profit before tax and group contribution for 2019 amounted to SEK -1.3 million (-0.6). On the balance sheet date, BioGaia recognised impairment on the entire shareholding in CapAble which had an earnings impact of SEK 1.3 million in the Parent Company.

Subsidiary MetaboGen AB The company does not yet have any revenue. Operating profit for the period amounted to SEK -7.1 million.

On the balance sheet date, assets in the Parent Company relating to MetaboGen were recognised at SEK 89.3 million. Since the company is not profitable, there is a risk of impairment of these assets in the Parent Company. BioGaia has tested the financial assets for impairment and considers that there is no indication of impairment on the balance sheet date.

Financial risk management

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

Below is a description of the Group's assessed risk exposure and the related risk management. For more information, see Note 27.

Currency risk BioGaia has revenue primarily in EUR and USD but also in SEK, JPY and CHF, and expenses primarily in SEK, but also in EUR, JPY and USD. In 2019 the company had a cash flow surplus of approximately EUR 19.6 million (18.3), a cash flow deficit of JPY -64.1 million (80.7) and a cash flow surplus of USD 22.2 million (19.5). Since growth in sales increases currency risks, the company has forward exchange contracts in EUR and USD. For more information, see Notes 6 and 27.

Interest rate and liquidity risk The Group has no external loans. The company's interest rate risk consists of the return on cash and cash equivalents.

The Board has issued a liquidity policy for cash and cash equivalents in which the basic principle is that investment risks should always be minimised and investments should be made primarily in Swedish kronor. To minimise currency risk, other currencies may also be considered. The company's cash and cash equivalents may be invested only in bank accounts, commercial paper or other fixed income securities with very limited risk. This means that no investments may be made in shares, equity funds, options, etc.

Credit risks BioGaia's credit risks are tied to trade receivables. Customers have a 30-90 day credit period. When signing agreements with new customers, an assessment is made of the customer's financial position. The company has routines for collection of past due accounts receivable and additional evaluations of the customer's financial position are carried out when required in order to minimise risks.

Cash flow risk BioGaia has good liquidity. The risk of a liquidity shortage is therefore immaterial. Cash flow amounted to SEK -72.3 million (-22.9). Cash flow includes dividends of SEK 173.4 million (156.0). Since cash and cash equivalents at 31 December 2019 amounted to SEK 213.8 million (285.0), no infusion of capital is necessary during the coming 12-month period.

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

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

Future outlook

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

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

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

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

Employees

The number of employees in the Group at 31 December 2019 was 157 (143). The company has a bonus programme aimed at ensuring employees' long-term commitment to BioGaia. The programme is designed as follows:

The bonus is based on the company's sales and profits. The maximum bonus amounts to 12% of salary. The employee is required to reinvest one-third of the yearly paid-out bonus (after tax) in BioGaia class B shares at a market price and to hold these for a three-year period. BioGaia has no obligation to repurchase shares nor does the employee have any obligation to sell shares in the event employment is terminated within three years from the date reinvestment took place. The bonus targets were only partly achieved for 2019 and the cost of the programme amounted to SEK 2.1 million (10.9 million).

See Note 3 for additional information about employees and personnel expenses.

The Board of Directors' proposed guidelines for remuneration to senior executives

The Board proposes that the 2020 Annual General Meeting resolves to adopt the following guidelines for remuneration to senior executives in BioGaia. The guidelines shall be applied to remuneration agreed and changes to previously agreed remuneration, after the guidelines have been adopted by the 2020 Annual General Meeting. The guidelines do not apply to remuneration resolved by the Annual General Meeting.

The guidelines' promotion of BioGaia's business strategy, long-term interests and sustainability BioGaia performs research and development to provide consumers with clinically-proven, health-promoting, patented and user-friendly probiotic products. For more information on BioGaia's business strategy, see the annual report.

Successful implementation of the business strategy and safeguarding BioGaia's long-term interests, including its sustainability, require BioGaia to be able to recruit, motivate and retain competent employees who work to achieve maximum shareholder and customer value. This requires BioGaia to be able to offer competitive remuneration. These guidelines enable senior executives to be offered competitive total remuneration.

Forms of remuneration, etc. Remuneration shall be market-based and may consist of the following components: fixed cash salary, variable cash remuneration, pension benefits and other benefits. The Annual General Meeting may in

addition – and independent of these guidelines, resolve on for example share-related and share-price based remuneration. The total remuneration package to senior executives should include a well-balanced mix of the above-named components as well as terms of notice and severance pay. The Board should annually evaluate the extent to which share-based or share-price based long-term incentive programmes should be proposed to the Annual General Meeting.

The fixed cash salary shall be individual and based on the senior executive's responsibilities and role as well as the individual's competence and experience in the relevant position.

The variable cash remuneration may amount to a maximum of 25% of fixed annual cash salary.

Senior executives who are entitled to pensions shall have pension benefits that are defined contribution. Variable cash remuneration shall not qualify for pension benefits. Pension premiums for defined contribution pensions shall amount to a maximum of 30% of fixed annual cash salary.

Other benefits may include life insurance, health insurance (Sw. sjukvårdsförsäkring) and a company car benefit. Such benefits shall be of limited value in relation to other compensation and be consistent with what is customary in the respective geographical market. Other benefits may amount to a maximum of 5% of fixed annual cash salary.

Termination of employment In the event termination of employment the maximum notice period is eighteen months. Fixed cash salary during the notice period plus any severance pay may not together exceed an amount equivalent to the individual's fixed cash salary for a two-year period. In case of termination by the senior executive, the notice period may not be less than three months and no severance pay will be paid.

Criteria for distribution of variable cash remuneration, etc. Variable cash remuneration shall be linked to pre-determined and measurable criteria which may be financial or non-financial. It can also comprise individually adapted quantitative or qualitative targets. The criteria shall be designed so that they promote the Group's business strategy and long-term interests, including its sustainability, through for example having a clear link to BioGaia's business strategy or promoting the senior executive's long-term development.

Fulfillment of the criteria for payment of variable cash remuneration shall be measured during a period of one year. When the measurement period for fulfillment of the criteria for payment of variable cash remuneration has ended, the extent to which the criteria have been met shall be determined. The Remuneration Committee is responsible for assessment with regard to variable cash remuneration to the CEO. As regards variable cash remuneration to other senior executives, the CEO is responsible for the assessment.

Salary and terms of employment for employees In preparation of the Board's proposal for these remuneration guidelines, salaries and terms of employment for the company's employees have been taken into account through information on employees' total remuneration, remuneration components as well as remuneration increases and rate of increase over time comprising a part of the Remuneration Committee's and the Board's basis for decision when evaluating the reasonableness of these guidelines and the limitations that are a consequence of them.

Decision-making process to establish, review and implement the guidelines

The Board has established a Remuneration Committee. The tasks of the committee include preparation of the Board's proposal for decision on guidelines for remuneration to senior executives. The Board shall prepare proposals for new guidelines at least every fourth year and present the proposal for decision to the Annual General Meeting. The guidelines shall apply until new guidelines are adopted by the Annual General Meeting. The Remuneration Committee shall also monitor and evaluate programmes for variable remuneration to Executive Management, application of the guidelines for remuneration to senior executives as well as applicable remuneration structures and remuneration levels in the Group. The members of the Remuneration Committee are independent in relation to BioGaia and Executive Management. When the Board considers and makes decisions on remuneration-related matters, the CEO or other senior executives are not present insofar as they are affected by the issues.

Departure from the guidelines The Board may decide temporarily to depart from the guidelines wholly or partly if in an individual case there is reason for this and such departure is necessary in order to meet BioGaia's long-term interests, including its sustainability, or in order to ensure BioGaia's financial viability. As stated above, the tasks of the Remuneration Committee include preparing the Board's decision on remuneration matters, which includes decisions to depart from the guidelines.

Most recently adopted guidelines regarding remuneration and other terms of employment for senior executives

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

Corporate governance

BioGaia has published a separate corporate governance report. See pages 71-73.

Sustainability report

In accordance with Chapter 6, §11 of the Swedish Annual Accounts Act, BioGaia has chosen to prepare the statutory sustainability report separate from the annual report. The sustainability report includes BioGaia AB and its subsidiaries.

Proposed appropriation of profits

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

Retained earnings	450.102.369
Profit for the year	162.678.701
Profits available for appropriation	612.781.070^{*)}

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

To be paid as a dividend to the shareholders	138.691.696
Provision to "The Foundation to Prevent Antibiotic Resistance"	2.800.000
To be carried forward to new account	471.289.374
Total	612.781.070

^{*)} The proposed dividend consists of a dividend of SEK 3.75 (4.05) per share according to policy and an extraordinary dividend of SEK 4.25 (5.95) per share, amounting to a total dividend of SEK 8.00 (10.00) per share.



Five-year summary

KEY RATIOS	2019	2018	2017	2016	2015	2014
Net sales, SEKm	768.3	741.9	615.0	534.7	483.2	481.8
Net sales, Paediatrics, SEKm	600.1	596.5	492.6	433.0	389.6	409.1
Net sales, Adult Health, SEKm	167.3	141.7	116.2	85.3	74.7	69.4
Net sales, other SEKm	0.9	3.7	6.3	16.4	19.0	15.7
Operating profit, SEKm ¹⁾	242.5	277.4	233.0	199.4	172.8	203.6
Profit before tax, SEKm ¹⁾	242.3	277.6	232.9	196.1	178.0	199.3
Profit after tax, SEKm ¹⁾	187.3	214.2	180.6	159.3	137.4	152.7
Profit after tax including discontinued operations, SEKm	187.3	214.2	180.6	227.3	121.3	148.0
Profit after tax attributable to owners of the Parent Company, SEKm ¹⁾	187.3	214.2	180.6	159.3	137.4	153.3
Growth, net sales %	4	21	15	11	25	53
Operating margin, % ¹⁾	32	37	38	37	36	42
Profit margin, % ¹⁾	32	37	38	37	37	42
Current ratio, times	3.6	3.4	4.1	5.2	4.7	4.7
Equity/assets ratio, %	76	77	81	85	84	83
Capital employed, SEKm	518.2	514.8	464.7	415.5	396.2	344.8
Return on capital employed, % ¹⁾	47	57	53	49	48	61
Return on equity, %	37	44	41	56	33	45
Average number of employees ¹⁾	149	130	115	108	98	87
DATA PER SHARE						
Number of shares at 31 Dec, thousands ²⁾	17,336	17,336	17,336	17,336	17,336	17,271
Average number of shares, thousands	17,336	17,336	17,336	17,336	17,309	17,271
Number of outstanding warrants, thousands	-	-	-	-	-	87
Number of outstanding shares including outstanding warrants with a dilutive effect, thousands	17,336	17,336	17,336	17,336	17,336	17,271
Earnings per share, continuing operations, SEK ¹⁾	10.81	12.40	10.42	9.19	7.94	8.87
Earnings per share before dilution, SEK ³⁾	10.81	12.40	10.42	13.13	7.01	8.53
Earnings per share after dilution, SEK ³⁾	10.81	12.40	10.42	13.13	7.01	8.53
Equity per share, SEK	29.30	29.13	26.76	23.95	22.87	19.95
Equity per share after dilution, SEK	29.30	29.13	26.76	23.95	22.87	19.95
Cash flow from operating activities per share, SEK	8.53	10.56	12.84	8.53	6.78	7.20
Cash flow from operating activities per share after dilution, SEK	8.53	10.56	12.84	8.53	6.78	7.20
Share price on the balance sheet date, SEK	424.5	317.50	326.00	300.00	281.50	179.50
Dividend per share, SEK	8.00 ⁴⁾	10.00	9.00	7.50	5.00	5.00

¹⁾ Excluding discontinued operations. The subsidiary IBT was distributed to the shareholders in 2016.

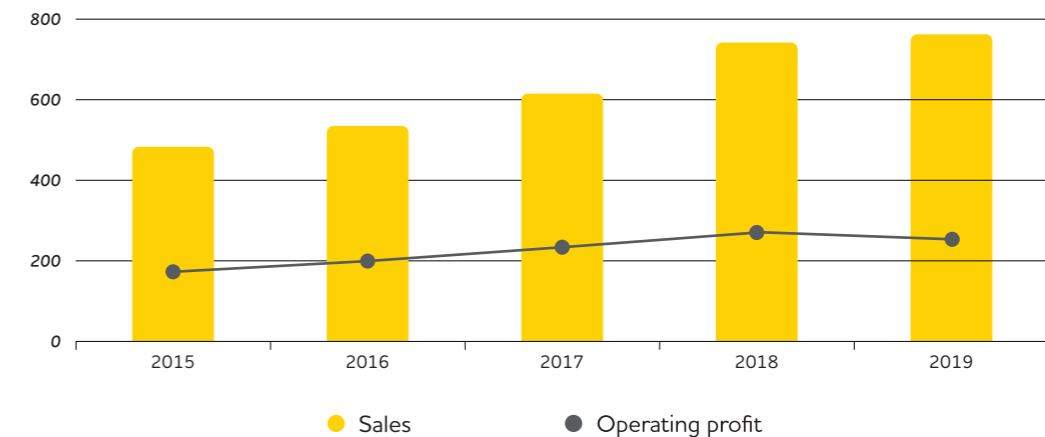
²⁾ The share capital consists of 740,668 class A shares and 16,595,794 class B shares. The quota value is SEK 1 per share.

³⁾ Key figures defined according to IFRS.

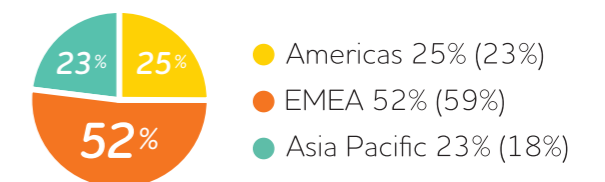
⁴⁾ Dividend proposed but not yet approved.

For definitions of key ratios, see page 56.

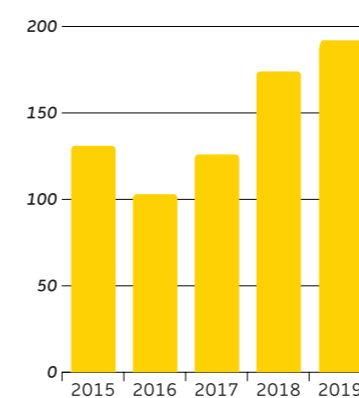
Five-year development, sales and operating profit (EBIT), SEKm



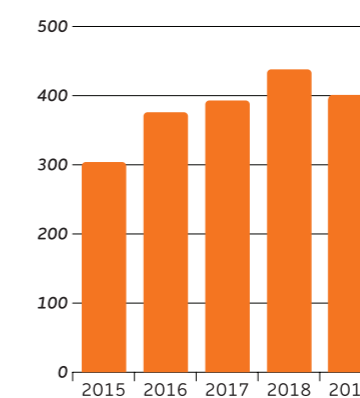
Sales by geographical market, SEKm



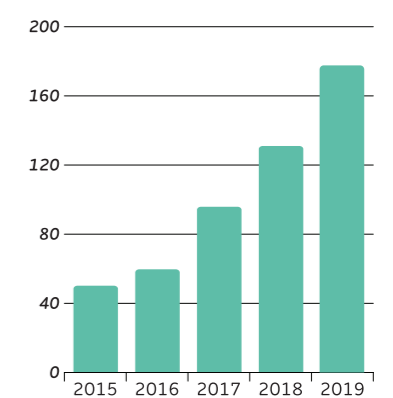
AMERICAS



EMEA



ASIA PACIFIC



Group

Statement of comprehensive income

SEK 000s	Note	2019	2018
Net sales	2	768,347	741,870
Cost of goods sold	2	-204,349	-185,956
Gross profit	2	563,998	555,914
Selling expenses	4	-184,327	-153,109
Administrative expenses	2, 4	-24,609	-27,653
Research and development expenses	2, 7, 11	-105,051	-99,742
Share of profit of associates	5	-	-500
Revaluation of former associate shareholding		-	7,004
Other operating expenses	6	-7,500	-4,555
Operating profit		242,511	277,359
Financial income	8	416	641
Financial expenses	9	-668	-405
Net financial items		-252	236
Profit before tax		242,259	277,595
Tax	10	-55,001	-63,362
PROFIT FOR THE YEAR		187,258	214,233
<i>Items that may be reclassified subsequently to profit or loss:</i>			
		-	-
Gain/losses arising on translation of the financial statements of foreign operations:		415	-187
Comprehensive income for the year		187,673	214,046
<i>Profit for the year attributable to:</i>			
Owners of the Parent Company		187,347	214,890
Non-controlling interests		-89	-657
		187,258	214,233
<i>Comprehensive income for the period attributable to:</i>			
Owners of the Parent Company		187,762	214,703
Non-controlling interests		-89	-657
		187,673	214,046
Earnings per share			
Earnings per share, SEK*		10,81	12,40
Number of shares, thousands		17,336	17,336
Average number of shares, thousands		17,336	17,336

*) No dilutive effects arose.

Cash flow statement

SEK 000s	Note	2019	2018
Operating activities			
Operating profit		242,511	277,359
<i>Adjustments for non-cash items:</i>			
Depreciation/Amortisation		15,593	7,546
Unrealised gains/losses on forward exchange contracts		5,085	6,098
Revaluation of former associate shareholding		-	-7,004
Other non-cash items		-2,010	1,497
		261,179	285,496
Interest received		441	641
Interest paid		-694	-401
Taxes paid		-72,292	-52,408
Cash flow from operating activities before changes in working capital		188,634	233,328
<i>Cash flow from changes in working capital:</i>			
Inventories		-23,948	-12,694
Current receivables		-4,729	-51,986
Trade payables		-5,620	12,918
Current interest-free operating liabilities		-6,482	1,554
Cash flow from operating activities		147,855	183,120
<i>Investing activities:</i>			
Purchase of property, plant and equipment	13	-32,316	-13,454
Purchase of intangible assets	11	-6,708	-
Sale of property, plant and equipment	13	-	75
Acquisition of subsidiary		-	-33,922
Reduction of long-term receivables		-	-
Cash flow from investing activities		-39,024	-47,301
<i>Financing activities:</i>			
Dividend		-173,365	-156,028
Amortisation lease liability	29	-4,525	-
Provision to foundation		-3,200	-2,700
Cash flow from financing activities		-181,090	-158,728
CASH FLOW FOR THE YEAR		-72,259	-22,909
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
		284,962	305,856
Exchange difference in cash and cash equivalents		1,128	2,015
CASH AND CASH EQUIVALENTS AT END OF YEAR		213,831	284,962

Statement of financial position

SEK 000s	Note	31 Dec 2019	31 Dec 2018
ASSETS			
<i>Non-current assets:</i>			
Research and development project in progress	11	52,558	45,850
Goodwill	121	5,300	5,300
Right-of-use assets	12	20,295	-
Property, plant and equipment	13	128,747	105,935
Deferred tax assets	10	6,518	8,430
Deposits		44	43
Total non-current assets		213,462	165,558
<i>Current assets:</i>			
Inventories	16	68,445	44,213
Trade receivables	17, 21	124,916	123,529
Other receivables	19	26,553	12,810
Deferred expenses and accrued income	20	13,710	24,069
Short-term investments	21	4,983	4,832
Cash and cash equivalents	21	213,831	284,962
Total current assets		452,438	494,415
TOTAL ASSETS		665,900	659,973

Statement of changes in equity

SEK 000s	Share capital	Other contributed capital	Foreign currency translation reserve	Retained earnings	Profit for the year	Equity of the Parent Company attributable to the owners	Non-controlling interests	Total equity
Opening balance, 1 January 2018	17,336	21,831	1,724	242,449	180,564	463,904	-16	463,888
<i>Effect of change of accounting standard</i>								
Remeasurement under IFRS 9				-313		-313		-313
Dividend				-156,028		-156,028		-156,028
Provision to foundation				-2,700		-2,700		-2,700
Non-controlling interests related to the acquisition of MetaboGen							17,062	17,062
Transaction between owners related to further acquisition of shares in MetaboGen				-14,584		-14,584	-13,250	-27,834
Total transactions with owners	0	0	0	-173,625	0	-173,625	3,812	-169,813
<i>Carried forward</i>				180,564	-180,564			
Profit for 2018					214,890	214,890	-657	214,233
<i>Other comprehensive income</i>								
Translation differences on translation of foreign operations				-187		-187		-187
Comprehensive income for the year	0	0	-187	0	214,890	214,703	-657	214,046
Closing balance, 31 December 2018	17,336	21,831	1,537	249,388	214,890	504,982	3,139	508,121
Dividend				-173,365		-173,365		-173,365
Provision to foundation				-3,200		-3,200		-3,200
Transaction between the owners attributable to further acquisition of shares in MetaboGen						0	-11,444	-11,444
Total transactions with owners	0	0	0	-176,565	0	-176,565	-11,444	-188,009
<i>Carried forward</i>				214,890	-214,890			
Profit for 2019					187,347	187,347		187,347
<i>Other comprehensive income</i>								
Translation differences on translation of foreign operations				415		415		415
Comprehensive income for the year	0	0	415	0	187,347	187,762	0	187,762
Closing balance, 31 December 2019	17,336	21,831	1,952	287,713	187,347	516,179	-8,305	507,874

Statement of financial position

SEK 000s	Note	31 Dec 2019	31 Dec 2018
EQUITY AND LIABILITIES			
<i>Equity</i>			
Share capital	22	17,336	17,336
Other contributed capital		21,831	21,831
Reserves		2,039	1,537
Retained earnings		279,319	249,388
Profit for the year attributable to owners of the Parent Company		187,347	214,890
Total equity attributable to owners of the Parent Company		507,872	504,982
Non-controlling interests	14, 18	2	3,139
Total non-controlling interests		2	3,139
Total equity		507,874	508,121
<i>Non-current liabilities:</i>			
Deferred tax liability	10	10,339	6,679
Other liabilities	27	22,887	-
Total non-current liabilities		33,226	6,679
<i>Current liabilities:</i>			
Prepayments from customers	21	20,165	24,852
Trade payables	21	28,491	34,009
Current tax liabilities	24	3,973	16,013
Other liabilities	24	18,258	12,950
Accrued expenses and deferred income	25	53,913	57,349
Total current liabilities		124,800	145,173
Total liabilities		158,026	151,852
TOTAL EQUITY AND LIABILITIES		665,900	659,973

Parent Company

Income statement

SEK 000s	Note	2019	2018
Net sales	2	720,730	705,762
Cost of goods sold	2	-246,478	-219,991
Gross profit	2	474,252	485,771
Selling expenses	2	-153,320	-130,219
Administrative expenses	4	-23,523	-23,547
Research and development expenses	2, 7, 11	-90,920	-91,834
Other operating expenses	5	-7,451	-4,625
Operating profit		199,038	235,546
<i>Result from financial investments</i>			
Impairment loss on shares in group companies	14	-1,297	-7,465
Interest income and similar profit/loss items	8	1,885	1,849
Interest expense and similar profit/loss items	9	-	-369
Net financial items		588	-5,985
Profit before tax		199,626	229,561
Tax	10	-36,948	-53,962
PROFIT FOR THE YEAR		162,678	175,599

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

Cash flow statement

SEK 000s	Note	2019	2018
Operating activities			
Operating profit		199,038	235,546
<i>Adjustments for non-cash items:</i>			
Depreciation		1,458	950
Other non-cash items		-1,773	-1,851
		198,722	234,645
Interest received		1,886	1,849
Interest paid		-	-369
Realised forward exchange contracts		5,085	6,098
Taxes		-59,401	-48,100
Cash flow from operating activities before changes in working capital		146,293	194,123
<i>Cash flow from changes in working capital:</i>			
Inventories		-21,864	-10,146
Current receivables		-1,454	-50,230
Trade payables		-8,238	10,709
Current interest-free operating liabilities		4,734	5,286
Cash flow from operating activities		119,471	149,742
<i>Investing activities:</i>			
Purchase of property, plant and equipment	13	-3,189	-2,093
Purchase of intangible assets	11	-6,708	75
Sale of property, plant and equipment		-	75
Shareholder contributions		-15,000	75
Purchase of financial assets		-	-45,523
Repayment of loans from subsidiaries	15	10,000	10,000
Cash flow from investing activities		-14,897	-37,541
<i>Financing activities:</i>			
Dividend		-173,364	-156,028
Provision for foundation		-3,200	-2,700
Cash flow from financing activities		-176,564	-158,728
CASH FLOW FOR THE YEAR		-71,990	-46,527
		224,732	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			270,050
Exchange difference in cash and cash equivalents		475	1,209
CASH AND CASH EQUIVALENTS AT END OF YEAR		153,217	224,732

Balance sheet

SEK 000s	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Capitalised expenses for development		6,708	-
Total intangible assets		6,708	-
<i>Property, plant and equipment</i>			
Production equipment	13	6,223	4,157
Office equipment and computers		726	1,061
Total property, plant and equipment		6,949	5,218
<i>Financial assets</i>			
Investments in group companies	14	154,671	109,902
Receivables from group companies	15	35,835	45,835
Total financial assets		190,506	155,737
Total non-current assets		204,163	160,955
Current assets			
Inventories	16	53,262	31,397
<i>Current receivables</i>			
Trade receivables	17, 21	109,465	103,827
Receivables from group companies	18	6,889	17,117
Current tax assets	19	2,952	-
Other receivables	19	21,843	10,399
Deferred expenses and accrued income	20	8,279	20,480
Total current receivables		149,429	151,823
Short-term investments	21	4,984	4,832
Cash and cash equivalents	21	153,217	224,732
Total current assets		360,891	412,784
TOTAL ASSETS		565,054	573,739

Statement of changes in equity

	Share capital	Other restricted equity	Retained earnings	Profit for the year	Total equity
Opening balance, 1 January 2018	17,336	1,253	228,022	186,620	433,231
Carried forward			186,620	-186,620	0
Dividend			-156,028		-156,028
Provision for foundation			-2,700		-2,700
Profit for 2018				175,599	175,599
Closing balance, 31 December 2018	17,336	1,253	255,914	175,599	450,102
Carried forward			175,599	-175,599	0
Dividend			-173,365		-173,365
Provision for foundation			-3,200		-3,200
Profit for 2019				162,678	162,678
Closing balance, 31 December 2019	17,336	1,253	254,948	162,678	436,216

Balance sheet

SEK 000s	Note	31 Dec 2019	31 Dec 2018
EQUITY AND LIABILITIES			
Equity			
<i>Restricted equity</i>			
Share capital	22	17,336	17,336
Other restricted equity		1,253	1,253
		18,589	18,589
<i>Non-restricted equity</i>			
Retained earnings		254,948	255,914
Profit for the year		162,678	175,599
	23	417,626	431,513
Total equity		436,216	450,102
Liabilities			
<i>Current liabilities</i>			
Prepayments from customers		186	1,269
Trade payables		19,214	27,452
Liabilities to group companies	18	56,634	29,356
Other liabilities	24	4,715	8,847
Current tax liabilities	24	0	9,753
Accrued expenses and deferred income	25	48,089	46,960
Total current liabilities		128,838	123,637
Total liabilities		128,838	123,637
TOTAL EQUITY AND LIABILITIES		565,054	573,739

Notes to the financial statements and accounting policies

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

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NOTE 1 ACCOUNTING POLICIES

COMPLIANCE WITH NORMS AND LAWS The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations from the International Financial Reporting Interpretations Committee (IFRIC) that have been approved by the European Commission for application in the EU.

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

NEW OR REVISED IFRS STANDARDS AND NEW INTERPRETATIONS 2019 The accounting standards applied concur with those set out in the 2018 Annual Report with the exception of those applying to IFRS 16 Leases which replaces IAS 17 Leases including IFRIC 4 and SIC 27.

● **IFRS 16 Leases** was issued on 13 January 2016 and replaces IAS 17 Leases. IFRS 16 introduces a "right-of-use model" that requires the lessee to recognise almost all leases in the balance sheet, for which reason leases are no longer classified as operating or finance leases. The exceptions are leases that have a term of 12 months or less and leases where the underlying asset has a low value. In the income statement, the entity recognises depreciation on the asset and interest expenses on the liability. The standard contains more extensive disclosure requirements compared to the previous standard. For the lessor, IFRS 16 entails no real changes compared to IAS 17. IFRS 16 is applicable for financial years beginning on 1 January 2019 with earlier adoption permitted provided IFRS 15 is applied at the same time. The standard was endorsed by the EU in December 2016.

BioGaia applies IFRS 16 Leases with effect from 1 January 2019. BioGaia has carried out a review of all leasing and rental contracts. BioGaia has chosen the simplified transition method which means that on the date of initial application the right-of-use is set at an amount that corresponds to the lease liability. The right-of-use assets on the initial application date amount to SEK 24.8 million and leases with the highest materiality are rental contracts for the offices in Stockholm and Lund which amount to a total of SEK 19.7 million and expire at the latest in 2026. At 1 January 2019 the company's assets therefore increased by SEK 24.8 million and liabilities by a corresponding amount. At 31 December the Group's lease assets amounted to SEK 20.3 million which is recognised in the item right-of-use assets and liabilities amounted to SEK 11.4 million in non-current liabilities and SEK 8.9 million in current liabilities. For the period January-December 2019 an interest expense of SEK 0.6 million and an amortisation of SEK 6.1 million are recognised. In cash flow amortisation of the lease liability (SEK 4.5 million) is recognised as an item in cash flow from financing activities.

● **The Group as lessee** The Group assesses whether a contract is or contains a lease contract at the commencement date. The Group recognises a right-of-use and a corresponding lease liability for all leases in which the Group is the lessee. This does not apply, however, to short-term leases (defined as leases with a lease term of 12 months or less) and to leases where the underlying asset is of low value. For these leases the Group recognises lease payments as an operating expense on a straight-line basis over the lease term, if no other systematic method better reflects how the economic benefits from the underlying asset will be consumed by the lessee. The lease liability is measured initially at the present value of lease payments not paid as of the commencement date, discounted by using the lease's implicit interest rate. If this interest rate cannot be easily identified, the Group uses the marginal borrowing rate. The marginal borrowing rate is the interest rate that a lessee would need to pay for financing through borrowing during a corresponding period and with corresponding security, for right-of-use of an asset in a similar economic environment.

Lease payments included in measurement of the lease liability include:

Note 1, cont.

- fixed lease payments (including substantive fixed payments) after deduction for any incentives.
- variable lease payments depending on an index or a rate, initially measured using an index or rate at the commencement date.

Non-current lease liabilities are recognised as a separate item and current lease liabilities are recognised together with other current liabilities.

The Group remeasures the lease liability (and makes a corresponding adjustment to the associated right-of-use) if:

- The lease term has changed or if there is a change in the assessment of an option to purchase the underlying asset. In such cases the lease liability is remeasured by discounting the changed lease payments with a changed discount rate.
- Lease payments change due to changes in an index or rate or a change in the amount expected to be paid out under a residual value guarantee. In such cases the lease liability is remeasured by discounting the changed lease payments with the initial discount rate (provided the changes in lease payments are not due to changed variable interest rate, when a changed discount rate will be used instead).
- A lease contract is changed and the change is not recognised as a separate lease. In such cases, the lease liability is remeasured by discounting the changed lease payments by a changed discount rate. The Group has not made any such adjustments in the periods presented.

At acquisition right-of-use assets are recognised at the value of a corresponding lease liability, lease payments made on or before the commencement date as well as any initial direct payments. In subsequent periods they are measured at cost after deduction for cumulative amortisation and impairment.

If the Group undertakes to dismantle and remove a lease asset, to restore the site on which the item is located or restore the underlying asset to the condition required by the terms and conditions of the lease contract, a provision is recognised according to IAS 37. Such provisions are recognised as part of the cost for right-of-use, unless these payments arise in conjunction with production of goods.

Amortisation of right-of-use assets takes place over an estimated useful life or over the contractual lease term, if this is shorter. If a lease contract transfers right of ownership to the underlying assets at the end of the lease term or if the cost for right-of-use reflects that the Group expects to exercise a call option, amortisation takes place over the useful life of the underlying asset. Amortisation starts as per the commencement date for the lease contract.

Right-of-use assets are presented on a separate line in the consolidated statement of financial position.

The Group applies IAS 36 Impairment of Assets to decide whether an impairment requirement exists for the right-of-use and reports any identified impairment in the same manner as described in the principles for property, plant and equipment.

Variable lease payments that are not due to an index or rate are not included in the measurement of the lease liability and right-of-use. Such lease payments are recognised as an expense in the period in which they arise and included on the line administrative expenses in the consolidated income statement.

IFRS 16 permits, as a practical expedient, that the lessee does not separate non-lease components from lease components and instead recognises each lease component and associated non-lease components as a single lease component. The Group has chosen not to apply this exemption.

Leased assets for the comparative period 2018 are attributable to operating leases. Lease payments are therefore recognised on a straight-line basis over the lease term in accordance with IAS 17.

NEW OR REVISED IFRS STANDARDS AND NEW INTERPRETATIONS NOT YET EFFECTIVE The new and revised standards and new interpretations that have been issued, but are effective for accounting periods beginning on or after 1 January 2020, have not yet been adopted by the Group. Executive Management's assessment is that these standards and interpretations will not have a material impact on the consolidated financial statements.

BASIS OF PREPARATION The consolidated financial statements have been prepared on the historical cost basis unless otherwise specified. Non-current assets, non-current liabilities and provisions essentially consist of amounts that are expected to be recovered or settled more than 12 months after the closing date. Current assets and current liabilities essentially consist of amounts that are expected to be recovered or settled within 12 months from the closing date.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 28.

BASIS OF CONSOLIDATION The consolidated financial statements consolidate the operations of the Parent Company and the subsidiaries for the period ended 31 December 2019. The Parent Company controls the subsidiaries, and has the ability to affect returns from its involvement with the subsidiaries through its power over the subsidiaries. All subsidiaries have their balance sheet date on 31 December.

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

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

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

PROVISION TO "FOUNDATION TO PREVENT ANTIBIOTIC RESISTANCE" Provision to the Foundation to Prevent Antibiotic Resistance was approved at the AGM and is in accordance with the Swedish Companies Act, Chapter 17 section 5 on donations for charitable purposes. The provision is recognised as an equity transaction. Support for recognition of the provision in equity is found in the Conceptual Framework for Financial Reporting in the section Financial performance reflected by accrual accounting (1.17ff). BioGaia has made the assessment that the company does not have a controlling influence over the Foundation according to IFRS 10 which is why the Foundation is not consolidated. The assessment is based among other factors on the fact that the Foundation is an independent organ, that BioGaia has no right to proceeds (positive or negative) from the Foundation and that three out of five of the members of the board of the Foundation are external.

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 applying on the date when the fair value was determined. Changes in value of operating receivables and liabilities are recognised in operating profit, while changes in value of financial receivables and liabilities are recognised in net financial items.
- **Derivatives** In 2019 the company has taken forward contracts in EUR and USD. The company's Board of Directors has issued a policy to hedge 50-60% of cash flow 12 months forward and approximately 10-40% 13-24 months forward in order to spread the risk of exchange rate fluctuations. The forward contracts are reported at fair value through profit or loss. A financial asset or liability is taken up in the balance sheet when the company becomes party to the contractual terms of the instrument.

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

REPORTING BY SEGMENT 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:

- **Paediatrics segment** drops, gut health tablets, oral rehydration solution (ORS) and cultures to be used as ingredients in licensee products (such as infant formula), as well as royalty revenue for paediatric products.)
- **Adult Health segment** (gut health tablets, oral health lozenges and cultures as an ingredient in a licensee's dairy products).
- **Other** (royalties in respect of development projects, revenue from packaging solutions in the subsidiary CapAble, etc.)

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

IFRS 15 BioGaia applies IFRS 15 for revenue recognition. IFRS 15 includes a 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 recognises revenue to differentiate between the transfer of promised goods or services to customers and an amount that reflects the compensation to which the entity is expected to be entitled in exchange for such goods or services. Step 1. Identify the contract with a customer
Step 2. Identify the performance obligations in the contract
Step 3. Determine the transaction price
Step 4. Allocate the transaction price to each performance obligation
Step 5. Recognise revenue when a performance obligation is satisfied
Revenue is recognised 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 recognises revenue when the Group transfers control of a product or service to a customer. Details of these new requirements and BioGaia's revenue streams are provided below.

REVENUE RECOGNITION BioGaia's revenues mainly comprise sales of goods. No commitment for BioGaia remains after delivery since BioGaia does not provide customers with any extended guarantees or the option to return. Control is transferred to the customer when the good is placed at the disposal of the purchaser.

In addition to the sales of goods, other revenues consist of royalties or exclusivity rights linked to product distribution in a defined market/territory. These contracts include obligations over time and revenue is recognised 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. Interest income is recognised in profit or loss in the period to which it pertains.

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

INCOME TAXES Current tax refers to the tax computed on taxable profit for the period. Taxable profit differs from recognised profit in the consolidated income statement in that it has been adjusted for non-taxable income and non-deductible expenses and for items of income and expense that are taxable or deductible in other periods. Deferred tax refers to the tax computed partly on the basis of temporary differences and partly on tax losses. At every closing date, an assessment is made to determine whether to recognise deferred tax assets not previously recognised in the balance sheet. Such tax assets are recognised to the extent that it is probable that there will sufficient taxable profits against which to utilise these in the future.

RESEARCH AND DEVELOPMENT EXPENSES Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development is recognised as an intangible asset when all of the following conditions are met:

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

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

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

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

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets and property, plant and equipment are recognised at cost less accumulated amortisation/ depreciation according to plan and any impairment.

Intangible assets are amortised on a straight-line basis over their expected useful lives. The following depreciation periods are applied to property, plant and equipment:

PROPERTY, PLANT AND EQUIPMENT

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

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

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

INVENTORIES Inventories are measured at the lower of cost and net realisable value, including provisions for obsolescence. Cost is measured according to purchase price.

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

CASH AND CASH EQUIVALENTS Cash and cash equivalents comprise cash on hand and in banks.

FINANCIAL ASSETS AND LIABILITIES

The Group's accounting standards according to IFRS 9 Financial Instruments are provided below.

- **Financial instruments** Financial instruments recognised 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 Note 21 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 recognised in the statement of financial position when the company becomes party to the contractual terms of the instrument. A receivable, except trade receivables, is recognised 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 recognised in the statement of financial position when an invoice has been sent. Liabilities, except trade payables, are recognised 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 derecognised from the statement of financial position when the contractual rights are realised, expire or the company has relinquished control. The same applies to part of a financial asset. A financial liability is derecognised 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 recognised on the transaction date. The transaction date is the day the company undertakes to acquire or dispose of the asset.

- **Classification and measurement** Financial assets are classified on the basis of the business model in which the asset is held and its cash flow characteristic. If the financial asset is held within the framework of a business model whose objective is collecting contractual cash flows and the financial assets at identified dates give rise to cash flows that are solely payments of principal and interest on outstanding principal, the asset is recognised at amortised 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 recognised 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.

- **Amortised cost and effective interest method** Amortised cost for a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus the cumulative amortisation 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 amortised cost of a financial asset before adjustment for any loss allowance.

- **Financial liabilities** Financial liabilities are recognised at amortised cost using the effective interest method or at fair value through profit or loss

- **Financial liabilities at amortised cost** Loans and other financial liabilities, e.g. trade payables, are included in this category. Liabilities are measured at amortised 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** The Group recognises a loss allowance for expected credit losses on a financial asset measured at amortised cost or fair value through other

comprehensive income, for a lease receivable or for a contract receivable. At each closing date, the Group shall recognise in profit or loss the change in expected credit losses since the initial recognition date.

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

Default is based on an assessment that it is improbable that a counterparty will meet its commitments on the basis of indicators such as financial difficulties and failure to pay. Regardless of the above, default occurs at the latest when the payment is 90 days overdue.

Measurement of financial instruments at fair value Financial assets and financial liabilities measured at fair value in the balance sheet, or where a disclosure of fair value is provided, are classified in one of three levels based on the information used to determine fair value.

- **Level 1**, Financial instruments where fair value is determined based on observable (unadjusted) quoted prices in an active market for identical assets and liabilities. A market is regarded as active if quoted prices from a stock exchange, broker, industrial group, pricing service or supervisory authority are readily and regularly available and these prices represent actual and regularly occurring arm's length market transactions.

- **Level 2**, Financial instruments where fair value is determined based on valuation models based on observable inputs for the asset or liability other than quoted prices included in Level 1, either direct (such as price quotations) or indirect (derived from price quotations).

Examples of observable inputs within Level 2:

- Quoted prices for similar assets and liabilities.
- Data on which an assessment of price can be based, such as market interest rates and yield curves.

- **Level 3**, Financial instruments where fair value is determined based on valuation models where significant inputs are based on unobservable 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.

- **Presentation** The income statement and balance sheet of the Parent Company are presented in accordance with the schedules in the Swedish Annual Accounts Act.

- **Income taxes** In the Parent Company, untaxed reserves are recognised including the deferred tax liability. In the consolidated financial statements, however, untaxed reserves are divided between the deferred tax liability and equity.

- **Subsidiaries** In the Parent Company, shareholdings in subsidiaries are accounted for on a historical cost basis. The carrying amount is tested regularly against the subsidiaries' consolidated equity.

REVISED ACCOUNTING STANDARDS

- **IFRS 16 Leases** Due to the correlation between recognition and taxation the rules in IFRS 16 do not need to be applied in a legal entity. For companies that choose to apply the exemption, rules are introduced instead which cover the principles to be applied for recognition of a lease by the lessee and lessor, recognition of sale-and-lease-back transactions and disclosure requirements. Amendments in RFR 2 relating to IFRS 16 are effective in the financial year that starts on 1 January 2019 or later.

The Parent Company applies the exemption for application of IFRS 16. These amendments have led to extended disclosure requirements as set out in Note 7. Other changes to RFR 2 have not had any material impact on the 2019 financial statements of the Parent Company.

APPROVED CHANGES TO RFR 2 THAT HAVE NOT YET COME INTO EFFECT

The Swedish Financial Reporting Board has not approved any material changes that have not yet come into effect.

DEFINITIONS OF KEY RATIOS

KEY RATIO	DEFINITION/CALCULATION	PURPOSE
Return on equity	Profit attributable to the owners of the Parent Company divided by average equity attributable to the owners of the Parent Company.	Return on equity is used to measure profit generation, over time, given the resources attributable to the owners of the Parent Company.
Return on capital employed	Operating profit plus financial income as a percentage of average capital employed.	Return on capital employed is used to analyse profitability, based on the amount of capital used.
Current ratio	Total current assets divided by current liabilities.	The current ratio shows the company's short-term solvency.
Equity per share	Shareholders' equity attributable to the owners of the Parent Company divided by the average number of shares.	Shareholders' equity per share measures the company's net value per share and indicates whether a company will increase the shareholders' wealth over time.
Equity per share, diluted	Equity attributable to the owners of the Parent Company at the end of the period divided by the average number of shares at the end of the period, after dilution.	Shareholders' equity per share, diluted, measures the company's net value per share after any dilution owing to ongoing incentive schemes. Shows the company's realised sales growth over time or similar and indicates whether a company will increase the shareholders' wealth over time.
Cash flow from operating activities per share	Cash flow from operating activities during the period divided by the average number of shares during the period.	Cash flow from operating activities per share measures the cash flow generated by the company per share before capital expenditure and cash flow attributable to the company's financing.
Cash flow from operating activities per share after dilution	Cash flow from operating activities divided by the average number of shares plus the number of outstanding warrants with a dilutive effect.	Cash flow from operating activities per share measures the cash flow generated by the company per share (plus the number of outstanding shares with a dilutive effect) before capital expenditure and cash flow attributable to the company's financing.
Operating margin (EBIT margin)	Operating profit expressed as a percentage of net sales.	The operating profit margin is used to measure operational profitability.
Operating income	Income before financial items and tax.	Operating income is used to measure operating profitability.
Equity/assets ratio	Shareholders' equity at the end of the period as a percentage of total assets.	A traditional measure to show financial risk expressed as the share of total assets financed by the shareholders. Shows the company's stability and ability to withstand losses.
Capital employed	Total assets less interest-free liabilities.	Capital employed measures the total amount of investment needed to keep a company's running, and includes both equity and debt.
Growth	Sales for the current year less sales for the previous year divided by sales for the previous year.	Shows the company's realised sales growth over time.
Earnings per share (EPS)	Profit after tax attributable to owners of the Parent Company divided by the average number of shares (definition according to IFRS).	EPS measures how much of net profit is available for payment to the shareholders as dividends per share.

Earnings per share (EPS), diluted	Profit from continuing operations attributable to owners of the Parent Company by the average number of shares after dilution.	EPS, diluted, measures how much of net profit is available for payment to the shareholders as dividends per share after any dilution owing to ongoing incentive schemes or similar.
Earnings per share in continuing operations	Profit after tax attributable to owners of the Parent Company divided by the average number of shares.	EPS measures how much of net profit in ongoing operations is available for payment to the shareholders as dividends per share in ongoing operations.
Profit margin	Profit before tax in relation to net sales.	This key ratio makes it possible to compare profitability regardless of the corporate income tax.

RECONCILIATION AGAINST IFRS

	2019	2018
Return on capital employed		
Operating profit	242,511	277,359
Financial income	416	641
Profit before financial items + financial income	242,927	278,000
Total assets	665,900	659,973
Interest-free liabilities	-147,687	-145,173
Capital employed	518,213	514,800
Average capital employed	516,507	489,733
Return on capital employed	47%	57%
Return on equity		
Profit attributable to the owners of the Parent Company	187,347	214,890
Equity attributable to the owners of the Parent Company	507,872	504,982
Average equity attributable to the owners of the Parent Company	506,427	484,444
Return on equity	37%	44%

	31 Dec 2019	31 Dec 2018
Current ratio		
Total current assets (A)	452,438	494,415
Current liabilities B	124,800	145,173
Current ratio (A/B)	3.6	3.4

	31 Dec 2019	31 Dec 2018
Equity/assets ratio		
Equity (A)	507,874	508,121
Total assets (B)	665,900	659,973
Equity/assets ratio (A/B)	76%	77%

	2019	2018
Operating margin		
Operating profit (A)	242,511	277,359
Net sales (B)	768,347	741,870
Operating margin (A/B)	32%	37%

	2019	2018
Profit margin		
Profit before tax (A)	242,259	277,595
Net sales (B)	768,347	741,870
Profit margin (A/B)	32%	37%

	31 Dec 2019	31 Dec 2018
Equity per share		
Equity attributable to owners of the Parent Company (A)	507,872	504,982
Average number of shares (B)	17,336	17,336
Equity per share (A/B)	29.30	29.13

	2019	2018
Cash flow from operating activities per share		
Cash flow from operating activities (A)	147,855	183,120
Average number of shares (B)	17,336	17,336
Cash flow from operating activities per share	8.53	10.56

CHANGE IN SALES BY SEGMENT

Description	Definition	Paediatrics 2019	Adult Health 2019	Other 2019	Total 2019	
A	The previous year's net sales according to the average rate	596,457	141,680	3,733	741,870	
B	Net sales for the year according to the average rate	600,090	167,321	937	768,347	
C	Reported change	B-A	3,633	25,641	-2,796	26,477
	Percentage change	C/A	1%	18%	-75%	4%
D	Net sales for the year according to the previous year's average rate	569,396	158,874	937	729,206	
E	Foreign exchange effects	C-F	30,694	8,447	0	39,141
	Foreign exchange effects, %	E/A	5%	6%	0%	5%
F	Organic change	D-A	-27,061	17,194	-2,796	-12,664
	Organic change, %	F/A	-5%	12%	-75%	-2%

AVERAGE KEY EXCHANGE RATES

	Group	
	2019	2018
EUR	10.59	10.26
USD	9.46	8.69
JPY	8.68	7.87

NOTE 2 SEGMENT REPORTING

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

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

NET SALES BY SEGMENT

	Group	
	2019	2018
Paediatrics	600,090	596,457
Adult Health	167,321	141,680
Other	937	3,733
	768,348	741,870

GROSS PROFIT BY SEGMENT

	2019	2018
Paediatrics	445,676	451,636
Adult Health	117,385	100,711
Other	937	3,567
	563,998	555,914
Selling, administration and R&D expenses	-313,987	-280,504
Share in profit of associates	-	-500
Revaluation of former associate shareholding	-	7,004
Other operating income/expenses	-7,500	-4,555
Operating profit	242,511	277,359
Net financial items	-252	236
Group profit before tax	242,259	277,595

In 2019, SEK 184.4 million (228.4), or 24% (30.8%) of revenue in the Group, was attributable to three customers. The two largest of these three customers belong to the Paediatrics segment, while the third belongs to both the Paediatrics and Adult Health segments. In 2019 as in 2018 there was one customer that accounted for more than 10% of sales.

	2019	2018
Asia Pacific		
Paediatrics	72,991	49,303
Adult Health	103,839	80,599
Other	129	172
	176,959	130,074

	2019	2018
EMEA		
Paediatrics	346,536	379,144
Adult Health	52,229	55,177
Other	807	3,555
	399,572	437,876

Americas			
Paediatrics		180,562	168,010
Adult Health		11,252	5,904
Other		0	6
		191,814	173,920
Total		768,347	741,870

DATE OF RECOGNITION

	Group		Parent Company	
	2019	2018	2019	2018
Performance obligations met on specific date (Product sales)	743,030	662,148	703,590	632,842
Performance obligations met over time (Licenses and royalties)	25,317	79,722	17,140	72,920
Total	768,347	741,870	720,730	705,762

CONTRACTUAL ASSETS

Accrued revenue (Royalties)	4,651	18,480	4,647	17,718
Total	4,651	18,480	4,647	17,718

Contractual assets where performance obligations are met over time refers to royalties. The variation between the periods is related to timing of invoicing.

CONTRACTUAL LIABILITIES

Prepayments from customers (Licenses and royalties)	20,165	24,852	186	1,269
Total	20,165	24,852	186	1,269

Contractual liabilities where performance obligations are met at overtime refers to accruals related to license and royalty revenue. The variation relates to resolution of license and royalty liabilities.

For contractual liabilities as of beginning of the year 4.7 millions have been recognised as revenue during the year.

PERFORMANCE OBLIGATIONS MET ON SPECIFIC DATE (PRODUCT SALES)

	Group	
	2019	2018
Paediatrics	585,090	523,537
Adult Health	157,811	136,606
Other	129	2,005
	743,030	662,148

PERFORMANCE OBLIGATIONS MET OVER TIME (ROYALTIES)

Paediatrics	15,000	72,920
Adult Health	9,509	5,074
Other	807	1,728
	25,317	79,722

More than 90% of the Group's total assets, amounting to SEK 665.9 million (660.0), are located in Europe.

Of the Group's capital expenditure on property, plant and equipment and intangible assets, totalling SEK 32.3 million (13.5), more than 90% pertained to Europe.

Sales in Sweden amounted to SEK 16.4 million (19.2), or 2% (3%) of total sales in the Group. The Group's largest markets consist of Brazil, Finland, Italy, Japan, Spain and USA. These markets account for approximately 39% (36%) of total revenue in the Group.

The Group's non-current assets amount to SEK 213.5 million (165.6), of which SEK 205.7 million (156.5) is located in Sweden and SEK 7.8 million (9.1) in other countries (the USA and Japan).

NOTE 3 EMPLOYEES AND PERSONNEL EXPENSES, REMUNERATION TO SENIOR EXECUTIVES

AVERAGE NUMBER OF EMPLOYEES BY COUNTRY

	2019	Of whom, men	2018	Of whom, men
<i>Parent Company:</i>				
Sweden	95	29	86	26
<i>Subsidiaries:</i>				
Sweden	36	22	31	19
Japan	20	10	11	7
USA	2	2	2	2
Total subsidiaries	58	34	44	28
Total Group	153	63	130	54

The number of employees in the Group at 31 December 2019, was 157 (143).

SALARIES AND OTHER REMUNERATION DIVIDED BY COUNTRY AND BETWEEN THE BOARD/CEO AND OTHER EMPLOYEES

	2019 Board and CEO	2019 Other employees	2018 Board and Managing Director	2018 Other em- ployees
<i>Parent Company:</i>				
Sweden	4,849	61,370	6,321	62,389
<i>Subsidiaries:</i>				
Sweden	4,177	12,393	3,513	11,558
Japan	5,208	6,184	3,167	6,025
USA	–	3,511	–	3,563
Total subsidiaries	9,385	22,088	6,680	21,146
Total Group	14,234	83,458	13,001	83,535

TOTAL SALARIES AND SOCIAL SECURITY EXPENSES

	Group		Parent Company	
	2019	2018	2019	2018
Salaries and other remuneration	97,692	96,536	66,219	68,710
Pension expenses for the Board and Managing Director	1,914	1,386	761	360
Pension expenses for other employees	10,188	9,054	8,923	8,157
Other social security expenses	27,771	27,970	21,887	22,719
	137,565	134,946	97,790	99,946

PENSIONS AND HEALTH INSURANCE All employees in Sweden are subject to mandatory retirement in accordance with Swedish law. The company has no pension commitments other than payment of annual pension insurance premiums.

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

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

*)For the CEO pension insurance premiums are paid with 4.5% within 7.5 base salary amounts and with 30% above 7.5 base salary amounts.

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

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

BIOGAI'S INCENTIVE SCHEME FOR THE EMPLOYEES BioGaia had a bonus programme for all employees in the Parent Company in 2019. The bonus is mainly based on whether sales and operating profit reach budgeted levels and to a lesser extent on a number of key qualitative targets for operations. The maximum bonus amounts to 12% of salary. The employee is required to reinvest part (a maximum of one-third) of paid-out bonus (after tax) in BioGaia class B shares at a market price and to hold these for a three-year period.

BioGaia has no obligation to repurchase shares nor does the employee have any obligation to sell shares in the event employment is terminated within three years from the date investment took place. For 2019, the bonus achieved was approximately 2% (1.2%) and the cost of the programme amounted to SEK 2.1 million (10.9).

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 Peter Rothschild, Board member Peter Elving and David Dangoor (chairman). The Remuneration Committee handles matters related to remuneration and other terms of employment of senior executives. The principles for remuneration to senior executives are approved by the Annual General Meeting. The task of the Remuneration Committee is to prepare recommendations in accordance with these principles.

Remuneration to the CEO and other senior executives employed by the company consists of fixed salary and other benefits. Other senior executives consist of the 9 persons who together with the CEO make up the Executive Management.

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

Otherwise, no agreements for termination benefits exist for the CEO or other senior executives.

REMUNERATION AND OTHER BENEFITS DURING THE YEAR

	Directors' fees	Fixed salary	Variable remuneration	Pension insurance incl. health insurance	Total
<i>Board Chairman</i>					
Peter Rothschild	600	1,466			2,066
<i>Vice Chairman</i>					
David Dangoor	430				430
<i>Board members:</i>					
Ewa Björling	230				230
Peter Elving	230				230
Inger Holmström	230				230
Anthon Jahreskog	230				230
Brit Stakston	230				230
<i>CEO:</i>					
Isabelle Ducellier		2,421	248	661	3,330
Other senior executives (9 persons):		12,280	440	2,713	15,433
	2,180	16,167	688	3,374	22,409

GENDER DISTRIBUTION

	2019 Women	2019 Men	2018 Women	
Board members	3	4	3	4
Management including Managing Director and Group President	6	4	6	3

NOTE 4 AUDITOR'S FEES

	Group		Parent Company	
	2019	2018	2019	2018
Deloitte AB				
Audit services according to engagement letter	600	544	575	504
Audit services in addition to audit	92	209	92	209
Tax advice	–	29	–	29
Other services	–	–	–	–

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 5 SHARE OF PROFIT OF ASSOCIATES

	Group	
	2019	2018
Share of profit of MetaboGen AB	–	–500
	–	–500

NOTE 6 OTHER OPERATING EXPENSES

	Group		Parent Company	
	2019	2018	2019	2018
Exchange rate losses on receivables and operating liabilities, net	7,500	4,555	7,452	4,625
	7,500	4,555	7,452	4,625

At 31 December 2019 the Parent Company and the Group had outstanding forward exchange contracts for EUR 12.6 million (14.1) at an average exchange rate of SEK 10.53 and for USD 6.5 million (9.8) at an average exchange rate of SEK 8.81.

NOTE 7 OPERATING EXPENSES

OPERATING EXPENSES ALLOCATED BY TYPE OF COST

	Group		Parent Company	
	2019	2018	2019	2018
Cost of sales	204,349	185,956	246,478	219,991
Personnel expenses	142,375	137,061	102,101	101,837
Depreciation/amortisation	15,593	7,546	1,458	950
Other operating expenses	163,519	133,948	171,656	147,438
	525,836	464,511	521,693	470,216

Due to a changed accounting standard, depreciation/amortisation increased by SEK 6.0 million compared to the previous year while other operating expenses decreased by a corresponding amount. Operating expenses for 2018 include lease payments excluding rents with SEK 0.4 million and rents with SEK 8.0 million. For the Parent Company, operating expenses include lease payments excluding rents with SEK 0.7 million (0.4) and rents with SEK 6.4 million (5.5). The Parent Company's future payment commitments regarding lease payments excluding rents amount to SEK 1.4 million. The Parent Company's lease payments excluding rents fall due for payment with SEK 0.5 million within one year and SEK 0.9 million within two to five years. The Parent Company's future payment commitments regarding rents amount to SEK 16.3 million. The Parent Company's rents fall due for payment with SEK 5.3 million within one year, SEK 8.5 million within two to five years and SEK 2.5 million after five years.

See also note 29 and 12 for further information on the impact of changed accounting principle.

RESEARCH AND DEVELOPMENT EXPENSES The expenses capitalised in the balance sheet relate to MetaboGen, and to IT development. No other expenses for development in the Parent Company or subsidiaries during the year meet the requirement for capitalisation in the balance sheet.

TOTAL RESEARCH AND DEVELOPMENT EXPENSES

	Group		Parent Company	
	2019	2018	2019	2018
Total R&D expenses excl. amortisation	110,142	98,775	96,409	91,105
The year's capitalisation of development expenses	-6,708	-	-6,708	-
Uncapitalised R&D expenses	103,434	98,775	89,701	91,105
Amortisation component of R&D expenses*)	1,617	967	1,184	729
R&D expenses with an effect on profit/loss	105,051	99,742	90,885	91,834

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

NOTE 8 FINANCIAL INCOME

	Group		Parent Company	
	2019	2018	2019	2018
Interest income	416	641	1,886	1,849
	416	641	1,886	1,849

NOTE 9 FINANCIAL EXPENSES

	Group		Parent Company	
	2019	2018	2019	2018
Other interest expenses	668	405	-	369
	668	405	0	369

NOTE 10 TAX ON PROFIT FOR THE YEAR

	Group		Parent Company	
	2019	2018	2019	2018
Current tax	-49,812	-62,453	-36,948	-53,962
Deferred tax	-5,189	-909	-	-
	-55,001	-63,362	-36,948	-53,962

DEFERRED TAX IN UNTAXED RESERVES

	Group		Parent Company	
	2019	2018	2019	2018
Deferred tax attributable to untaxed reserves	1,673	916	-	-
	1,673	916	-	-

CHANGE IN DEFERRED TAX LIABILITY

	Group	
	2019	2018
Opening balance deferred taxes	6,679	778
Provision for deferred tax	3,660	5,901
Closing deferred tax	10,339	6,679

The deferred tax liability in untaxed reserves and related to buildings is attributable to the subsidiary BioGaia Production AB.

CHANGE IN DEFERRED TAX ASSETS

	Group	
	2019	2018
Opening balance, deferred tax	8,430	9,339
Resolution of deferred tax asset	-1,912	-909
Closing balance, deferred tax	6,518	8,430

The deferred tax asset is related to the subsidiary BioGaia Japan Inc. As a result of the distribution and licensing agreement that was signed in Japan at the end of 2016 the accumulated losses carried forward have been available for use in the Japanese subsidiary. The exclusivity-revenue related to product rights is recognised during the term of the agreement, a deferred tax asset is therefore recognised.

Note 10, cont.

RECONCILIATION OF NOMINAL TAX AND ACTUAL TAX EXPENSES

	Group		Parent Company	
	2019	2018	2019	2018
Reported profit before tax	242,259	277,595	199,627	229,561
Tax rate	21.4%	22.0%	21.4%	22.0%
Anticipated tax expense	-51,843	-61,071	-42,720	-50,503
Tax effect of other non-deductible and non-taxable items	-906	-148	5,772	-2,057
Tax effect of other rates for foreign subsidiaries	-1,223	-	-	-
Tax effect on unrecognised deferred tax on loss carry forwards	-929	-789	-	-
Tax effect attributable to previous years	-46	-1,402	-	-1,402
Other tax adjustment	-54	48	-	-
Actual tax expense	-55,001	-63,362	-36,948	-53,962

The tax rate for the Group amounted to 23% (23) of profit for the year after financial items. Accumulated deficits related to MetaboGen AB (approximately SEK 16 million), have been used during the year.

NOTE 11 INTANGIBLE ASSETS

GROUP

	R&D projects in progress	Goodwill	Development costs	Total intangible assets
	<i>Accumulated cost:</i>			
Opening balance, 1 January 2018	-	-	-	-
Additions	45,850	5,300	-	51,150
Closing balance, 31 December 2018	45,850	5,300	-	51,150
Opening balance, 1 January 2019	45,850	5,300	-	51,150
Additions	-	-	6,708	6,708
Closing balance, 31 December 2019	45,850	5,300	6,708	57,858
<i>Carrying amounts:</i>				
At 1 January 2018	-	-	-	-
At 31 December 2018	45,850	5,300	-	51,150
At 31 December 2019	45,850	5,300	6,708	57,858

PARENT COMPANY

	R&D projects in progress	Goodwill	Development costs	Total intangible assets
	<i>Accumulated cost:</i>			
Opening balance, 1 January 2018	-	-	-	-
Additions	-	-	-	-
Closing balance, 31 December 2018	-	-	-	-
Opening balance, 1 January 2019	-	-	-	-
Additions	-	-	6,708	6,708
Closing balance, 31 December 2019	-	-	6,708	6,708
<i>Carrying amounts:</i>				
At 31 December 2018	-	-	-	-
At 31 December 2019	-	-	6,708	6,708

The Group recognises intangible assets from the acquisition of MetaboGen which amount to SEK 45.8 million relating to research and development projects and SEK 5.3 million as goodwill. In conjunction with the balance sheet date, impairment testing was carried out on the basis of the corresponding valuation model that was applied in conjunction with the acquisition.

Testing for impairment was carried out based on Executive Management's future forecasts. These forecasts were prepared internally by Executive Management based on management's overall experience and their best assessment of the development potential of the company and the projects as well as market growth after launch. The model sees the research and development portfolio as a unit but assessment of future revenue is made per underlying project. Significant assumptions in the model include future revenues, discount rate and risk adjustment. The forecast period is ten years and the growth rate reflects the commercialisation of the projects. The discount rate amounts to 5% but each project includes a risk adjustment factor. Furthermore, the model includes specific costs per project as well as administrative expenses that are not allocated per project. Significant assumptions that have changed compared to acquisition and which have therefore been updated in the model are costs incurred and risk adjustment. Testing for impairment shows that no impairment requirement exists relating to the intangible assets.

To support the impairment testing performed, an overall analysis has been made of the sensitivity of the assumptions used in the model. 1% change of discount rate impacts the valuation with approximately SEK 14.5 million. One assumption of the corresponding risk adjustment used in conjunction with the acquisition shows that no impairment requirement exists. Given that the projects are closer to commercialisation and key milestones have been achieved, it is reasonable to assume that the risk that it will not be possible to complete the projects has decreased. Other assumptions have been left unchanged in the sensitivity analysis.

The Group and the Parent Company have also during the year capitalised development costs relating to the ERP system amounting to SEK 6.7 million.

No amortisation of intangible assets is recognised in the income statement. Amortisation starts in conjunction with research and development projects for MetaboGen being completed and/or commercialised. Regarding the capitalised costs for the ERP system, amortisation will start from completion of the project at year-end.

NOTE 12 RIGHT-OF-USE ASSETS

GROUP	Land and buildings	Equipment	Total rights of use
<i>Accumulated cost:</i>			
Opening balance, 1 January 2019	23,421	1,399	24,820
Additions	1,616	–	1,616
Disposals	-113	–	-113
Closing balance, 31 December 2019	24,924	1,399	26,323
Opening balance, 1 January 2019	–	–	–
Depreciation	5,960	68	6,028
Closing balance, 31 December 2019	5,960	68	6,028
<i>Carrying amounts:</i>			
At 31 December 2019	18,964	1,331	20,295

The Group mainly leases buildings but also IT equipment. The average lease term is 2 years. A small part of leases for buildings expired during the current financial year. The expired leases have been replaced by new ones and new leases have also been added. This resulted in an increase of rights-of-use of SEK 1.6 million in 2019. An age analysis of lease liabilities and marginal borrowing rate is presented in Note 27. No extension options of significance exist in leases.

Amounts recorded in income related to right-of-use assets

	PARENT COMPANY
	2019
Depreciation on right-of-use assets	6,028
Interest expense on leasing liabilities	634
Expenses related to short-term leases and low-value leases	4,338
	11,000

Total cash-flow for leasing amounts to approximately SEK 11.2 million.

NOTE 13 PROPERTY, PLANT AND EQUIPMENT

GROUP	Land and buildings	Production and laboratory equipment	Work in progress	Office equipment and computers	Total property, plant and equipment
<i>Accumulated cost:</i>					
Opening balance, 1 January 2018	86,840	48,766	2,847	16,664	155,118
Additions	10,630	1,199	–	1,625	13,454
Acquired assets MetaboGen	–	593	–	–	593
Disposals	207	–	-2,847	–	-2,640
Exchange differences	–	–	–	249	-91
Closing balance, 31 December 2018	97,677	50,558	0	18,538	166,434

	Land and buildings	Production and laboratory equipment	Work in progress	Office equipment and computers	Total property, plant and equipment
Opening balance, 1 January 2019	97,677	50,558	0	18,538	166,434
Additions	10,163	18,134	–	4,019	32,316
Sales/disposals	–	-519	–	–	-519
Exchange differences	–	–	–	84	84
Closing balance, 31 December 2019	107,840	68,173	0	22,641	198,315

Accumulated depreciation:

Opening balance, 1 January 2018	8,224	29,165	0	15,265	52,653
Depreciation	2,995	3,827	–	724	7,546
Disposals	207	–	–	–	207
Acquired depreciation MetaboGen	–	229	–	–	229
Exchange differences	–	–	–	-136	-136
Closing balance, 31 December 2018	11,426	33,221	0	15,853	60,499

Opening balance, 1 January 2019	11,426	33,221	0	15,853	60,499
Depreciation	2,995	4,221	–	2,313	9,529
Devaluation	–	–	–	–	0
Acquired depreciation MetaboGen	–	–	–	–	0
Disposals	–	-519	–	–	-519
Exchange differences	–	–	–	47	47
Closing balance, 31 December 2019	14,421	36,923	–	18,213	69,556

Carrying amounts:

At 1 January 2018	78,617	19,602	2,847	1,399	102,465
At 31 December 2018	86,252	17,338	0	2,685	105,935
At 31 December 2019	93,420	31,251	0	4,428	128,759

PARENT COMPANY

	Production and laboratory equipment	Office equipment and computers	Total property, plant and equipment
<i>Accumulated cost:</i>			
Opening balance, 1 January 2018	7,364	11,848	19,212
Disposals	207	–	207
Additions	1,134	958	2,092
Closing balance, 31 December 2017	8,705	12,806	21,511
Opening balance, 1 January 2019	8,705	12,806	21,511
Additions	3,189	–	3,189
Closing balance, 31 December 2019	11,894	12,806	24,700

Note 13. cont.

	Production and laboratory equipment	Office equipment and computers	Total property, plant and equipment
<i>Accumulated depreciation:</i>			
Opening balance, 1 January 2018	3,640	11,496	15,136
Disposals	207	–	207
Depreciation	701	249	950
Closing balance, 31 December 2018	4,548	11,745	16,293
Opening balance, 1 January 2019	4,548	11,745	16,293
Depreciation	1,122	336	1,458
Closing balance, 31 December 2019	5,670	12,081	17,751
<i>Carrying amounts:</i>			
At 1 January 2018	3,724	352	4,076
At 31 December 2018	4,157	1,061	5,218
At 31 December 2019	6,224	725	6,949

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

	Group		Parent Company	
	2019	2018	2019	2018
Cost of sales	5,763	5,601	–	–
Selling expenses	1,504	506	191	179
Administrative expenses	374	473	48	42
Research and development expenses	1,887	966	1,219	729
	9,529	7,546	1,458	950

NOTE 14 FINANCIAL ASSETS

PARENT COMPANY

Participations in group companies	2019	2018
At beginning of year	109,902	54,570
Group contribution paid to CapAble AB	1,297	563
Group contribution paid to BioGaia Pharma AB	7,000	4,707
Group contribution paid to MetaboGen AB	22,765	–
Group contribution paid to TriPac AB	4	3
Impairment loss on shares in CapAble AB	-1,297	-7,464
Acquisition of participations in MetaboGen AB	–	51,523
Shareholder contribution to MetaboGen AB	15,000	–
Shareholder contribution to BioGaia Pharma AB	–	6,000
Carrying amount at end of year	154,671	109,902

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

Subsidiary/corp. reg.no./Domicile	No. of shares	Hold-ing. %	Book value
BioGaia Biologics Inc. /–/Raleigh, NC, USA	100,000	100	0
TriPac AB /556153-2200/Stockholm	10,000	100	3,600
CapAble AB /556768-3601/Stockholm	10,000	100	0
BioGaia Pharma AB /559114-8191/Stockholm	48,000	96	21,142
BioGaia Japan Inc. /–/Hiroshima, Japan	180	100	0
MetaboGen AB /556872-7142/Stockholm	819,091	92.4	89,288
BioGaia Production AB /556591-9767/Eslöv	10,000	100	40,641
			154,671

The assets and liabilities of the American subsidiary BioGaia Biologics Inc. have been translated at the closing day rate of exchange, SEK 9.32 (8.97). All items in the income statement have been translated at the average exchange rate during the year, SEK 9.46 (8.69). The assets and liabilities of the Japanese subsidiary BioGaia Japan Inc. have been translated at an exchange rate of SEK 0.085 (0.081). All items in the income statement have been translated at an exchange rate of SEK 0.087 (0.079). The resulting translation differences have been recognised in consolidated comprehensive income.

CapAble AB is a fully-owned subsidiary to BioGaia AB. Previously 9.9 % was owned by the CEO but in February 2019 BioGaia acquired the remaining part for 1 krona.

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

BioGaia Pharma AB was formed in 2017. BioGaia owns 96% of the company. BioGaia Pharma's President, Nigel Titford owns 4% of the company. The non-controlling interest share in equity amounts to SEK 2 thousand.

MetaboGen AB is consolidated as a subsidiary from April 1st 2018. BioGaia owns 92.4 % and the founder owns the remaining 7.6 %.

Of total purchases made by the Parent Company, 25.7% (25.6%) was attributable to group companies. Of total sales made by the Parent Company, 2.6% (3.0%) was attributable to group companies.

INVESTMENTS IN ASSOCIATES

	Group		Parent Company	
	2019	2018	2019	2018
At beginning of year	–	9,932	–	12,000
Share of profit for the year	–	-500	–	–
Reclassification to subsidiary*)	–	-9,431	–	-12,000
Carrying amount at end of year	0	–	0	–

*) BioGaia gained controlling interest of the previous associated company MetaboGen AB through the acquisition of additional 26% on 6 April 2018.

NOTE 15 NON-CURRENT RECEIVABLES FROM SUBSIDIARIES

	Parent Company	
	2019	2018
At beginning of year	45,835	55,835
Exchange difference related to loan to BioGaia Japan Inc.	2,559	5,054
Provision for net receivable	-2,559	-5,054
Repayment of loan from BioGaia Production AB	-10,000	-10,000
	35,835	45,835

**NON-CURRENT RECEIVABLES FROM GROUP COMPANIES
AT 31 DECEMBER 2018**

	Parent Company	
	2019	2018
BioGaia Production AB	35,835	45,835
Closing balance at end of year	35,835	45,835

NOTE 16 INVENTORIES

	Group		Parent Company	
	2019	2018	2019	2018
Raw materials and consumables	12,159	11,265	-	-
Finished goods and goods for resale	56,286	32,948	53,262	31,397
	68,445	44,213	53,262	31,397

The Group's provision for obsolescence amounts to SEK 5.9 million (8.0) at 31 December 2019. Expenses related to impairment losses on inventory and scrap amount to SEK 8.1 million (8.5).

NOTE 17 TRADE RECEIVABLES

Provisions for bad debt losses amounted to SEK 3.2 million (1.4) at 31 December 2019.

The provision partly relates to impairment of identified doubtful receivables SEK 2.7 (0.9) million and partly to a provision for expected losses in accordance with IFRS 9 SEK 0.5 (0.5) million.

At 31 December 2019, trade receivables of SEK 26.5 million (23.0) were overdue without any assessed grounds for impairment. Of the overdue receivables, SEK 18.9 million have been recovered as of the date of the signing of the financial statement.

AGE ANALYSIS

	Group		Parent Company	
	2019	2018	2019	2018
Receivables not overdue	98,371	100,458	85,765	80,330
Less than 3 months	24,998	23,274	23,499	23,274
3-6 months	148	170	148	170
More than 6 months	1,876	124	53	53
Expected loss provision IFRS 9	-477	-497	-	-
	124,916	123,529	109,465	103,827

THE CARRYING AMOUNTS, BY CURRENCY, ARE AS FOLLOWS

	Group		Parent Company	
	2019	2018	2019	2018
EUR	47,394	12,643	47,394	12,493
USD	45,084	50,226	44,755	50,226
SEK	14,814	39,109	14,796	39,038
JPY	15,581	19,978	-	-
DKK	2,520	2,070	2,520	2,070
Expected loss provision IFRS 9	-477	-497	-	-
	124,916	123,529	109,465	103,827

NOTE 18 RELATED PARTY TRANSACTIONS

GROUP Annwall & Rothschild Investment AB holds 740,668 class A shares and 229,332 class B shares, corresponding to 5.6 % of the share capital and 31.8 % of the votes. Annwall & Rothschild Investment AB is owned by the founders Peter Rothschild and Jan Annwall. Peter Rothschild is chairman of the Board of BioGaia AB. Transactions that took place during 2019 was a dividend of SEK 10.00 per share and remuneration and director's fees - for further information see Note 3.

PARENT COMPANY The Parent Company owns 100% of BioGaia Production AB, BioGaia Biologics Inc., USA, BioGaia Japan Inc., Tripac AB and CapAble AB. The Parent Company owns 96% of the shares in BioGaia Pharma AB. The Parent Company owns 92.4% of the shares in MetaboGen AB.

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

	Parent Company	
	2019	2018
Interest income	523	533
Purchase of services	-1,817	-1,892
Purchase of goods	-122,203	-108,343
Sales of services	-	244

Goods are purchased on a cost plus basis.

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

	Parent Company	
	2019	2018
Interest income	913	675
Repayment of loans from BioGaia Japan	-	-
Purchase of services	-629	-1,034
Sale of goods ¹⁾	18,358	20,862

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

	Parent Company	
	2019	2018
Purchase of services	-11,431	-9,971

**THE FOLLOWING TRANSACTIONS HAVE TAKEN PLACE WITH
CAPABLE AB**

	Parent Company	
	2019	2018
Sale of Services	78	78
Purchase of services	-	-386
Group contribution paid	-1,297	-564

**THE FOLLOWING TRANSACTIONS HAVE TAKEN PLACE WITH
BIOGAIA PHARMA AB**

	Parent Company	
	2019	2018
Sale of Services	60	60
Group contribution paid	-7,000	-4,707
Shareholder contribution paid	-	-6,000

**THE FOLLOWING TRANSACTIONS HAVE TAKEN PLACE
WITH TRIPAC AB**

	Parent Company	
	2019	2018
Group contribution paid	-4	-3

**THE FOLLOWING TRANSACTIONS HAVE TAKEN PLACE
WITH METABOGEN AB**

	Parent Company	
	2019	2018
Sale of Services	120	60
Group contribution paid	-22,765	-
Shareholder contribution paid	-15,000	-

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

	Parent Company	
	31 Dec 2019	31 Dec 2018
Non-current receivables from subsidiaries		
Non-current receivables, BioGaia Production AB	35,835	45,835
	35,835	45,835
Current liabilities from subsidiaries		
Current liabilities, BioGaia Biologics Inc	-11,398	-6,859
Current liabilities, CapAble AB	-3,490	-2,676
Current liabilities, Tripac AB	-4,680	-4,675
Current liabilities, BioGaia Pharma AB	-7,576	-6,076
Current liabilities, BioGaia Production AB	-6,721	-9,070
Current liabilities, MetaboGen AB	-22,780	-
	-56,645	-29,356
Current receivables from subsidiaries		
Current receivables, BioGaia Japan Inc.	6,889	17,116
	6,889	17,116

See also Note 3 for other related party transactions.

NOTE 19 OTHER RECEIVABLES

	Group		Parent Company	
	2019	2018	2019	2018
VAT refund	11,398	7,647	11,398	7,647
Current tax asset	3,446	357	2,952	-
Other receivables	11,709	4,806	10,446	2,752
	26,553	12,810	24,796	10,399

**NOTE 20 DEFERRED EXPENSES AND
ACCRUED INCOME**

	Group		Parent Company	
	2019	2018	2019	2018
Accrued income	4,847	18,480	4,647	17,718
Prepaid rents	1,731	1,477	1,549	1,365
Other deferred expenses	7,132	4,112	2,082	1,397
	13,710	24,069	8,278	20,480

NOTE 21 FINANCIAL ASSETS AND LIABILITIES

	31 Dec 2019		31 Dec 2018	
	Fair value through profit and loss	Accrued cost	Fair value through profit and loss	Loan and trade receivables
Financial assets				
Trade receivables	-	125,393	-	123,529
Short-term investments	4,983	-	4,832	-
Cash and cash equivalents	-	213,831	-	284,962
Financial liabilities				
Trade payables	-	28,491	-	24,852
Currency hedge	2,473	-	7,014	-

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE The company has taken forward currency hedges in EUR and USD. The forward currency hedges have been recognised at their fair value at 31 December 2019. This value is included in other liabilities - see Note 24.

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

Net losses from currency hedges amount to SEK 7,500 thousand for 2019 and SEK 6,097 thousand for 2018 and is recognised in operating profit. The following text summarises the methods and assumptions that have been used to determine fair value on the Group's other financial instruments

TRADE RECEIVABLES, TRADE PAYABLES AND PREPAYMENT FROM CUSTOMERS Trade receivables, trade payables and prepayment from customers normally have a term that is less than three months why the book value is a good approximation of the fair value.

NOTE 22 EQUITY

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

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

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

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

Retained earnings consist of other equity. The Parent Company's dividend for 2018, as resolved on by the 2019 AGM, was SEK 173.4 million, equal to SEK 10.00 per share. For 2019 the Board of Directors proposes that the company pay a dividend according to policy of SEK 3.75 per share and an extraordinary dividend of

SEK 4.25 per share, amounting to a total dividend of SEK 8.00 per share. This is equal to a total dividend of SEK 138.7 million. The Board further proposes to the next Annual General Meeting, a provision to the Foundation to prevent antibiotic resistance of SEK 2.8 million. Support for recognition of the provision in equity is found in the Conceptual Framework for Financial Reporting in the section Financial performance reflected by accrual accounting (1.17ff).

Non-controlling interests account for 4% of the subsidiary BioGaia Pharma AB and 7.6% of the subsidiary MetaboGen's equity. 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 2019, total consolidated equity amounted to SEK 507.9 million (508.1) and equity attributable to owners of the Parent Company amounted to SEK 507.9 million (505.0).

BIOGAIA'S DIVIDEND POLICY is to pay a shareholder dividend equal to 40% of profit after tax.

KEY RATIOS, EQUITY

	2019	2018
Number of shares at 31 Dec., thousands	17,336	17,336
Average number of shares, thousands	17,336	17,336
Earnings per share, SEK ¹⁾	10.81	12.40
Equity per share, SEK	29.30	29.13
Return on equity, %	37	44
Share price on closing day, SEK	424.50	317.50
Dividend per share, SEK ²⁾	8.00	10.00

¹⁾ Key figures defined according to IFRS.

²⁾ Dividend proposed but not yet approved. The Board and President propose that the company pay a dividend according to policy of SEK 3.75 per share and an extraordinary dividend of SEK 4.25 per share, equal to a total dividend of SEK 8.00 per share.

NOTE 23 PROPOSED APPROPRIATION OF PROFITS

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

Retained earnings	450,102
Profit for the year	162,678
Together amounting to	612,781

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

To be paid as a dividend to the shareholders	138,692
Provision to the Foundation to prevent antibiotic resistance	2,800
To be carried forward to new account	471,289
Total	612,781

NOTE 24 OTHER LIABILITIES

	Group		Parent Company	
	2019	2018	2019	2018
Employee withholding tax	3,042	2,178	2,244	1,833
Current tax liabilities	3,974	16,013	-	9,753
Other current liabilities	15,215	10,772	2,471	7,014
	22,231	28,963	4,715	18,600

Other current liabilities above include currency hedges at fair value of SEK 2.5 million for 2019 and SEK 7.0 million for 2018. All currency hedges are classified as level 2 in the fair value hierarchy. Other current liabilities also includes a short-term leasing liability that amounts to SEK 8.9 million.

NOTE 25 ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
	2019	2018	2019	2018
Accrued holiday pay	11,861	9,824	9,742	7,908
Accrued social security expenses	4,662	2,043	4,079	1,474
Other accrued expenses and deferred income	37,390	45,482	34,268	37,578
	53,913	57,349	48,089	46,960

NOTE 26 PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Group		Parent Company	
	2019	2018	2019	2018
Pledged assets				
Floating charges	2,000	2,000	2,000	2,000
Contingent liabilities	None	None	None	None

The floating charges relate to credit for credit cards.

NOTE 27 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. Below is a description of the Group's assessed risk exposure and the related risk management:

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

Transaction exposure

The breakdown of net sales in 2019 was approximately:	The breakdown of expenses in 2019 was approximately:
EUR 44% (42%)	SEK 49% (57%)
USD 30% (26%)	EUR 25% (23%)
SEK 11% (13%)	JPY 11% (10%)
Other currencies 15% (19%)	USD 14% (9%)
	Other currencies 1% (1%)

In 2019 the company had a cash flow surplus of approximately EUR 19.6 million (18.3), a cash flow deficit of JPY -64.1 million (80.7) and a cash flow surplus of USD 22.3 million (19.5).

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 2019 the company had outstanding forward exchange contracts for EUR 12.6 million at an average exchange rate of SEK 10.53 and USD 6.5 million at an average exchange rate of SEK 8.81. Forward exchange contracts amounting to EUR 3.5 million and USD 6.3 million will mature for payment

in 2020 and forward exchange contracts amounting to EUR 4.1 million and USD 0.1 million will mature for payment in 2021. The actual exchange gain/loss depends on the exchange rate on the maturity date of the contracts.

The average exchange rate for EUR/SEK in 2019 was SEK 10.59 (10.26). If the EUR/SEK rate had been SEK 0.10 higher/lower, BioGaia's net sales would have been approximately SEK 3.2 million higher/lower and operating profit would have been approximately SEK 2.0 million higher/lower.

The average exchange rate for USD/SEK in 2019 was SEK 9.46 (8.69). If the USD/SEK rate had been SEK 0.10 higher/lower, BioGaia's sales would have been approximately SEK 2.2 million higher/lower and operating profit would have been approximately SEK 2.2 million higher/lower. A stronger SEK rate, primarily against the EUR and USD, decreases BioGaia's sales and profit, but through forward exchange transactions and by working to reallocate a portion of expenses to EUR, the company is working to minimise the impact on profit. BioGaia is also trying to reallocate a portion of revenue from EUR to other currencies.

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

The Group has two foreign subsidiaries, one in the USA and one in Japan. The assets and liabilities of the American subsidiary, BioGaia Biologics Inc., have been translated at the closing day rate of SEK 9.32 (8.97). The assets and liabilities of the Japanese subsidiary, BioGaia Japan Inc., have been translated at a rate of SEK 0.085 (0.081). The translation difference amounted to SEK 0.7 million (0.5) for the American subsidiary and SEK 1.2 million (1.0) for the Japanese subsidiary.

INTEREST RATE AND LIQUIDITY RISK The Group has no external loans. Excess liquidity is invested mainly in bank accounts. For cash and cash equivalents, the company has a liquidity policy in which the basic principles are that investment risks should always be minimised and investments should be made primarily in Swedish kronor. To minimise currency risk, other currencies may also be considered. The company's excess liquidity may be invested only in bank accounts, commercial paper or other fixed income securities with very limited risk. This means that no investments may be made in shares, equity funds, options, etc. Counterparty risk in financial items (cash and cash equivalents) is assessed to be low since cash is held in Nordic banks.

CREDIT AND COUNTERPARTY RISK Credit risk is the risk that the counterparty in a transaction causes a loss for the Group by not fulfilling its contractual obligations. BioGaia's credit risks are tied to trade receivables and for the parent company also loan to subsidiaries. When signing agreements with new customers, BioGaia always carries out an assessment of the customer's financial position. The company has routines for collection of past due trade receivables and additional evaluation of the customers' financial position is carried out when needed in order to minimise risks.

The simplified model is used to determine the expected loss on the Group's trade receivables. When calculating the expected loss the trade receivables have been grouped based on age-structure. The expected loss for trade receivables is calculated with the help of a matrix of historical data, current conditions and forecasts of future economic conditions.

	Group	
	2019	2018
Trade receivables gross	128,122	124,922
Allowance trade receivables	-3,206	-1,393
Trade receivables net	124,916	123,529

	Group	
	2019	2018
Trade receivables gross	128,122	124,922
Allowance opening balance	-1,393	-1,734
Increase from new receivables	-2,310	-497
Decrease from paid receivables	497	314
Move to impaired	-	524
Trade receivables closing balance	124,916	123,529

Trade receivables are spread over a large number of customers and no customer represents a material part of total receivables. In addition, trade receivables are not concentrated to a specific geographical area. As a consequence, the Group deems the concentration risks to be limited.

The Group's maximal exposure for credit risk consist of the book value of all financial assets and are outlined in the table below.

	Group	
	2019	2018
Trade receivables	124,916	123,529
Other non-current assets	26,553	12,810
Short term investments	4,983	4,832
Cash and cash equivalents	213,831	284,962
Maximal exposure for credit risk	370,283	426,133

CASH FLOW RISK Cash flow for the period amounted to SEK -72.3 million (-22.9). Cash flow included, dividends of SEK 173.4 million (156) and tax payments of SEK 72.2 million (52.4).

Age analysis of the Group's liabilities:

	Due in less than:					Total
	Interest rate	1 month	1-3 months	3-12 months	1-5 years	
31 December 2018						
Non-current liabilities	-	-	-	-	6,679	6,679
Current liabilities	-	35,483	41,976	48,742	18,973	145,173
	-	35,483	41,976	48,742	25,652	151,852

31 December 2019

Non-current liabilities	-	-	-	-	10,399	10,399
Long-term related to MetaboGen	-	-	-	-	11,441	11,441
Long-term liability (leasing)	3%	-	-	-	11,446	11,446
Current liabilities	-	30,236	27,446	51,933	15,185	124,800
	-	30,236	27,446	51,933	48,471	158,086

Because cash and cash equivalents at 31 December 2019 amounted to SEK 213.8 million (285.0), no infusion of capital is necessary during the coming 12-month period. The Group is not exposed to any material liquidity risk as a consequence of lease liabilities.

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

NOTE 28 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

IMPAIRMENT TESTING OF INTANGIBLE ASSETS IN METABOGEN

The Group recognises intangible assets from the acquisition of MetaboGen which amount to SEK 45.8 million relating to research and development projects and SEK 5.3 million as goodwill. In conjunction with the balance sheet date, impairment testing was performed on the basis of a corresponding valuation model that was used in conjunction with acquisition. Significant assumptions on costs incurred, milestones and the project portfolio have been updated. Since the valuation is based on an assessment of anticipated demand, utilisation and price scenario for the products or technologies, the valuation is inherently uncertain. Testing shows that no impairment requirement exists. See also Note 11 for more information.

NOTE 29 CHANGE IN ACCOUNTING STANDARD

EFFECTS ON ASSET, LIABILITIES AND EQUITY, 1 JANUARY 2019

	Recognised balance sheet items 1 January 2019	Recalculation to IFRS 16	Recalculated balance sheet items 1 January 2019
Right-of-use assets	0	24,820	.820
Non-current liabilities			
Lease liabilities		-17,254	-17,254
Current liabilities			
Lease liabilities		-7,566	-7,566

RECONCILIATION OF OPERATIONAL LEASING ACCORDING TO IAS 17 AND LEASING LIABILITY ACCORDING TO IFRS 16

Undertaking for operating leases at 31 December 2018	27,017
Discount effect	-2,197
Recognised lease liability opening balance, 1 January 2019	24,820

The company has used a weighted average marginal borrowing rate of 3% when determining the lease liability in the opening balance at 1 January 2019.

EFFECT ON INCOME STATEMENT DUE TO CHANGE IN ACCOUNTING STANDARD

	Jan-December 2019 according to IAS17	Reclassification	Jan-December 2019 according to IFRS 16
Interest expenses	-322,121	634	-321,487
Net financial items	382	-634	-252

Amortisation increased by SEK 6,028 thousand while rental / lease costs decreased by a corresponding amount. Both are included in the item administrative expenses.

The cash flow for amortisation of leasing liability is included in financing activities and amounts to SEK 4.5 million.

The Board of Directors and the CEO 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, 5 March 2020

Peter Rothschild
Chairman

Isabelle Ducellier
CEO

David Dangoor
Vice Chairman

Ewa Björling
Member of the Board

Peter Elving
Member of the Board

Inger Holmström
Member of the Board

Anthon Jahreskog
Member of the Board

Brit Stakston
Member of the Board

Stockholm, 5 March 2020

Deloitte AB

Birgitta Löf
Authorized Public Accountant

Auditor's report

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

Report on the annual accounts and consolidated accounts

OPINIONS

We have audited the annual accounts and consolidated accounts of BioGaia AB (publ) for the financial year 2019-01-01-2019-12-31. The annual accounts and consolidated accounts of the company are included on pages 39-68 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's Board of Directors in accordance with the Audit Regulation (537/2014) Article 11.

BASIS FOR OPINIONS

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

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

KEY AUDIT MATTERS

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

REVENUE RECOGNITION

The group's sales as of December 31, 2019 amounts to SEK 768 million and mainly consist of two revenue streams, which are described in the company's accounting policies on page 54. The company's revenue is a material item consisting of a large number of transactions that in part relate to some complex, customer specific agreements, requiring managements' critical estimates and assumptions in determining the timing of revenue recognition.

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

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

ONGOING RESEARCH AND DEVELOPMENT PROJECTS

The group has recognized intangible assets amounting to SEK 45.8 m relating to ongoing research- and development projects and SEK 5.3m as goodwill, both items relate to the projects identified in connection the acquisition of MetaboGen AB. The company has performed an internal valuation of the items based on individual assessments of the future earnings capabilities and market expectations on return on investments. Changes in values can occur either as a result of macroeconomic or company specific reasons for success in the projects. The valuations are based on assessments and assumptions that may have significant impact on the group's results and financial position.

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

- Review and assessment of BioGaia's procedure to prepare input to the valuations, and that procedures are consistently applied and that there is integrity in the process.
- Review of input data and calculations in the valuation.
- We have evaluated if disclosures provided in note 11 ("Intangible assets") in the company's notes are appropriate, specifically with regards to disclosure of which of the stated assumptions that are most sensitive in calculating the fair value.
- We have used required valuations specialists in our team in conducting our review.

OTHER INFORMATION THAN THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-36 and 71-79. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

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

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

Corporate governance report 2019

AUDITOR'S RESPONSIBILITY

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

A further description of our responsibilities for the audit of the annual accounts and consolidated accounts is located at the Swedish Inspectorate of Auditors website:

www.revisorsinspektionen.se/revisorsansvar This description forms part of the auditor's report

Report on other legal and regulatory requirements

OPINIONS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of BioGaia AB (publ) for the financial year 2019-01-01-2019-12-31 and the proposed appropriations of the company's profit or loss.

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

BASIS FOR OPINIONS

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

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

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

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

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

AUDITOR'S RESPONSIBILITY

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act. A further description of our responsibilities for the audit of the management's administration is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description forms part of the auditor's report.

Deloitte AB, was appointed auditor of BioGaia AB by the general meeting of the shareholders on the 2019-05-08 and has been the company's auditor since 2015-05-22.

Stockholm, 5 March 2020
Deloitte AB

Birgitta Lööf
Authorized public accountant

COMPLIANCE WITH STOCK EXCHANGE REGULATIONS, GOOD PRACTICE ON THE STOCK MARKET AND THE SWEDISH CORPORATE GOVERNANCE CODE

Companies listed on a regulated market in Sweden shall apply the Swedish Corporate Governance Code (the Code) drafted by the Swedish Corporate Governance Board. The aim of the Code is to improve confidence in Swedish listed companies by promoting positive development of the companies' corporate governance. The Code is based on the "comply or explain" principle which means that a company may deviate from the Code but that any such deviations must be explained.

BioGaia has not deviated in 2019 from any of the rules set out in the Code. Nor has BioGaia been subject to a decision by the Nasdaq Stockholm Disciplinary Committee or a statement by the Swedish Securities Council.

CORPORATE GOVERNANCE IN BIOGAIA BioGaia is a Swedish public limited company whose class B shares are listed on the Mid Cap list of the Nasdaq OMX Nordic Exchange Stockholm. The company's corporate governance is exercised through the General Meeting of Shareholders, the Board of Directors, the CEO and the Executive Management in accordance with the Swedish Companies Act, the Code, the Articles of Association and internal controls. The internal controls mainly comprise the Board's rules of procedure, instructions for the CEO and a number of policy documents and manuals that contain rules and recommendations. The share capital consists of 740,668 class A shares carrying 10 votes each and 16,595,794 class B shares carrying one vote each. There are no restrictions on the number of votes each shareholder may cast at a General Meeting of Shareholders.

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

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

According to BioGaia's Articles of Association, shareholders who wish to participate in a General Meeting of Shareholders must (i) be entered into a print-out or other presentation of the entire share register relating to conditions five weekdays prior to the meeting and (ii) notify the company no later than 16.00 CET on the day stipulated in the notice of the meeting. This day may not be a Sunday or other public holiday, Saturday, Midsummer's Eve, Christmas Eve or New Year's Eve and may not occur earlier than the fifth weekday prior to the meeting.

One shareholder, Annwall & Rothschild Investment AB, owns 5.6% of the share capital and 31.8% of the votes in the company. Other individual shareholders hold less than 10% of the share capital or votes each.

2019 AGM BioGaia's AGM on 8 May 2019 was attended by shareholders representing 59.0% of the total number of votes in the company. The AGM was also attended by the CEO, the Board members elected by year's AGM, the Board Chairman and the company's elected auditor. In addition, four representatives from the Nominating Committee attended the AGM.

The AGM resolved on the following proposals, among others:

- adoption of the annual report
- discharge from liability for the Board of Directors and the CEO
- a dividend of SEK 10 per share as well as a provision of SEK 3.2 million to the Foundation to Prevent Antibiotic Resistance established by BioGaia in 2017. The purpose of the Foundation is through support to research, education and information activities to promote the use of products and methods that prevent and thereby reduce the use of antibiotics and the risk of antibiotic resistance.
- re-election of Board members Ewa Björling, David Dangoor, Peter Elving, Inger Holmström, Anthon Jahreskog, Peter Rothschild and Brit Stakston
- re-election of Peter Rothschild as Board Chairman and David Dangoor as Vice Chairman

- re-election of the registered auditing firm Deloitte AB
- Board fees of SEK 600,000 to the Board Chairman, SEK 430,000 to the Vice Chairman and SEK 230,000 to each of the other Board members
- that an additional fee of a maximum of SEK 155,000 per month shall be paid to the Board Chairman for significant working duties in addition to the board assignment. Such additional remuneration to be paid in accordance with a special agreement and in accordance with the Board's detailed decision
- payment of auditor's fees according to approved account
- principles for remuneration and other terms of employment for senior executives in accordance with the Board's proposal
- Payment of auditor's fees according to approved account
- to adopt guidelines for the composition of the Nominating Committee.

2020 AGM The 2020 AGM will be held at 16.00 CET on 7 May in the Swedish Society of Medicine's premises, Klara Östra Kyrkogata 10, in Stockholm.

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

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

The 2019 AGM resolved that the Nominating Committee would be appointed as follows:

The Board Chairman shall convene the four 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 situation at 30 June 2019. The Nominating Committee shall be chaired by the member representing the largest shareholder on that date. If any of the four largest shareholders should waive its right to appoint a member to the Nominating Committee, the next largest shareholder in order of voting power shall be given the opportunity to appoint a member. The names of the four shareholder representatives shall be made public as soon as they have been appointed, but no later than six months before the 2020 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 four largest shareholders in terms of voting power, and if the Nominating Committee deems it appropriate, the member shall leave and a representative for the next largest shareholder in order of voting power be given the opportunity to replace this member. In the event that an appointed member of the Nominating Committee resigns from the Nominating Committee for some other reason, the shareholder who has appointed the member in question has the right to appoint a new member to the Committee. If this shareholder waives its right to appoint a new representative, the Nominating Committee, if it deems so appropriate in respect of the remaining mandate period, shall ask the next largest shareholder in terms of voting power if it wishes to appoint a representative to the Nominating Committee.

The Nominating Committee shall prepare recommendations for the following matters to be put before the 2020 AGM for resolution:

- a) appointment of the Chairman of the AGM
- b) election of the Board of Directors
- c) election of the Board Chairman and possible Vice 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 2021 AGM.

In accordance with the AGM's resolution, the Nominating Committee was appointed and consists of the Chairman of BioGaia AB's Board, Peter Rothschild, together with Per-Erik Andersson, representing Annwall & Rothschild Investment AB, the company's largest shareholder, Magnus Skåninger representing the company's second largest shareholder Swedbank Robur Fonder, Jannis Kitsakis representing the company's third largest shareholder Fjärde AP-Fonden and Sebastian Jahreskog, who through direct and indirect ownership is the company's fourth largest shareholder. All members of the Nominating Committee, except for Peter Rothschild, are independent in relation to the company and its management.

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

The Nominating Committee presents a written motivation to the AGM for election of Board members. In its motivation the Nominating Committee takes into account diversity and breadth in the Board and seeks an even gender distribution.

BOARD OF DIRECTORS According to BioGaia's Articles of Association, the Board shall consist of at least five and at most eight members with no more than three deputies. The Articles of Association contain no rules that relate to appointment and dismissal of Board members. The Board is elected annually at the AGM for the period until the next AGM has been held. The Board comprises seven members elected by the AGM with no deputies.

Board Chairman, Peter Rothschild, is a major shareholder in the company and was previously Managing Director (1990-2016) and Group President (2016-2018) of the company. The six remaining members are independent in relation to both the company and its management. A presentation of the Board is provided at page 77.

BioGaia has appointed an external lawyer to serve as Secretary at Board meetings. The CEO 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 CEO and the structure of Board activities during the year. In addition to the responsibilities that are generally applicable pursuant to the Swedish Companies Act, the Articles of Association and the Swedish Corporate Governance Code, the following are regulated by the Board's rules of procedure:

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

Furthermore, the Board has adopted authorisation instructions and finance policy instructions regarding for liquidity management and a policy for foreign exchange management. The rules of procedure, CEO's instructions and authorisation instructions are reviewed at least once a year.

BOARD ATTENDANCE 2019 ¹⁾

Members elected by the AGM	Elected in	Born in	Board meetings Attendance/ total no. of Board meetings	Remuneration Committee Attendance/ total no. of committee meetings	Audit Committee Attendance/ total no. of committee meetings
Board Chairman Peter Rothschild	2018	1950	10/10	1/1	
Vice Chairman David Dangoor ²⁾	2003	1949	8/10	1/1	2/2
Board member Ewa Björling ²⁾	2015	1961	10/10		
Board member Peter Elving ²⁾	2018	1948	10/10	1/1	
Board member Inger Holmström ²⁾	2007	1948	10/10		
Board member Anthon Jahreskog ²⁾	2015	1980	10/10		2/2
Board member Brit Stakston ²⁾	2014	1961	9/10		

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

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

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

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

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

BOARD FEES The 2019 AGM resolved that Board fees would be paid in an amount of SEK 600,000 to the Board Chairman, SEK 430,000 to the Vice Chairman and SEK 230,000 to each of the other Board members not employed by the company. An additional fee in a maximum amount of SEK 155,000 per month to the Board Chairman.

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 CEO, the Chairman continuously monitors the company's development and ensures that the Board is provided with the information necessary to carry out its duties. Peter Rothschild has been Board Chairman since the 2019 AGM.

CEO The CEO 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 CEO that among other things regulate management and development of the company and the provision of reports and decision data to the Board. The CEO prepares the required information and decision data such as reports on the company's finances, the order situation, significant business matters and strategic issues prior to Board meetings, as well as presenting reports and motivating proposals for decision. Furthermore, the CEO continuously informs the Board Chairman about the company's business situation. Every year the Board carries out an evaluation of the CEO's performance at which no member of the Executive Management is present.

EXECUTIVE MANAGEMENT BioGaia's Group Executive Management consists of the ten individuals who are presented on page 76.

The Group's Executive Management is headed by the CEO 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 CEO 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 job descriptions and in authorisation instructions.

REMUNERATION COMMITTEE The Board has appointed a Remuneration Committee to prepare recommendations for the remuneration and other terms of employment for the CEO 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. The Remuneration Committee consists of Peter Rothschild, Peter Elving and David Dangoor (chairman). The Remuneration Committee held one 1 minuted meeting in 2019. The members of the Remuneration Committee attended each meeting.

AUDIT COMMITTEE BioGaia appointed an Audit Committee in 2019. The key task of the Audit Committee is to support the Board with quality assurance of the financial reporting. The Audit Committee also prepares matters relating to regulatory compliance. The committee holds regular meetings with the company's auditors and evaluates audit work. The committee discusses significant accounting issues that affect the Group and assists the Nominating Committee in the preparation of proposals for auditors and their remuneration. The chairman of the Audit Committee is responsible for ensuring that the entire Board is kept informed about the work of the committee as well as, when necessary, presenting the Board with matters for decision. The Audit Committee's members comprise Anthon Jahreskog (chairman) and David Dangoor. The Audit Committee held two minuted meetings during 2019. The members of the Audit Committee attended each meeting.

AUDITORS BioGaia's auditors are normally appointed by the AGM to serve for a period of one year. The 2019 AGM resolved on re-election of the registered auditing firm of Deloitte AB to serve for the period until the end of the AGM to be held in 2020. The auditing firm appointed Birgitta Lööf 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 CEO and the quality of the company's financial reporting. At the request of the Board, the auditors also review the semi-annual report and the year-end report.

The auditors report the results of their review to the shareholders through an audit report, which is presented to the AGM. In addition, the auditors submit written and oral reports to the Executive Management and the Board. The auditors take part in the Board meeting preceding publication of the year-end report and the semi-annual report to present the results of their audit of the annual accounts and the interim report respectively 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, the sustainability report and a report on the examination of remuneration to senior executives.

Deloitte has also provided certain tax-related advice and performed other audit-related services. Information about remuneration to the auditors can be found in Note 4 of the annual report.

Furthermore, the entire Board of Directors meets with the auditors at least once a year without the presence of the CEO or other members of the Executive Management.

AUTHORISATIONS There are no authorisations resolved by the AGM for the Board to make decisions on the issue of shares, warrants and/or convertibles or the acquisition of treasury shares.

THE BOARD'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING FOR THE FINANCIAL YEAR 2019

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

Internal control over financial reporting The Board is responsible for ensuring that the company's 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 CEO. The rules of procedure state which matters require approval or authorisation from the Board. At Board meetings, the CEO reports on matters requiring consideration by the Board.

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

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

BioGaia's values

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

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

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

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

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

Monitoring The Executive Management performs a yearly evaluation of the effectiveness of internal control. Every year, the company's elected auditing firm, Deloitte AB, also reviews 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 review function (internal audit). 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, 5 March 2020

Peter Rothschild
Board Chairman

David Dangoor
Vice Chairman

Ewa Björling
Board member

Peter Elving
Board member

Inger Holmström
Board member

Anthon Jahreskog
Board member

Brit Stakston
Board member

Auditor's report on the corporate governance report

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

ENGAGEMENT AND RESPONSIBILITY

It is the Board of Directors which is responsible for the corporate governance statement for the financial year from 1 January 2019 to 31 December 2019 on pages 71-73 and that it has been prepared in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT

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

OPINIONS

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

Stockholm, 5 March 2020

Deloitte AB

Birgitta Lööf
Authorized public accountant

The BioGaia share

Figures in brackets refer to the preceding year

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

In 2019 BioGaia shares were traded for a total of around SEK 2.518 million (2.193), corresponding to approximately 6.1 million shares (5.6).

The number of shareholders at 31 December 2019 was 8,921 (8,908).

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

SHARE PRICE DEVELOPMENT In 2018 the share price increased from SEK 317.50 to SEK 424.50. The highest closing price during the year was SEK 479 and the lowest was SEK 309.5. Market capitalisation at 31 December 2019 was approximately SEK 7,045 million (5,505).

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

INCENTIVE SCHEME The company has no ongoing share-based incentive schemes.

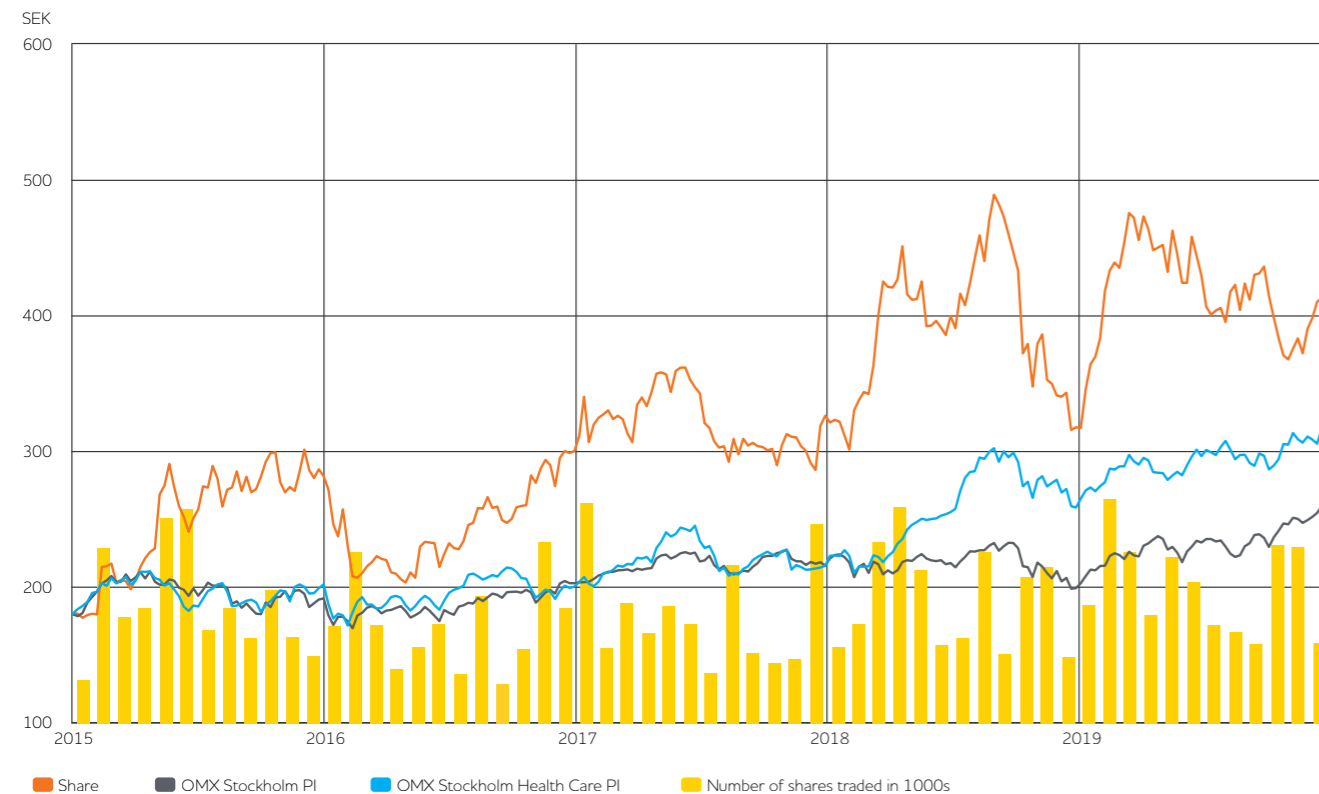
However the company has a bonus program aimed at ensuring employees' long-term commitment to BioGaia. The bonus is based on the company's sales and profits. The maximum bonus amounts to 12% of salary.

The employee is required to reinvest one-third of the yearly paid-out bonus (after tax) in BioGaia class B shares at a market price and to hold these for a three-year period. BioGaia has no obligation to repurchase shares nor does the employee have any obligation to sell shares in the event employment is terminated within three years from the date reinvestment took place.

DISTRIBUTION OF OWNERSHIP

Number of shares	Total number of shareholders	
	31 December 2019	31 December 2018
1–500	7,921	7,851
501–1,000	477	505
1,001–5,000	343	360
5,001–10,000	62	61
10,001–15,000	19	24
15,001–20,000	9	13
20,001–	90	94
Total number of shareholders:	8,921	8,908

THE BIOGAIA SHARE



Largest shareholders in BioGaia at 31 December 2019 (source: Euroclear Sweden AB)

	A shares	B shares	Holding, %	Votes, %
Annwall & Rothschild	740,668	229,332	5.60%	31.81%
FJÄRDE AP FONDEN		1,496,288	8.63%	6.23%
Swedbank Robur Fonder		1,414,509	8.16%	5.89%
STATE STREET BANK AND TRUST CO. W9		1,315,486	7.59%	5.48%
ÖHMAN BANK SA		987,061	5.69%	4.11%
BNY MELLON SA/NV (FORMER BNY), W8IMY		564,962	3.26%	2.35%
BANQUE PICTET & CIE SA, W8IMY (WITHOUT PR)		451,115	2.60%	1.88%
David Dangoor		448,918	2.59%	1.87%
Handelsbanken fonder		370,000	2.13%	1.54%
JP MORGAN CHASE NA		360,190	2.08%	1.50%
TREDJE AP-FONDEN		307,159	1.77%	1.28%
Didner & Gerge Fonder Aktiebolag		300,573	1.73%	1.25%
ÅLANDSBANKEN I ÅGARES STÄLLE		285,314	1.65%	1.19%
AMF - Försäkring och Fonder		269,899	1.56%	1.12%
BROWN BROTHERS HARRIMAN & CO., W9		256,220	1.48%	1.07%
HANVAD INVEST AKTIEBOLAG		243,534	1.40%	1.01%
IRWE, STEN		221,800	1.28%	0.92%
CBLDN-KUWAIT INVESTMENT AUTHORITY		205,739	1.19%	0.86%
BNY MELLON NA (FORMER MELLON), W9		189,909	1.10%	0.79%
Länsförsäkringar fondförvaltning AB		184,084	1.06%	0.77%
Nordea Investment Funds		178,435	1.03%	0.74%
CORE NY TEKNIK		160,000	0.92%	0.67%
NORDNET PENSIONS FÖRSÄKRING AB		157,590	0.91%	0.66%
JPM CHASE NA		148,391	0.86%	0.62%
DEUTSCHE BANK AG, W8IMY		132,470	0.76%	0.55%
Other Shareholders		5,716,816	32.98%	23.82%
Total	740,668	16,595,794	100%	100.00%

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 December	425,000	425,000	17,107,562	740,668	16,366,894	1.00	11,505,294*
2004	New share issue Industrifonden	100,000	100,000	17,207,562	740,668	16,466,894	1.00	100,000
2010	New share issue warrant programme	63,400	63,400	17,270,962	740,668	16,530,294	1.00	4,862,780
2015	New share issue warrant programme	65,500	65,500	17,336,462	740,668	16,595,794	1.00	15,844,450

* Excluding underwriting costs

EXECUTIVE MANAGEMENT



ISABELLE DUCELLIER Born in 1969. Master in International Marketing from EM in Lyon and Executive MBA General Management GMP from Harvard Business School. President and CEO. Employed by the company since 2018. Previously Secretary General of the Swedish Childhood Cancer Fund and CEO and board assignments in Pernod Ricard Sweden. Holds 2,313 class B shares.



ALEXANDER KOTSINAS Born in 1967. MSc Applied Physics, Royal Institute of Technology, Stockholm and BSc Economics, Stockholm School of Economics. Executive Vice President and Chief Financial Officer. Employed by the company since 2019. Holds 200 class B shares.



SEBASTIAN SCHRÖDER Born in 1973. MSc Business Administration, Stockholm School of Economics. Executive Vice President Business and Product Development. Employed by the company since 2015. Holds 50 class B shares.



URBAN STRINDLÖV Born in 1964. Mechanical Engineer. Executive Vice President Sales. Employed by the company since 2004 and in current position since 2010. Holds 65 class B shares.



ULRIKA KÖHLER Born in 1966. BSc Biology with extended studies in microbiology. Executive Vice President Marketing. Employed by the company since 2013. Holds 40 class B shares.



MARIKA ISBERG Born in 1973. LL.M. and BSc in Economics. Vice President and General Counsel. Employed by the company since 2016. Holds 40 class B shares.



ANGELIKA KJELLDORFF Born in 1969. BSc in Human Resources, Stockholm University. Vice President Human Resources. Employed by the company since 2019. Holds 1,000 class B shares.



GIANFRANCO GROMPONE Born in 1975. PhD in Engineering and scientific background within microbiology. Vice President Discovery and Research. Employed by the company since 2020. Holds 0 shares.



PETER PERSSON Born in 1969. Managing Director of BioGaia Production AB. Employed by the company since 2013. Holds 13,769 class B shares.



KATAYOUN WELIN-BERGER Born in 1968. PhD Pharmacology. Vice President Operations. Employed by the company 2014–2019. Holds 0 shares.

BOARD OF DIRECTORS



PETER ROTHSCHILD Born in 1950. Board Chairman. Elected to the Board in 2018. MBA from the Stockholm School of Economics. Founder and principal shareholder of BioGaia. Managing Director 1996–2016 and Group President 2016–2018. Chairman of the subsidiaries BioGaia Production AB, BioGaia Pharma AB, CapAble AB, MetaboGen AB and the Foundation to Prevent Antibiotic Resistance. Also Chairman of the Board of Infant Bacterial Therapeutics AB (IBT) and with board assignments in Glycom AB, Looft Industries AB and Allbright. Holds 740,668 class A shares and 229,332 class B shares via Annwall & Rothschild Investments AB (a company owned jointly with co-founder Jan Annwall).



DAVID DANGOOR Born in 1949. Board Vice Chairman. Elected to the Board in 2003. BioGaia Board Chairman 2007–2018. MBA from the Stockholm School of Economics. Marketing and PR consultant. President of Innoventive Partners LLC. Former Executive Vice President and Marketing Director at Philip Morris USA and Philip Morris International. Other board assignments: The Feinstein Institute for Medical Research, New York City Ballet Inc., School of Creative Leadership, Berlin University and Swedish-American Chamber of Commerce (Chairman 1997–2001). Holds 443,918 class B shares.



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



INGER HOLMSTRÖM Born in 1948. Elected to the Board in 2007. Communications expert. MA in Language and Linguistics and a degree in journalism. Former Corporate Communications Director at Vattenfall, Posten, the Confederation of Swedish Enterprise and Coop Norden. Other board assignments: Vasamuseets vänner, Chairman of Järna Akademi. Holds 500 class B shares.



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



PETER ELVING Born in 1948. Elected to the Board in 2018. MBA from the Stockholm School of Economics and EPBA, Columbia University, New York. Formerly leading positions within Kraft Foods in Sweden and internationally, including CEO of Kraft Foods Nordic for many years. Board assignments in several listed and unlisted companies. Holds 0 shares.



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

GLOSSARY



Antibiotics

Medications that kill or inhibit the growth of bacteria and other microorganisms.

Helicobacter pylori

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

Clinical research

At BioGaia this relates to research conducted in humans.

Lactobacillus

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

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

Lactobacillus reuteri (L. reuteri)

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

L. reuteri Gastrus

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

L. reuteri Prodentis

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

L. reuteri Protectis

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

Partner

BioGaia calls the companies that distribute and sell the company's products partners.

Probiotics

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

Resistant bacteria

Bacteria that have become resistant to one or several antibiotics.



BioGaia is an innovative Swedish healthcare company and has been a world-leader in food supplements with probiotics for 30 years. The products are based mainly on different strains of *L. reuteri* and are sold by distribution partners in more than 100 countries.

