

Annual Report

Infant Bacterial Therapeutics AB (publ)

Corporate ID no. 556873-8586

Financial year 1 January 2015 - 31 December 2015

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The undersigned board member of IBT AB hereby certifies that this copy of the annual report is an accurate presentation of the original and that the income statement and balance sheet were adopted at the Annual General Meeting on 8 February 2016.

The Annual General Meeting resolved to approve the Board's proposed appropriation of profits.

Stockholm, XX XX 2016

Peter Rothschild, Board Chairman

ADMINISTRATION REPORT

Information about operations

The Board of Directors and the CEO of Infant Bacterial Therapeutics AB (publ), (IBT), corporate identity number 556873-8586, hereby submit the annual report for the financial year 2015. The company was founded on 30 November 2011. IBT started its operations in December 2013. The company conducts research and development aimed at developing a drug to treat the disease necrotising enterocolitis (NEC). NEC may affect premature infants and can be fatal, even with surgical intervention.

Ownership

IBT is a 94.5 per cent owned subsidiary of BioGaia AB (publ.), corporate identity number 556380-8723, domiciled in Stockholm. The remaining shares are held by the company's CEO Staffan Strömberg (2.5%), the company's Head of Research and Development Eamonn Connolly (2.5%) and Board member Anders Ekblom (0.5%).

Key events during the financial year

In February 2015 the company's development project, named IBP-9414, was granted Orphan Drug Status by the European Commission which was also granted by the FDA in 2013. During the year, an Investigational New Drug (IND) Application was sent to the FDA and an application for clinical drug trial was sent to the Swedish Medical Products Agency. In December the MPA announced that the application had been approved, and the FDA granted IBT approval to commence a clinical Phase II trial in the USA. During the year the company prepared clinical trial material in sufficient quantity for the planned Phase II clinical trials.

During the year the company received SEK 11.0 million (10.0) in conditional shareholder contributions and SEK 20.6 million (6.7) in group contributions from the Parent Company BioGaia AB. The company also carried out a Bonus - and new share issue amounting to SEK 0.4 million and SEK 52.8 million, respectively.

IBT has made investments in capitalised development expenditures of SEK 10.2 million (6.1). These investments refer to external and internal expenses for the development of a manufacturing process for the new formulation. The company's assessment is that the formulation can also be used for products other than the NEC - product.

Key events after the end of the financial year

No key events have taken place after the end of the financial year.

Expected future development

The company will begin clinical Phase II studies during 2016. Drug development is cost-intensive and the company will need to raise external capital for the implementation of clinical Phase II studies. The company will continue its discussions with potential licensees of the project for defined markets.

The company has no revenue at present, but the company's assessment is that the product will generate significant future revenue after receiving market approval.

Research and development activities

The aim of the company is to develop drugs for treatment of premature newborns. The company's most important and most costly development project is IBP-9414. IBP-9414 is a preventive treatment to reduce the risk that premature infants will develop necrotising enterocolitis (NEC).

Operating profit is negative, which has been covered in full by group contributions received from the Parent Company.

Three-year overview

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net sales, SEK	-	-	-
Profit after financial items, SEK	-20 623 519	-6 747 414	-229 397
Balance sheet total, SEK	82 542 673	14 537 013	1 288 849
Number of employees	4	3	0
Equity/assets ratio, %	91%	76%	81%

Proposed appropriation of profits

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

Retained earnings	10 981 117
Conditional shareholder contribution	11 000 000
Share premium reserve from new share issue	52 760 000
Bonus issue	-410 000
Profit/loss for the year	<u>-22 488</u>
Total funds disposable	<u><u>74 308 629</u></u>

The Board of Directors' proposed appropriation of profits:

Repayment of conditional shareholder contributions	20 600 000
To be carried forward	<u>53 708 629</u>
Total	<u><u>74 308 629</u></u>

Repayment of shareholder contributions will - conditional on approval by the AGM - amount to SEK 20 600 000.

Repayment will be made by offsetting of received concern contribution and thus has no effect on IBT's liquidity. The proposed value transfer by repatriation of shareholder contributions will reduce the equity ratio to 88 percent. This level is deemed satisfactory. Liquidity is also deemed to be sufficient. In the opinion of the Board of Directors the proposed value transfer by repatriation of shareholder contributions will not prevent the company to fulfill its obligations nor prevent the company from making required investments.

The proposed repayment of shareholder contributions is therefore supported in consideration to the statements in ABL chapter 17 3rd§ section 2-3 (cautionary rule).

Information regarding the company's reported results for the financial year from 1 January to 31 December 2015 and financial position at 31 December 2015 is provided in the following income statements and balance sheets and the accompanying notes.

NB: This is a translation of the Swedish Annual Report. In the case of any discrepancy, the Swedish version shall prevail.

PROFIT AND LOSS ACCOUNT

Amounts in SEK	Note	2015	2014
Net sales		0	0
Cost of goods sold		<u>0</u>	<u>0</u>
Gross profit		0	0
Selling expenses		-2 600 000	-
Research and development expenses	2	-17 973 635	-6 591 825
Other operating expenses		<u>-41 340</u>	<u>-</u>
Operating profit/loss	3	-20 614 975	-6 591 825
<i>Results from financial items</i>			
Interest income and similar profit/loss items	4	66	1 231
Interest expenses and similar profit/loss items	5	<u>-8 610</u>	<u>-156 820</u>
Profit/loss after financial items		-20 623 519	-6 747 414
<i>Appropriations</i>			
Group contributions received	6	<u>20 601 031</u>	<u>6 730 378</u>
Profit/loss before tax		-22 488	-17 036
Income tax on current year income		<u>-</u>	<u>-</u>
Profit/loss for the year		-22 488	-17 036

BALANCE SHEET

<i>Amounts in SEK</i>	<i>Note</i>	31 Dec. 2015	31 Dec. 2014
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Capitalised development expenditure	7	16 225 000	6 075 000
Total non-current assets		16 225 000	6 075 000
Current assets			
<i>Current receivables</i>			
Receivables from the Parent Company		20 420 464	6 955 688
Other receivables		534 815	345 808
Prepaid expenses and accrued income	9	951 642	106 226
		<u>21 906 921</u>	<u>7 407 722</u>
Cash and cash equivalents		44 410 752	1 054 291
Total current assets		66 317 673	8 462 013
TOTAL ASSETS		82 542 673	14 537 013
EQUITY AND LIABILITIES			
Equity			
<i>Restricted equity</i>			
Share capital (90,000 shares)		500 000	50 000
		<u>500 000</u>	<u>50 000</u>
<i>Non-restricted equity</i>			
Retained earnings/accumulated deficit		21 981 117	10 998 153
Share premium reserve		52 350 000	-
Profit/loss for the year		-22 488	-17 036
		<u>74 308 629</u>	<u>10 981 117</u>
Total equity		74 808 629	11 031 117
Liabilities			
<i>Current liabilities</i>			
Trade payables		518 052	491 883
Other current liabilities		136 606	130 934
Accrued expenses	9	7 079 386	2 883 079
		<u>7 734 044</u>	<u>3 505 896</u>
TOTAL EQUITY AND LIABILITIES		82 542 673	14 537 013
Pledged assets		None	None
Contingent liabilities	10	22 000 000	11 000 000

Statement of changes in equity

	<u>Restricted equity</u>	<u>Non-restricted equity</u>			<u>Total equity</u>
	<u>Share capital</u>	<u>Share premium reserve</u>	<u>Retained profit incl. profit for the year</u>		
Opening balance, 1 January 2014	50 000	-	998 153		1 048 153
Conditional shareholder contributions			10 000 000		10 000 000
Profit/loss for 2014			-17 036		-17 036
Closing balance, 31 December 2014	50 000	0	10 981 117		11 031 117
Conditional shareholder contributions			11 000 000		11 000 000
New share issue	40 000	52 760 000			52 800 000
Bonus issue	410 000	-410 000			0
Profit/loss for 2015			-22 488		-22 488
Closing balance, 31 December 2015	500 000	52 350 000	21 958 629		74 808 629

The share capital consists of 90,000 shares with a quota value of SEK 5.55 each.

Received shareholder contributions amounted to SEK 22 000 000 (11 000 000) at 31 December 2015.

Supplementary disclosures

Note 1 Accounting and valuation policies

General accounting policies

The company's annual report has been prepared in accordance with the Annual Accounts Act and BFNAR 2012:1 (K3).

Valuation principles

Assets, provisions and liabilities are measured at historical cost unless otherwise specified below.

Leases

Leased assets are classified as operating leases since the financial risks and rewards incident to ownership of the object have not been substantially transferred to IBT. The lease payments are recognised on a straight-line basis over the term of the lease.

Group contributions

Group contributions received are recognised as appropriations in the income statement.

Intangible assets

Intangible assets are measured at cost less accumulated amortisation and impairment.

The company applies the capitalisation model, which means that work to develop an internally generated intangible asset is divided into a research phase and a development phase.

All expenditure attributable to the company's research phase is recognised as an expense when it is incurred.

All expenditures attributable to development of IBP-9414 are recognised as an asset only when all of the following criteria have been met:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale,
- the company intends and is able to complete the intangible asset and either use it or sell it,
- conditions and ability exist to use or sell the intangible asset,
- it is probable that the intangible asset will generate future financial benefits,
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

After initial recognition the intangible assets are disclosed at cost less accumulated depreciation and accumulated impairment. Amortisation of intangible assets begins when a project has been completed and the sales of the product have been started. Amortisation is carried out on a straight-line basis over the expected useful life of the asset.

Impairment of intangible assets

An assessment is made at each balance sheet date for any indication that an asset is 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. There was no indication of impairment.

Employee benefits

Employee benefits in the form of salaries, bonuses, paid holiday, paid sick leave and pensions are recognised as earned.

Pensions

All employees in Sweden are subject to mandatory retirement in accordance with Swedish law, currently at the age of 65 years.

The company has no pension commitments other than payment of annual pension premiums. All pension plans are of the defined contribution type.

Income taxes

Current tax refers to the tax computed on taxable profit for the period. Taxable profit differs from reported profit in the income statement, since it has been adjusted for non-taxable income and non-deductible expenses, as well as income and expenses that are taxable or deductible in other periods.

Note 2 Employees and pension expenses

The average number of employees were 4 (3), of whom 2 (2) were men.

	2015	2014	2015	2014
	<i>Board and CEO</i>	<i>Board and CEO</i>	<i>Other employee</i>	<i>Other employees</i>
Salaries and other remuneration	1 726 539	1 045 560	2 624 275	1 896 565
Pension expenses	307 997	232 354	441 974	353 077
Other social security expenses	617 199	384 884	534 899	401 944
	2 651 735	1 662 798	3 601 148	2 651 586

Note 2 cont'd - Employees and pension expenses

Pension

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

Pension-qualifying salary within the range	0-7.5 base amounts	> 7.5-30 base amounts	> 30 base amounts
Premium:	6%	25%	0%

In the event of termination by the company, the CEO is entitled to salary during a 12-month notice period.
The Board members have not received any remuneration.

Note 3 Operating leases

The company's future lease obligations in the form of rental payments amount to SEK 1,404 thousand. The company's lease payments are due for payment in an amount of SEK 514 thousand within one year and SEK 890 thousand within two to three years.

Note 4 Interest income and similar profit/loss items

	2015	2014
Interest income	66	1 166
	66	1 166

Note 5 Interest expenses and similar profit/loss items

	2015	2014
Other financial expenses	8 610	2 732
	8 610	2 732

Note 6 Appropriations

	2015	2014
Group contributions received	20 601 031	6 730 378
	20 601 031	6 730 378

Note 7 Intangible assets

	Capitalised development expenditure	Licenses and trademarks	Total intangible assets
<i>Accumulated cost</i>			
Opening balance, 1 January 2015	6 075 000	-	6 075 000
Purchases	10 150 000	-	10 150 000
Closing balance, 31 December 2015	16 225 000	-	16 225 000

Accumulated amortisation

Opening balance, 1 January 2015	-	-	-
Amortisation	-	-	-
Closing balance, 31 December 2015	-	-	-

Carrying amounts

At 31 December 2014	6 075 000	-	6 075 000
At 31 December 2015	16 225 000	-	16 225 000

Capitalised expenses include internally generated and externally acquired assets.

No amortisation of intangible assets has been made during the year.

Investments in capitalised development expenditures are related to development of the product IBP-9414.

Note 8 Prepaid expenses and accrued income

	31 Dec. 2015	31 Dec. 2014
Prepaid rent	131 676	106 226
Other deferred expenses	819 966	0
	951 642	106 226

Note 9 Accrued expenses

	31 Dec. 2015	31 Dec. 2014
Accrued vacation	714 609	496 374
Accrued social security expenses	250 677	208 833
Accrued sales costs	2 600 000	0
Other accrued expenses	3 514 100	2 177 872
	7 079 386	2 883 079

Note 10 Contingent liabilities

	31 Dec. 2015	31 Dec. 2014
Conditional shareholder contributions	22 000 000	11 000 000

Stockholm, 8 February 2016

Peter Rothschild
Board Chairman

Jan Annwall
Board member

Eamonn Connolly
Board member

Anders Ekblom
Board member

Margareta Hagman
Board member

Staffan Strömberg
CEO

Our audit report was submitted on 8 February 2016

Deloitte AB

Birgitta Lööf
Authorised Public Accountant



AUDITOR'S REPORT

To the annual meeting of the shareholders of Infant Bacterial Therapeutics AB Corporate identity number 556873-8586

Report on the annual accounts

We have audited the annual accounts of Infant Bacterial Therapeutics AB for the financial year 2015-01-01- 2015-12-31.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts.

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

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of Infant Bacterial Therapeutics AB as of 31 December 2015 and of its financial performance for the year then ended in accordance with the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance.

Other matters

The audit of the annual accounts for the financial year 2014-01-01 – 2014-12-31 were performed by another auditor who submitted an auditor's report dated 5 May 2015, with unmodified opinions in the Report on the annual accounts.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Infant Bacterial Therapeutics AB for the financial year 2015-01-01 – 2015-12-31.

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, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

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

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

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

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

Opinions

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

Stockholm, 8 February 2016
Deloitte AB

Signature on Swedish original

Birgitta Lööf
Authorized Public Accountant