Infant Bacterial Therapeutics AB

Annual Report 2017

Infant Bacterial Therapeutics AB (publ)
Årsredovisning 1 januari – 31 december 2017

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IBT in Brief

Infant Bacterial Therapeutics AB ("IBT") is a public Company based in Stockholm. IBT series B shares are traded on Nasdaq First North Premier in Stockholm since March 14, 2017, (IBT B), with Erik Penser Bank as Certified Adviser.

IBT is a clinical stage pharmaceutical company with a vision to develop drugs influencing the infant microbiome, and thereby prevent or treat rare diseases affecting infants. IBT is currently developing its lead drug candidate IBP-9414 to prevent NEC in premature infants. IBP-9414 contains the active substance *Lactobacillus reuteri*, which is a human bacterial strain naturally present in breast milk. IBT is further pursuing a second rare disease program IBP-1016 for the treatment of an unmet medical need in gastroschisis, a severe disease in infants. By developing these drugs, IBT has the potential to fulfil unmet needs for diseases where there are currently no prevention or treatment therapies available.

Financial summary

SEK 000's	2017 Jan-Dec	2016 Jan-Dec
Total comprehensive income	238	162
Operating loss	-36 141	-38 090
Result after financial items	-36 156	-38 106
Total assets	175 024	110 109
Cash flow for the period	64 488	49 375
Cash flow per share for the period (SEK)	11.53	10.91
Cash	158 274	93 786
Earnings per share, weighted average, before and after dilution (SEK)	-6.46	-8.42
Equity per share (SEK)	25.50	19.12
Equity ratio %	96%	96%

Message from the CEO

The starting point of what was to become Infant Bacterial Therapeutics occurred in 2012 when two research teams, independent of each other, published clinical results indicating the possibility to reduce the risk of premature infants contracting the grim and often terminal disease NEC (Necrotizing enterocolitis). Since then, six additional publications on the subject have been presented by different independent research teams. As we at IBT gain more knowledge about NEC and how the disease damages and causes mortality in premature infants, we are even more motivated in our work.

2017 was an intense and successful year for IBT and the development of IBP-9414 for NEC. Among other things, the phase II study conducted at fifteen hospitals in the USA aiming to study safety and tolerability in IBP-9414 was concluded. The study was completed in accordance with the time plan and budget. Results from the study, which demonstrated that IBP-9414 was well tolerated, were presented at an international conference in Washington, D.C., in December. The results and execution of the study also provided important information and experiences which we bring to phase III of the pharmaceutical development. To mention some, we today know how and at which pace patients may be recruited. We also know that the method of administration of IBP-9414 was well received by hospital staff and that cross-contamination did not occur, i.e. that IBP-9414 was not observed in infants that received placebo. These factors provide us with confidence and we are looking forward to conducting the next stage of development.

We have also received acceptance for our Paediatric Investigation Plan (PIP) by the European Medical Products Agency (EMA). IBT intends to abide by the pediatric plan which should provide two years additional exclusivity on the European market, i.e. twelve years in total following market approval due to IBP-9414 o*rphan designation* in the EU. Our development program has furthermore been discussed with the FDA, and IBP-9414 already has *orphan designation* and *rare pediatric disease designation* issued by the FDA.

Based on these achievements, IBT decided to raise capital to complete the development of IBP-9414. During the fourth quarter 2017, a directed share issue was concluded generating SEK 104.5m, followed by a fully subscribed preferential new share issue in the beginning of 2018 which generated SEK 439m. Thus, IBT now has the resources required to conduct the remaining planned activities for the IBP-9414 development program, of which the planned phase III study, “The Connection Study”, is a major and costly part.

We will continue to build our organization in 2018 and will focus on concluding the development program of IBP-9414 to gain market approvals in the USA and the EU. Furthermore, we have identified considerable market potential for IBP-9414 outside of the USA and EU, for example, that the number of premature births in China are estimated to be eight times higher than in the USA and that many such infants require intensive care. We shall therefore intensify our activities relating to large markets outside of the EU and the USA.

The pharmaceutical project IBP-1016, which strives to mitigate complications in infants suffering from gastroschisis, is still in the planning phase and IBT has an ongoing dialogue with universities and companies worldwide. IBT has also initiated project activities in which efforts to develop additional pharmaceutical candidates are being considered. Such efforts are conditional upon the existence of clear clinical signals in addition to the possibility that a very large unmet medical need may be satisfied.

Preparations for a listing change were started already in 2016, and in November of 2017 IBT formally applied for IBTs class B shares to be traded on the main list of Nasdaq. We are in the final stage of this process and I expect that we will be admitted to the main list shortly.

We have been working toward the same goal since 2013 and our ambition to save infants has not changed.

Several important and necessary steps along this path were taken during 2017. The plan and goal remains intact, and although risks remain, as in any pharmaceutical development, I look very positively on the future.

Stockholm, April 11, 2018

Staffan Strömberg

CEO

Description of IBT's Development Project IBP-9414

IBT has developed the production process for drug candidate IBP-9414 which is a complex process involving many steps including fermentation, purification and lyophilization to obtain the final product. The risks for impurities are identified, minimized and controlled (see Note 1).

IBT intends to conduct a clinical program consisting of two clinical trials.

The first study in IBP-9414 was a phase II safety and tolerability study for two different dose levels of IBP-9414 in 120 premature infants in total with birth-weight ranging from 500 to 2,000 g. The aim was to assess the safety and tolerability of the drug candidate IBP-9414 administered in premature infants. All infants in the study were treated with IBP-9414 or placebo for up to 14 days, and the study was concluded by a six-month follow up after the last dose was administered on January 23, 2017.

On September 11, IBT reported results from its Safety and Tolerability study. The results demonstrated similar safety and tolerability to placebo in IBTs Safety and Tolerability study with IBP-9414. IBT and the principal investigator, Dr. Joseph Neu performed analysis of results in the study, "A randomized, double blind, parallel-group, dose escalation placebo-controlled multicenter study to investigate the safety and tolerability of IBP-9414 administered in preterm infants" (NTC02472769 ClinicalTrial.gov). The study included 120 preterm infants, evaluated under six months follow up after the end of treatment after administration of the study drug at 15 neonatal centers in the USA.

The following pivotal study is being designed to show and to document the effect of IBP-9414 compared to placebo for the prevention of NEC in premature infants with birth weights of 1 500g or less. This study will also include safety evaluation in this group of patients.

History

2013

- Infant Bacterial Therapeutics AB (IBT) commenced its activities and started the development of a preventive therapy (IBP-9414) against NEC using *Lactobacillus reuteri*
- IBT is granted Orphan Drug Designation by the FDA for *Lactobacillus reuteri* for the prevention of NEC in premature infants
- U.S. Food and Drug Administration (FDA) provides scientific input for IBT's development plans

2014

- Pharmaceutical development defining the formulation and manufacturing process for IBP-9414
- The European Medicines Agency provides scientific input for IBT's development plans

2015

- IBP-9414 is granted Orphan Drug Designation by the European Commission for *Lactobacillus reuteri* for the prevention of NEC in premature infants
- Production of drug candidate IBP-9414 according to all applicable pharmaceutical chemistry-manufacture-control regulations for clinical phase II trial
- IBT received approval from the Swedish Medical Products Agency to conduct a clinical trial in Sweden

2016

- BioGaia distributes its shares in IBT to BioGaia's shareholders
- The Company's shares are listed on Nasdaq First North
- IBT receives Rare Pediatric Disease Designation from FDA for IBP-9414
- IBT completed a share issue which generated approximately 89 MSEK after share issue costs
- All Board members, the CEO and Head of Research and Development subscribed to shares in the Company in the Rights Issue completed in May 2016
- IBT announced that the first premature infant has been enrolled and dosed in the Company's phase ll clinical trial (NCT0242769) in the USA

Directors Report

The Board of Directors and CEO of Infant Bacterial Therapeutics AB (publ) ("IBT"), reg. no. 556873-8586 hereby presents the Annual Report for the financial year January 1, 2017 to December 31, 2017.

This financial report is IBT's second annual report prepared in accordance with RFR 2, Reporting for legal entities and "Årsredovisningslagen". IBT provides quarterly financial reports from and including the first quarter of 2017.

The Company

Infant Bacterial Therapeutics AB (publ) ("IBT") is a clinical stage pharmaceutical company with a vision to develop drugs influencing the infant microbiome, and thereby prevent or treat rare diseases affecting infants.

IBT is currently developing its lead drug candidate IBP-9414 to prevent NEC in premature infants. IBP-9414 contains the active substance *Lactobacillus reuteri*, which is a human bacterial strain naturally present in breast milk. IBT is further pursuing a second rare disease program IBP-1016 for the treatment of an unmet medical need in gastroschisis, a severe disease in infants. By developing these drugs, IBT has the potential to fulfil unmet needs for diseases where there are currently no prevention or treatment therapies available.

The FDA and the European Commission have granted IBT Orphan Drug Designation, and the FDA have

granted Rare Pediatric Disease Designation for IBP-9414 for the prevention of NEC.

Significant events during the reporting period January – December 2017

- In January 2017 all 120 patients were included in the Company's clinical safety and tolerability study in IBP-9414 (NCT02472769)
- IBT's series B shares were listed on Nasdaq First North Premier on March 14
- Eva Idén and Anthon Jahreskog were elected new board members at the AGM on May 4
- The subsidiary IBT Baby AB was established in May for administration of a new share based incentive program
- All personnel subscribed for their respective allotments in a new share based incentive program
- Infant Bacterial Therapeutics ("IBT") reported results from the safety and tolerability study for IBP-9414 on September 11. The results demonstrate a similar safety and tolerability profile in the active group as in the placebo group in IBT's clinical safety and tolerability study on IBP-9414 (NCT02472769)
- IBT reported on September 28 that The European Medicines Agency's (EMA) paediatric committee (PDCO) approved IBT's proposed "paediatric investigation plan (PIP) for IBP-9414 in prevention of necrotizing enterocolitis (NEC)"
- A directed share issue to eight institutional investors, two foreign and six Swedish, was registered on November 30 which generated SEK 104.5m prior to transaction costs
- Infant Bacterial Therapeutics and the principal investigator Dr. Josef Neu presented data on December 11 from its Safety and Tolerability study in premature infants at the Hot Topics in Neonatology Conference in Washington, D.C., USA

Significant events after the reporting period

- January 8, 2018, the EGM decided on a new share issue amounting to SEK 439.1m prior to transaction costs and on January 31 it was fully subscribed.
- No other significant events have occurred after the reporting period

Financial Development

Amounts are reported in KSEK (SEK in thousands). Amounts in parenthesis refer to the same period in the previous year unless stated otherwise.

Result

Operational result amounted to -36 141 (-38 090) KSEK and result after financial items amounted to -36 156 (-38 106) KSEK.

Result after tax amounted to -36 156 (38 106) KSEK.

Result per share amounted to -6.46 (-8.42) SEK before and after dilution (no dilution effects exist)

Costs

Operational costs amounted to 36 394 (40 795) KSEK of which costs for the ongoing IBP-9414 clinical trial amounted to 17 482 (26 658) KSEK.

Personnel costs amounted to 12 595 (7 167) KSEK.

Other external costs amounted to 6 317 (6 970) KSEK.

New share issue costs amounted to SEK 6.1 (11.0)m charged to shareholders equity.

Result and financial position

Cash flow for the period amounted to 64 488 (49 375) KSEK. Cash flow 2017 included a new share issue amounting to SEK 98.4m and for the comparative period a new share issue amounting to SEK 89.1m.

The Company's cash balance on December 31, 2017, amounted to 158 274 compared to 93 786 KSEK on December 31, 2016.

The Company's shareholder's equity on December 31, 2017, amounted to 168 371 compared to 105 226 KSEK on December 31, 2016. Shareholder's equity per share amounted to 25.50 compared to 19.12 SEK on December 31, 2016.

The Company's equity ratio amounted to 96% compared to 96% on December 31, 2016.

Results for the development of IBT's safety and tolerability study, which is completed, are in line with expected costs according to budget. Costs regarding the safety and tolerability study are lower during the fourth quarter as the study in the fourth quarter 2017 was in its final phase.
Operational costs during the reporting period are higher than during the same period in the previous year resulting from personnel recruitment, and bonus payments for which total costs during the second quarter amounted to approximately 2.4 MSEK. Negative cash flow from operations during the reporting period was lower in 2017 than the equivalent period the previous year as the safety and tolerability study was in its final phase in the fourth quarter 2017.

IBT has during November 2017 generated SEK 104.5m in a directed new share issue to institutional investors. The issue was subscribed by Swedbank Robur Fonder, Tredje AP-Fonden, Andra AP-Fonden, Unionen, Sectoral, Alto Invest, Norron and Nordic Cross. The subscription price was SEK 95 per share and the share issue increased the number of class B shares in IBT by 1,100,000.

In January 2018, a preferred new share issue generated SEK 439.1m at the equivalent subscription price as for the in November concluded directed share issue, i.e. SEK 95 per share.

Capital generated amounted to approximately SEK 543.6m prior to transaction costs and approximately SEK 528m less transaction costs is deemed sufficient to conduct the planned pivotal phase III clinical study including operational costs for one year after conclusion of the study.

Prospects for 2018

The development plan for IBP-9414is comprised of a clinical program consisting of two clinical trials.

The first study in IBP-9414 was a phase II safety and tolerability study for two different dose levels of IBP-9414 in 120 premature infants in total with birth-weight ranging from 500 to 2,000 g. The aim was to assess the safety and tolerability of two doses of the drug candidate IBP-9414 administered in premature infants. On September 11, IBT reported results from its safety and tolerability study. The results demonstrated similar safety and tolerability to placebo in IBTs safety and tolerability study with IBP-9414.

The following pivotal study, named ”The Connection Study” is designed to show and to document the effect of IBP-9414 compared to placebo for prevention of NEC in premature infants with birth weights of

1,500g or less. This study will also include safety evaluation in this group of patients.

IBT has during November 2017 generated SEK 104.5m in a directed share issue to institutional investors and SEK 439.1m in a preferred share issue in January 2018. Capital generated from these share issues amounted to approximately SEK 544m before share issue costs and approximately SEK 528m after share issue costs, and is deemed sufficient to conduct the planned phase III study, produce clinical trial material for the pivotal study including operational costs for one year after conclusion of the study and to prepare a development plan for IBP-1016.

Risks and Uncertainties

Risk management and control

The Company's Board of Directors work continually and systematically with risk assessment to identify risks and take the necessary actions to cope with them. The internal control environment as described in the Company code of conduct report comprises mainly the following components: control environment, risk assessment, control activities, information and communication, as well as monitoring. For every identified significant risk, risk mitigation actions are formulated.

Dependent on development of one product

The value of the Company is largely dependent on success in the Company's development of IBP-9414 and the successful completion of clinical trials and the grant of a marketing authorization by the US Food and Drug Administration ("**FDA**") and/or the European Medicines Agency ("**EMA**"). IBT's clinical development is at development stage and there is a risk that IBP-9414 will not demonstrate the required effect. If the development on IBP-9414 is unsuccessful, IBT may try to focus on other projects but there is a risk that such projects will not be successful.

Patents and trademarks

BioGaia has patents on *Lactobacillus reuteri*. IBT has been granted an exclusive license to use *Lactobacillus reuteri,* DSM17938, in IBT's areas of interest from BioGaia.

The main patent protection for IBP-9414 is the product claim for the use of a specific strain of *Lactobacillus reuteri*. This is a claim-type which is often referred to as "unlimited product protection" similar to that used for new chemical entities in the relation to small-molecules based products in the pharmaceutical industry. Patents including a product claim for the strain are issued in most important markets. The patent protection granted in the USA, China and Japan are valid until 2026 and in Europe until 2027. After those years patent term extensions are possible in certain areas of the world which could provide additional patent protection of the innovation.

IBT has also applied for further patent protection relating to IBP-9414 which is currently pending and aim to further protect IBP-9414 until 2036.

There is an inherent risk within the type of business that IBT conducts that the company's licenses, patents, trademarks or othe non-tangible assets do not provide sufficient protection for the company, or the company's rights may not be upheld. Furthermore, patent infringement may occur which may involve costly litigation. Results from infringement cannot be guaranteed. Negative outcome from litigation regarding non-tangible assets may cause the losing party to lose protection, future use of said rights being prohibited, or the obligation to pay for damages. The company has filed patent applications for products under development, which have not yet been granted. There is no guarantee that such applications will be granted.

Regulatory risk

IBT develops medicinal products and is dependent on assessments and decisions by applicable authorities. Such assessments are preceded by decisions, among other, regarding permission to conduct clinical studies, permission to market and sell pharmaceuticals, prerequisites for prescribing pharmaceuticals, pricing of pharmaceuticals subject to reimbursement systems, and discounts on pharmaceuticals. It cannot be guaranteed that IBT will obtain the authoritative decisions necessary to conduct clinical studies and receive market approval.

It cannot be excluded that national authorities may take a contrary view or act to stop the product being sold in the applicable country, which could lead to delays or withdrawal of market approval.

To mitigate the regulatory risks IBT involves world-leading external expertise in relation to, for example, regulatory matters or the design of clinical studies.

Production

IBT utilizes contract manufacturers for production of IBP-9414 which makes the Company dependent on external deliveries meeting agreed requirements for example for quality, quantity and time of delivery. There is no guarantee that IBT will not be impacted by delayed or failed deliveries, which could impact the progress of the clinical studies. To minimize this risk, IBT has evaluated a number of contract manufacturers all of which have the capability to produce IBP-9414.

Product liability and insurance

IBT conducts development of pharmaceutical products and conducts clinical studies which causes risks related to product liability. To mitigate such risk, IBT carries insurance coverage for products under development. There is however no guarantee that the insurance coverage provides sufficient protection against claims for damages for eventual damages caused by the company's products or product candidates.

The Company's insurance policies include coverage for patients who participate in clinical trials and product liability insurance for products under development and in the market. The insurance coverage is subject to continuous review. The Company continually assesses its insurances to ensure that they are adequate for the risks normally associated to IBT's business. However, there is no guarantee that IBT will not suffer losses not covered by insurances. There is also a risk that in the future IBT may not be able to obtain or maintain insurance coverage at acceptable terms.

The Company's insurance policies include coverage for patients who participate in clinical trials and product liability insurance for products under development and in the market. The insurance coverage is subject to continuous review. The Board deems that the Company's insurance coverage is appropriate for the current scope of the business.

Dependence on key persons

IBT is, to a high degree, dependent on a few key persons, both employees as well as directors. The Company's future earnings are affected by its ability to attract and retain qualified key persons. In cases where one or more key persons leave the Company and the Company is not successful in replacing such persons, this might have a negative effect on the Company's business, financial position and earnings.

Financial Risks

IBT has during November 2017 generated SEK 104.5m in a directed share issue to institutional investors and SEK 439.1m in a preferred share issue in January 2018. Capital generated amounted to approximately SEK 544m before share issue costs and approximately SEK 528m after share issue costs, and is deemed sufficient to conduct the planned phase III study, and operational costs for one year after conclusion of the study.

Further information on risks and uncertainties is available in IBT's Rights Issue Prospectus dated January 10, 2018 on the Company's homepage www.ibtherapeutics.com

A predominant share of IBT's development costs are commitments in foreign currencies. Should the SEK depreciate versus the specific currency, it could have a significant impact on the Company's financial position and results.

IBT's balance sheet item "cash and cash equivalents" in the balance sheet represents cash deposits at Danske Bank. The Company's assessment is that the counterpart risk at Danske Bank is very low. See note 18 for further information about financial risks.

Environmental responsibilities

The Company's operations do not cause any specific environmental risks and is not subject to notification obligations under the Swedish Environmental Code. The Board of Directors of the Company is of the opinion that the Company is in compliance with applicable rules and regulations and possesses the necessary licenses for its operations and offers its employees a sound and safe working environment.

Sustainability

IBT should be perceived as an innovative and creative Company that represents quality, health and provides a function in society. It is important for IBT to work actively with sustainability issues. Respect for human rights, environment and anti-corruption should be a part of our daily work with regard to business strategies, financing, investments and purchasing processes.

The Company is not legally required to publish a sustainability report.

Legal Proceedings

IBT is not and has never been involved in any legal proceedings.

Corporate Governance

The company's Corporate Governance Report for 2017 is published on the Company's webpage www.ibtherapeutics.com

Publication

IBT strives to have good communication with the Company's shareholders. The Company's publication of information should be correct, pertinent, and timely. The Company's communication will also be characterized by openness and the Company will publish periodic interim reports and annual reports in Swedish and English. Events which are determined to have potential impact on the share price will be distributed as press release.

Agenda

Interim report January – March 2018	May 15, 2018
Interim report January – June 2018	August 23, 2018
Interim report January - September 2018	November 21, 2018

Annual General Meeting

The Annual General Meeting for IBT will be held on May 15, 2018 at Citykonferensen Ingenjörshuset Malmskillnadsgatan 46 in Stockholm.

The Annual Report for 2017 will be available on April 12 on the Company's homepage www.ibtherapeutics.com

Board of Directors Recommendation of Appropriation of Profits

SEK	2017
Recommendation of appropriation of profits or loss	
At the disposal of the AGM are the following surplus	
reserve, income carried forward and result for the period:	
Surplus reserve	239 474 370
Income carried forward	-36 747 350
Result for the period	-36 156 271
Total	**166 570 749**
The board of directors recommend that the result for the period be carried forward. Following such disposition non-restricted equity will amount to the following:	
Surplus reserve	239 474 370
Income carried forward	-72 903 621
Total	**166 570 749**

The board of directors recommend that no dividend be paid for fiscal year 2017.

Regarding results and financial position in general please refer to the following income statements and balance sheets with accompanying notes.

Income Statement

SEK 000	Note	2017 Jan-Dec	2016 Jan-Dec
Net sales		238	162
Selling expenses		-	2 543
Research and development expenses	3-5	-36 379	-40 975
Operating loss		**-36 141**	**-38 090**
Result from financial items			
Interest expense and similar profit/loss items		-15	-16
Result after financial items		**-36 156**	**-38 106**
Result for the period *		**-36 156**	**-38 106**

* Result for the period equals total comprehensive income

Result per share

SEK	Note	2017 Jan-Dec	2016 Jan-Dec
Result per share, before and after dilution	16	-6.46	-8.42
Number of shares, weighted average*		5 595 305	4 525 213
Number of shares at end of period **		6 603 638	5 503 638

* Weighted average 2016 restated due to split 2016. No dilution effects exist as subscription price exceeds market price on the balance sheet date

**On December 31, 2017, allocation of emitted shares amounted to 222 198 A-shares carrying 10 votes per share and 6 381 440 B-shares carrying 1 vote per share

Balance Sheet

	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Intangible non-current assets			
Activated development expenses	6	14 598	15 414
Shares in subsidiary1	7	50	-
Total non-current assets		**14 648**	**15 414**
Current assets			
Current receivables			
Accounts receivable	8	-	53
Other receivables		994	708
Prepaid expenses and accrued income	9	1 108	148
Total current receivables		2 102	909
Cash and cash equivalents	10	158 274	93 786
Total current assets		**160 376**	**94 695**
TOTAL ASSETS		**175 024**	**110 109**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital		1 800	1 500
Unrestricted equity			
Share premium reserve		239 474	140 473
Accumulated losses		-36 747	1 359
Net loss for the period		-36 156	-38 106
Total equity		**168 371**	**105 226**
Liabilities			
Current liabilities			
Accounts payable		506	1 116
Other current liabilities		166	167
Accrued expenses and prepaid income	11	5 981	3 600
Total current liabilities		6 653	**4 883**
TOTAL EQUITY AND LIABILITIES		**175 024**	**110 109**

Statement of Changes in Equity

SEK 000	Restricted equity	Unrestricted equity		
	Share capital	Share premium reserve	Accumulated losses incl. loss for the period	Total equity
Opening equity Jan 1, 2016	**500**	**52 350**	**21 959**	**74 809**
Net loss for the period			-38 106	-38 106
Total comprehensive income			-38 106	-38 106
Shareholder transactions				-
Repayment shareholder contribution			-20 600	-20 600
Share issue	1 000	99 166		100 166
Share issue costs		-11 043		-11 043
Closing equity Dec 30, 2016	**1 500**	**140 473**	**-36 747**	**105 226**

Opening equity Jan 1, 2017	**1 500**	**140 473**	**-36 747**	**105 226**
Net loss for the period			-36 156	-36 156
Total comprehensive income			-36 156	-36 156
Shareholder transactions				-
Share issue (Note 17)	300	104 200		104 500
Share issue costs		-6 083		-6 083
Warrants (Note 7)		884		884
Closing equity Dec 31, 2017	**1 800**	**239 474**	**-72 903**	**168 371**

Statement of cash flows

SEK 000	2017 Jan-Dec	2016 Jan-Dec
Operating activities		
Operating profit/loss	-36 141	-38 090
Financial items, net	-15	-16
Adjustment for non - cash flow affecting items		
(depreciation production process)	816	811
Cash flow from operating activities before changes in working capital	**-35 340**	**-37 295**
Cash flow from changes in working capital		
Increase (-)/Decrease (+) in operating receivables	-1 193	578
Increase (+)/Decrease (-) in operating liabilities	1 770	-3 031
Cash flow from operating activities	**-34 763**	**-39 748**
Investment activities		
Acquisition of non-current assets	-50	-
Financing activities		
Share issue	98 417	89 123
Warrants	884	-
Cash flow from financing activities	**99 301**	**89 123**
Cash flow for the period	**64 488**	**49 375**
Cash and cash equivalents at the beginning of the year	93 786	44 411
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**158 274**	**93 786**

Notes

Note 1 Accounting principles

This financial report is the second annual report by IBT prepared in accordance with the Annual Accounts Act, "Årsredovisningslagen" and as stipulated by RFR 2 Reporting for legal entities. Adoption of RFR 2 means that IBT applies all IFRS and statements as adopted by the EU to the extent possible subject to the Annual Accounts Act, "Tryggandelagen" and considerations of the relation of reporting and taxation. Preparation of financial reports in agreement with RFR 2 requires application of some significant estimates regarding various evaluations and assessments of principles of items for accounting purposes.

IBT has no transactions to report under total comprehensive income and a statement to that effect is provided under the income statement.

The subsidiary, IBT Baby AB, was established in May 2017. During the second quarter IBT Baby AB received warrants at no cost from the parent company, which during the second quarter have been sold to personnel employed by IBT at market price. Other transactions have not occurred. As the company was established with a share capital amounting to 50 KSEK and only incurred marginal establishment costs, consolidated income statement and balance sheet, in all material aspects, equal those of the parent company and therefore no consolidation has been made, supported by the Annual Accounts act, "Årsredovisningslagen 7 kap. 3a §".

IBT has adopted the same accounting principles and calculation methods as those described in the 2016 annual report.

A number of new or revised standards, interpretations and improvements have been adopted by the EU which apply from January 1, 2017. These have not had any material impact on the financial statements of IBT.

New standards and interpretations which have not yet been adopted by IBT:

As of January 1, 2018, IFRS 9 Financial instruments and IFRS 15 Revenue recognition will apply.

IFRS 9 Financial Instruments deals with the classification, measurement and recognition of financial assets and liabilities. It replaces IAS 39 which relate to the classification and measurement of financial instruments. IFRS 9 retains a mixed approach to measurement but simplifies the approach in some respects. There will be three measurement categories for financial assets, amortized cost, fair value through other comprehensive income and fair value through profit and loss. How an instrument should be classified depends on the company's business model and the characteristics of the instrument.

Assets measured at accumulated cost or fair value through other comprehensive income are subject to the regulations regarding write downs. IFRS 9 applies a model for expected credit losses contrary to IAS 39 which applied to actual loss events. Write downs are reported as operational costs.

IBT has not entered into any foreign currency hedging.

The standard must be applied for financial years beginning on 1 January 2018.

IBT has evaluated the effects of introducing the standard, and the current situation indicates that these effects will not be significant.

IFRS 15 Revenue from Contracts with Customers regulates the accounting of revenue. The principles on which IFRS 15 is based are intended to give users of financial statements additional valuable information about a company's revenue. Under the expanded disclosure requirements, information on the type of revenue, date of settlement, uncertainties associated with the recognition of revenue and cash flows attributable to the company's customer contracts must be disclosed. Under IFRS 15, revenue should be recognized when a customer receives control over the sold good or service and is able to use or obtains a benefit from the good or service. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and the related SIC and IFRIC interpretations. IFRS 15 became effective from 1 January 2018. As the company has not yet concluded any customer contracts that would be subject to IFRS 15, no effects of introducing the standard exist. Effects may impact future financial reports.

IFRS 16 Leases. In January, 2016, IASB published a new leasing standard that will replace IAS 17 Leases and the related interpretations, IFRIC 4, SIC-15 and SIC-27. The standard requires that assets and liabilities

attributable to all leases, with a few exceptions, be recognized in the balance sheet. This accounting treatment is based on the view that the lessee has a right to use an asset during a specific period of time as well as an obligation to pay for this right. For the lessor the financial reporting will remain essentially unchanged. The standard is applicable for financial years beginning on 1 January 2019 or later. Early application is permitted. As the Group currently has only a small number of leases, the effect of introducing this standard is not deemed to be significant.

Functional currency and reporting currency

IBTs functional currency is SEK. The financial statements are presented in SEK rounded to the nearest thousand unless otherwise stated. Rounding to thousands may result in incorrect amounts when summarized.

Recalculation from foreign currency

Transactions in foreign currencies are converted into the functional currency at the exchange rates on the transaction date. Monetary assets and liabilities in foreign currencies are converted into the functional currency at the exchange rates on the balance sheet date. Exchange rate differences resulting from the conversion are reported in the financial items section in the income statement. Non-monetary assets and liabilities are normally reported at historical cost and converted to exchange rate at date of transaction.

Financial instruments

Financial instruments are reported at cost. Financial assets are deleted from the balance sheet when the right to receive cash flows from the instrument has ceased or been transferred and the Company has transferred in principle all risks and benefits associated with possession. Financial liabilities are deleted from the balance sheet when the liability in the agreement has been fulfilled or otherwise revoked.

Loans receivable and accounts receivable and other financial liabilities are reported after the time of acquisition to accrued cost applying the effective interest method.

Financial assets and liabilities are offset and reported at net value in the balance sheet, only when the legal right exists to offset the reported amounts, and the objective exists to settle the amounts with a net value, or to simultaneously realize the asset and settle the liability. The Company does not present any Fair value hierarchy as all financial instruments are valued at cost and the are no items valued at Fair value.

IFRS 13 ”Fair Value Measurement”. All financial assets and liabilities have short duration and thus discounting does not result in any significant discrepancy between reported and fair value.

The Company evaluates at the end of each reporting period if there is any objective evidence existing for impairment of a financial asset or group of financial assets. A financial asset or group of financial assets are subject to impairment when, and are impaired only if objective evidence exists for impairment resulting from one or several incidents taking place after the initial reporting of the asset, and that the incident has impact on the estimated future cash flows for the financial asset or group of financial assets which may be estimated reliably. Impairment is calculated as the difference between the reported value of the asset and current value of future estimated cash flows discounted at the financial assets original effective interest.

Accounts payable

Accounts payable are commitments to pay for goods or services acquired in operations from suppliers. Amounts are unhedged and normally payable within 30 days. Accounts payable are classified as current liabilities when due within one year or sooner (or a normal cycle of operation if longer). If not, they are reported as long term debt. Liabilities are initially disclosed at Fair value and thereafter at accrued cost applying the effective interest method.

Other liabilities

Expected duration for other liabilities is short, and therefore the liability is disclosed at nominal amount without using the discounting method for accrued cost.

Accounts receivable and other receivables

Accounts receivable are reported at nominal value. Other receivables are reported at nominal value. Fair value of accounts receivable and other receivables equals reported value as the discounting effect is not material.

Non-current fixed assets

IBTs development of internally generated non-current fixed assets are separated in a research phase and a development phase. All costs related to the research phase are reported as costs as they are incurred. All costs related to development are reported as assets according to IAS 38 if all the following criteria are met:

- the technical and commercial feasibility of the product or process has been established so it may be used or sold
- the Company intends and is able to complete the intangible asset and either use it or sell it
- there are prevailing conditions to use or sell the intangible asset
- It should be probable that the future economic benefits attributable to the asset will flow to the Company
- the Company has adequate recourses in accordance with its current finance plan to complete development
- the cost of the asset can be reliably measured

Costs related to the project are charged to income in the development phase should the above criteria not be met.

IBT's assessment is that development of the production process for the pharmaceutical candidate IBP-9414 meets the above criteria. Costs generated by the project have been activated as of the point in time the criteria were met. The production process has been assessed as completed for accounting purposes. The intangible asset "production process" is therefore depreciated over its estimated time of use and has caused depreciation costs in 2016. Estimated useful life is 20 years. Depreciation is reported in the R&D function in the income statement.

The currently ongoing development project, IBP-9414, is not deemed to meet the above criteria in IAS 38 to be activated as development in the balance sheet. The development costs are therefore charged to income as incurred.

Impairment of non-financial assets

Non-financial assets with uncertain periods of use or non-financial assets not ready for use, are not depreciated but tested annually, or upon indication of impairment, for possible impairment. Assets which are depreciated are evaluated regarding impairment any time events or changes in circumstances indicate that the reported value may not be recovered. Write downs are made by such amounts that reported value exceeds recoverable value. Recoverable value is the higher of the assets Fair value reduced by sales costs and its useful value. Estimated impairment requirements are grouped for assets at lowest possible levels where most significant independent cash flow exists (cash generating groups). For assets (other than goodwill) previously impaired a test is made at each balance sheet date if recovery should be made.

Liquid assets

Liquid assets in the balance sheet are comprised of cash and bank deposits.

Employee compensation

Employee compensation in the form of salaries, bonuses, paid vacation, paid sick leave, and pension benefits are reported as earned. No pension commitments exist in the Company in addition to pension premiums paid annually. All pension plans are fee based.

Cash flow statement

The cash flow is prepared according to the so called indirect method.

Income

Income is reported at Fair value received or to be received reduced by rebates and value added tax and is reported as follows:

- Services are invoiced on delivery and is reported in the income statement when significant risks and benefits have been transferred to the buyer
- Milestone payments are reported when all prerequisites for the right to receive milestone payments in accordance with the agreement have been met
- Government grants and research subsidies are reported as other income in the income statement during the same period that the costs which the grants are meant to compensate

Leasing

Leasing where a significant part of risk and benefits with ownership are retained by the seller are classified as operational leasing. Payments made during the term of lease are charged to income in the income statement on a linear basis over the term of lease.

Segment reporting

Operational segments are reported in a method consistent with internal reporting provided to the highest executive decision maker. The Board of Directors are the Company's highest executive decision maker. The Company's operations are comprised of only one branch of operation – to develop pharmaceutical products. The Company's report of total comprehensive income and financial position is solely one operating segment.

Taxes

The Company's reported tax costs or tax income refers to current tax and changes in deferred taxes. Current tax is calculated based on taxable income for the period in accordance with prevailing tax laws. Current tax also includes adjustments from prior years.

IBTs taxable losses amount to approximately 91 (49) MSEK. Deferred taxes are reported for all temporary differences generated between the taxable value of assets and liabilities and their reported values. Deferred tax receivables are reported to the extent that it is likely that future taxable profits will be available, against which temporary differences may be offset. Deferred tax receivables in the company's financial statements will be activated only when it is certain that taxable income will occur. No deferred tax receivable is reported in the company's financial statements.

Amounts are reported in KSEK (SEK in thousands). Amounts in parenthesis refer to the same period in the previous year unless stated otherwise.

Note 2 Significant assessments and estimates

Assessments and estimates are appraised continuously and are based on historical experience and other factors, including expectations of future events considered to be reasonable under current circumstances. The Company makes assessments and estimates regarding the future. The resulting estimates for accounting purposes will, by definition, seldom equal the actual results. Assessments are also made regarding the Company's accounting principles.

Note 3 Leasing

IBT carries no financial leasing agreements. Leasing costs related to operational leasing are charged at cost over the leasing period. Total future leasing costs regarding leasing agreements on the balance sheet date are as follows:

Operational leasing	2017-12-31	2016-12-31
000's		
Due for payment within one year	918	853
Due for payment within one and five years	2 376	1 234
Total	**3 294**	**1 469**

Operational leasing costs during the year	2017-12-31	2016-12-31
000's		
Rent	590	537
Parking	122	135
Automobiles	245	162
Total	**957**	**834**

Note 4 Personnel

	Average number of employees				Average number of employees			
	2017			Actual on Dec. 31	2016			Actual on Dec. 31
	Female	**Male**	**Total**	**Total**	**Female**	**Male**	**Total**	**Total**
Sweden	3	3	6	6	3	2	5	5
Total	3	3	6	6	**3**	**2**	**5**	**5**

Gender	2017			2016		
	Female	**Male**	**Total**	**Female**	**Male**	**Total**
Board of Directors	2	4	6	1	3	4
Other Management	-	3	3	-	2	2
Total	**2**	**7**	**9**	**1**	**5**	**6**

Total salaries, pension- and social costs, 000's	2017	2016
Salaries and other compensation	8 412	4 772
Pensions	1 394	908
Social costs	2 446	1 290
Other costs	343	160
Total	**12 595**	**7 130**

Variable compensation to management amounted to SEK 1 790 (175)k.

IBT implemented a share based incentive program in 2017.

Board of Directors and committees

Fees are paid in accordance with the decision taken at the annual general meeting.

Chief executive officer

Base salary for the CEO, Mr. Staffan Strömberg, during 2017 amounted to SEK 1 465k plus SEK 738k in variable compensation. The company has a commitment regarding performance compensation upon completion of certain individual goals up to a maximum of SEK 1.0m.

The CEO has fee based pension compensation and the company has therefore no other pension commitments other than stated here. Pension premiums in 2017 amounted to 32.5 % of base salary prior to salary swap for pension premiums and to 55.0 % after base salary swap for pension premiums.

The CEO and the company have a mutual notice period of three months. In addition, the company has a commitment of severance pay equal to nine months salary upon termination by the company.

Other management

Compensation to other management is comprised of base salary, performance compensation, other compensation and pension premiums.

Other management in the company refers to two persons who along with the CEO comprise the management group (Note 7).

The management group was in 2017 comprised of the CEO Mr. Staffan Strömberg, the CSO, Mr. Eamonn Connolly, and the CFO, Mr. Daniel Mackey.

Management compensation 2017 000's	Base salaries/fees*	Performance compensation	Other benefits	Pension costs	Other compensation	Total
Peter Rothschild, Chairman of the Board	600	-	-	-	-	600
Jan Annwall, Board member	100	-	-	-	-	100
Margareta Hagman, Board member	100	-	-	-	-	100
Anders Ekblom, Board member	100	-	-	-	-	100
Eva Idén, Board member	50					50
Anthon Jahreskog, Board member	50					50
Staffan Strömberg, CEO	1 465	738	71	807	-	3 081
Eamonn Connolly, CSO	1 509	526	-	326	-	2 361
Daniel Mackey, CFO	941	526	26	156		1 649
Total	**4 915**	**1 790**	**98**	**1 290**	**0**	**8 092**

The management group was in 2016 comprised of the CEO, Mr. Staffan Strömberg and the CSO, Mr. Eamonn Connolly.

Management compensation 2016 000's	Base salaries/fees*	Performance compensation	Other benefits	Pension costs	Other compensation	Total
Peter Rothschild, Chairman of the Board	400	-	-	-	-	400
Jan Annwall, Board member	50	-	-	-	-	50
Margareta Hagman, Board member	50	-	-	-	-	50
Anders Ekblom, Board member	66	-	-	-	-	66
Staffan Strömberg, CEO	1 526	100	54	459	-	2 139
Eamonn Connolly, CSO	1 445	75	-	282	-	1 802
Total	**3 521**	**175**	**54**	**741**	**0**	**4 491**

* Anders Ekblom has invoiced the Board fee including social costs and VAT from a company. This method is cost neutral for IBT.

Note 5 Audit fees

Deloitte AB, 000's	2017	2016
Auditing	173	190
Audit services in addition to audit	450	-
Other services	279	56
Total	**902**	**246**

Auditing refers to review of the company's internal controls, accounting, annual report and administration by the Board of Directors and CEO. Other audit related services refers to review of interim reports and advisory services.

Note 6 Intangible non-current assets

Activated development costs, 000's	2017-12-31	2016-12-31
Opening accumulated costs	16 225	16 225
Activated costs	-	-
Total cost	**16 225**	**16 225**
Opening accumulated depreciation	-811	-
Depreciation	-816	-811
Total accumulated depreciation	**-1 627**	**-811**
Carrying amount at end of the period	**14 598**	**15 414**

Activated development costs refer to the production process of the pharmaceutical candidate IBP-9414. Period of use is based on the underlying useful life of the patent of 20 years.

Depreciation is linear from 2016 and is reported in the FoU-function in the income statement

Impairment test

The criteria according to IAS 38 and IAS 36, respectively, require testing the immaterial fixed assets for impairment whenever events or changed circumstances indicate that the reported value may not be recovered.

Activated costs referring to the production process have been assessed. The company has at the time of disclosure of this financial report utilized the pharmaceutical candidate produced by the production process in a clinical phase II study in which 120 patients were dosed.

Technology transfer possibility of the manufacturing method has been verified by third parties.

Two independent companies, Apex Healthcare Consulting Ltd., and Clearview Healthcare Partners have evaluated the market potential in 2014 and 2016, respectively, for IBP-9414 in the USA.

Their assessment of the market potential amounted to an interval of 200 MUSD to 350 MUSD per annum.

The total assessment is that the criteria in IAS 38 are met.

Note 7 Shares in subsidiary

Name	Reg. No.	Domicile, country	No. Shares	Ownership	Book value 2017	Book value 2016
IBT Baby AB	559110-7353	Stockholm, Sverige	50 000	100%	50 000	-
Total, SEK					**50 000**	**-**

IBT Baby AB manages incentive programs for key personnel employed by IBT AB.

IBT issues warrants which are sold by IBT Baby AB to employees of IBT AB eligible to participate in the parent company's incentive program as follows:

Share based incentive program

WARRANTS 2017/2022

On May 4, 2017, the Annual General Meeting decided on an incentive program by designated issue of warrants to a subsidiary established for this purpose.

The maximum number of warrants to be issued are 280 000.

The warrants were issued in June 2017 at market terms at a price determined by calculating market price at the time of issue using the Black & Scholes method of valuation.

The holder of warrants may during the period from April 3, 2022 through May 3, 2022, for each warrant subscribe for one point one (1.1) new share in the company at a subscription price per share amounting to SEK 272.41.

As of the balance sheet date on June 30, 2017, 200 000 warrants have been issued. The remaining 80 000 warrants are reserved for future employees.

The warrants are subject to first right of refusal stipulating that the warrants shall be sold back to IBT Baby AB should the employee, from the date of signing, terminate employment within one year by 100%, within two years by 75%, within three years by 50%, and within 4 years by 25%.

Based on the existing number of shares the dilution resulting from the adopted incentive program, provided that all warrants are utilized for subscription of class B-shares, amounts to approximately 2.74 percent of shares, and 2.11 percent of votes.

The warrants carry no dividend rights.

The warrants are issued at market value and have thus have not resulted in any benefits which require accruals for social costs in the parent company.

The subscription price per share exceeds the market price of IBT's share on the balance sheet date which means that the warrants do not cause any dilution when calculating result per share.

Total market value for the 200 000 issued warrants during the second quarter amounted to 884 KSEK.

Allotted warrants, year	Issued warrants	Strike price	Value per allotted warrant	Volatility, %*	Risk-free interest, %	Value per share, weighted average**	Expiry, year
2017	200 000	300	4.42	40	-0.2	85	2022
Total	200 000	**300**	4.42	40	-0.,2	85	2022

*Expected future volatility is ascertained by comparison of historical average and median values for comparable listed companies in the same sector as IBT based on analysis in S&P Capital IQ.
** Volume weighted average share price for IBT's class B share during the period June 12, 2017 through June 16, 2017

Holder of warrants	Number allotted Dec 31, 2017	Number issued Dec 31, 2017
Staffan Strömberg, CEO	70 000	70 000
Eamonn Connolly, CSO	50 000	50 000
Daniel Mackey, CFO	50 000	50 000
Other employees	30 000	30 000
Total	**200 000**	200 000

Note 8 Accounts receivable

Accounts receivable and other receivables, 000's	2017	2016
Accounts receivable	-	53
Reserve for bad debts	-	-
Total cost	**0**	**53**

All accounts receivable were paid within 30 days.

Note 9 Prepaid expenses and accrued income

000's	2017	2016
Prepaid issue-and listing costs	1 108	-
Prepaid rent	-	148
Total cost	**1 108**	**148**

The maximum credit risk exposure on the balance sheet date equals reported value.

Note10 Cash and bank

000's	2017	2016
Bank deposits at Danske Bank	158 274	93 786
Total cost	**158 274**	**93 786**

Note 11 Accrued expenses and prepaid income

000's	2017	2016
R&D costs	1 294	2 049
Financial advisor fees	2 208	-
Social costs and special salary taxes	1 128	687
Vacation pay	966	641
Audit fees	-	140
Board fees	117	83
Other accrued expenses	268	-
Total	**5 981**	**3 600**

All accrued expenses are due for payment within twelve months.

Note 12 Significant events after the reporting period

On January 8, 2018, the EGM decided on a preferential share issue amounting to SEK 439.1m prior to transaction costs and on January 31 it was fully subscribed. Transaction costs amounted to approximately SEK 9.3m and after these fees the share issue generated approximately SEK 429.8m.

No other significant events have occurred after the reporting period.

Note 13 Board of Directors recommendation of appropriation of profits

SEK	2017
Recommendation of appropriation of profits or loss	
At the disposal of the AGM are the following surplus	
reserve, income carried forward and result for the period:	
Surplus reserve	239 474 370
Income carried forward	-36 747 350
Result for the period	-36 156 271
Total	**166 570 749**
The board of directors recommend that the result for the period be carried forward. Following such disposition non-restricted equity will amount to the following:	
Surplus reserve	239 474 370
Income carried forward	-72 903 621
Total	**166 570 749**

The board of directors recommend that no dividend be paid for fiscal year 2017.

Note 14 Related party transactions

IBT has during the second quarter issued warrants to Staffan Strömberg, Eamonn Connolly and Daniel Mackey via its fully owned subsidiary, IBT Baby AB (Notes 4 and 7).

No other significant related party transactions have occurred.

Note 15 Pledged assets and contingent liabilities

	2017	2016
Pledged assets and contingent liabilities	None	None

Note 16 Result per share

Calculations are in accordance with IAS 33 Earnings per share. Earnings per share are calculated by dividing result for the period with the weighted average number of outstanding shares during the period.

Result per share, SEK	2017	2016
Result for the period, 000's	-36 156	-38 106
Weighted average number of shares before and after dilution*	5 595 305	4 525 213
Result per share before and after dilution*	**-6.46**	**-8.42**

* There are no dilution effects

Note 17 Share capital development (SEK)

Period	Transaction	Change	Series A shares	Series B shares	Share capital	Quota value	Subscription price	Total Invested*
2011-11-22	Bildande	**50 000**			**50 000**	**1,00**	**1,00**	**50 000**
2015-09-15	Nyemission	**40 000**			90 000	1,00	1 320,00	52 800 000
2015-09-15	Fondemission	**90 000**			500 000	5,56	-	52 850 000
2016-02-12	Split och omstämpling	**-90 000**	74 066	1 760 480	500 000	0,27	-	52 850 000
2016-05-30	Nyemission	-	148 132	3 520 960	1 500 000	0,27	27,30	153 016 212
2017-11-30	Nyemission**	-	-	1 100 000	300 000	0,27	95,00	257 516 212
Total		**0**	**222 198**	**6 381 440**	**1 500 000**	0,27	-	**257 516 212**

* In addition to invested capital the previous parent company of IBT, BioGaia AB, has remitted Group contributions and conditional shareholder contributions amounting to SEK 28.7m.
** The issue was subscribed by Swedbank Robur Fonder, Tredje AP-Fonden, Andra AP-Fonden, Unionen, Sectoral, Alto Invest, Norron and Nordic Cross. The subscription price was SEK 95 per share and the share issure increased the number of class B shares in IBT by 1,100,000.

Note 18 Financial risk management

General

The financial risks related to the Company's operations are mainly liquidity, currency, and counterparty risks.

Liquidity risks

Liquidity risks are such risks as not having access to liquidity to meets the Company's operational requirements. The Company has no financial liabilities with agreed duration. Other liabilities are commitments to pay for goods or services obtained during operations from suppliers. The amounts are unhedged and normally payable within 30 days. Capital needs are monitored by budget review.

Financing strategy

The Company's capital requirements have previously been met by capital injections from its former parent company, BioGaia and share issue in connection with listing the Company on Nasdaq First North in March 2016. To date, IBT has received 82 MSEK from BioGaia and 100 MSEK from other shareholders in connection with the May 2016 share issue.

IBT has during November 2017 generated SEK 104.5m in a directed share issue to institutional investors and in January 2018, a preferred share issue generated SEK 439.1m. Capital generated amounting to approximately SEK 543.6m prior to transaction costs and approximately SEK 528m post transaction costs is deemed sufficient to conduct the planned pivotal phase III clinical study including operational costs during one year after concluding the study.

As the Company's pharmaceutical candidate IBP-9414 reaches important milestones in its pharmaceutical development, additional financing possibilities are available. As a listed company in Sweden the Company can issue new shares with preemptive rights for its shareholders. Other possible financing methods are licensing specific rights to the pharmaceutical to pharmaceutical company partners and a share issue to new investors, conditional upon being possible on terms acceptable to current shareholders.

Obtaining loans for financing is not deemed suitable other than as a temporary solution before the Company reaches profitability and has positive cash flow.

Access to capital may be limited at times when needed by the Company.

Counter party risks

The Company allows only investments in interest bearing instruments which carry low risk and high liquidity. The Company cooperates with established and credit worthy counterparties and evaluates receivables on an ongoing basis in order to achieve low exposure to bad debts. To mitigate this risk, IBT deposits its surplus liquidity in a liquid account at Danske Bank. The Company has no short-term deposits.

Currency risk

Currency risk is the risk of fluctuating values in assets or liabilities resulting from variations in exchange rates. The majority of IBTs development costs are commitments in foreign currencies. Should the SEK be reduced in value versus foreign currencies, it may have considerable impact on the Company's financial position and results. As of the balance sheet date, the Company has no currency hedges. The currencies against which IBT has the greatest exposure are USD and EUR.

A variance in the SEK versus these currencies of 1 percent, all else being equal, would have affected 2017 results by approximately SEK 3.0m.

Deduction of certain key figures

	2017 Jan-Dec	2016 Jan-Dec
Cash flow per share		
Cash flow for the period, 000's	64 488	49 375
Average number of shares	5 595 305	4 525 213
Cash flow per share (SEK)	**11,53**	**10,91**
Equity per share		
Equity, 000's	168 371	105 226
Number of shares at end of period	6 603 638	5 503 638
Shareholder's equity per share (SEK)	**25,50**	**19,12**
Equity ratio		
Equity, 000's	168 371	105 226
Total equity and liabilities, 000's	175 024	110 109
Equity ratio, %	**96%**	**96%**

Financial Definitions

Key ratios	Definition	Motive
Average number of shares	Average number of shares during the reporting period (split in 2016 restated for comparative figures)	Relevant in calculating income and cash flow per share
Net sales	Sales for the period	Sales of services
Reporting period	January 1 – December 31, 2017	Define time period comprised by this financial report
Result per share	Result for the period divided by average number of shares	Result allocated per share
Cash flow per share*	Cash flow for the period divided by average number of shares	Measure to describe cash flow allocated to one share during the period
Number of shares*	Number of shares at the end of the period	Relevant for calculating shareholders' equity allocated to one share
Total Assets*	Total assets at the end of the period	Relevant for calculating shareholder's equity
Shareholders equity/share*	Total shareholders' equity divided by the number of shares at the end of the period	Measure to describe shareholder's equity equity per share
Equity ratio*	Total shareholders' equity as a percentage of total assets	Measure to evaluate the company's ability to meet its financial obligations

***** The Company presents certain financial measures in the Year-end report not defined by IFRS. The Company deems that these measures provide valuable additional information for investors and management of the Company as they enable evaluation and benchmarking of the Company's performance. As all companies do not calculate financial measures the same way, these measures are not always comparable to those used by other companies. These financial measures shall therefore not be viewed as replacements for those defined by IFRS. The financial definitions are not defined by IFRS unless otherwise stated.

Board's Assurance

The Board of Directors and CEO hereby certify that this report gives a true and fair presentation of the Company's operations, financial position and result of operations, and describes material risks and uncertainties facing the Company.

The Annual Report was approved for issuance by the Board of Directors on April 11, 2018 and will be subject to approval at the annual general meeting on May 15, 2018.

Stockholm, April 11, 2018

Peter Rothschild Chairman	Jan Annwall Director	Anders Ekblom Director	Margareta Hagman Director
Eva Idén Director	Anthon Jahreskog Director	Staffan Strömberg CEO	

Nb: This is a translation of the Swedish annual report. If any discrepancies exist, the Swedish version shall prevail.

Our audit report was issued on April 11, 2018

Deloitte AB

Birgitta Lööf
Authorized public accountant

Revisionsberättelse

Report on the annual accounts

Opinions

We have audited the annual accounts of Infant Bacterial Therapeutics AB for the financial year 2017-01-01 - 2017-12-31. The annual accounts of the company are included on pages 6-30 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 Infant Bacterial Therapeutics AB as of 31 December 2017 and its financial performance and cash flow 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 general meeting of shareholders adopts the income statement and balance sheet.

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 Infant Bacterial Therapeutics AB 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.

Other Information than the Annual Accounts

The Board of Directors and the Managing Director are responsible for the other information. The other information is included on page 1-5 and on page 35-38 but does not include the annual accounts and our auditor's report thereon.

Our opinion on the annual 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, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual 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 that they give a fair presentation in accordance with the Annual Accounts Act. 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 that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company'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. 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.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Director of Infant Bacterial Therapeutics AB for the financial year 2017-01-01 - 2017-12-31 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 Infant Bacterial Therapeutics AB 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 type of operations, size and risks place on the size of the company'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 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.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Stockholm, April 11, 2018

Deloitte AB

Signature on Swedish original

Birgitta Lööf

Authorized public accountant

Shares

On January 1, 2017, the total number of shares amounted to 5 503 638 of which 222 198 class A-shares carrying ten votes and 5 281 440 class B-shares carrying one vote.

A share based incentive program was launched during the second quarter. Based on the current number of outstanding shares in the company, provided that all options are exercised to subscribe for new B-shares, dilution will amount to approximately 2.74 percent of shares and approximately 2.11 percent of votes (see Note 2).

IBT issued 1 100 000 class B shares in a new share issue in November 2017.

On December 31, 2017, the total number of shares amounted to 6 603 638 of which 222 198 class A-shares carrying ten votes and 6 381 440 class B-shares carrying one vote.

IBT's class B-share was listed on Nasdaq First North on March 29, 2016. IBT's class B-share was listed on Nasdaq First North Premier on March 14, 2017.

IBTs closing share price on December 29, 2017, was SEK 115.

Ownership December 31, 2017

Name	Series A Shares	Series B Shares	Share capital %	Voting rights %
ANNWALL & ROTHSCHILD INVESTMENTS AB	222 198	241 458	7.02	28.63
ÖHMAN BANK S.A.	0	669 580	10.14	7.78
SWEDBANK ROBUR MICROCAP	0	388 644	5.89	4.52
FJÄRDE AP-FONDEN	0	305 259	4.62	3.55
TREDJE AP-FONDEN	0	300 000	4.54	3.49
AMF AKTIEFOND SMÅBOLAG	0	295 050	4.47	3.43
FÖRSÄKRINGSAKTIEBOLAGET, AVANZA PENSION	0	183 961	2.79	2.14
SEB S.A. CLIENT ASSETS UCITS	0	170 000	2.57	1.98
DANGOOR, DAVID	0	155 673	2.36	1.81
CBNY-NORGES BANK	0	156 000	2.36	1.81
ANDRA AP-FONDEN	0	155 000	2.35	1.80
LUXEMBOURG AIF CLIENTS ACCOUNT	0	153 095	2.32	1.78
BNYMSANV RE BNYMIL RE LF RUFFER INV	0	150 000	2.27	1.74
BANQUE PICTET & CIE SA, W8IMY	0	148 578	2.25	1.73
ÅLANDSBANKEN I ÄGARES STÄLLE	0	147 237	2.23	1.71
STRÖMBERG, STAFFAN	0	122 592	1.86	1.40
UNIONEN	0	120 000	1.82	1.39
PLACERINGSFOND SMÅBOLAGSFOND, NORDEN	0	110 203	1.67	1.28
MSIL IPB CLIENT ACCOUNT	0	105 711	1.60	1.23
NORDNET PENSIONSFÖRSÄKRING AB	0	103 499	1.57	1.20
Total 20 largest shareholders	222 198	4 181 540	66.70	74.40
Other shareholders	0	2 199 900	33.30	25.60
Total number of shares and votes	222 198	6 381 440	100.00	100.00

Board of Directors and Management

Staffan Strömberg

CEO since 2013. Born 1967.

M.Sc. in chemical engineering and Ph.D. in organic chemistry from the Royal Institute of Technology in Stockholm.

Staffan Strömberg has more than 20 years of experience in the pharmaceutical industry. Besides his roles at Billerud Tenova Bioplastics and at the Swedish Medical Products Agency, he has also been Vice President of NIcOx France, had various project management positions in AstraZeneca and been Head of R&D of Swedish Orphan.

Member of the Board of Directors of Eteboxagu AB and BioGaia Pharma AB.

Former CEO of Billerud Tenova Bioplastics AB and Head of Medical Devices at the Swedish Medical Products Agency.

Shareholding in the Company: 76 728 series B shares and 70 000 warrants and 45 864 series B shares through the wholly owned company Eteboxagu AB.

Eamonn Connolly

Head of R&D since 2013. Born 1957.

Doctor of Philosophy (Ph.D.), University of Manchester Institute of Science and Technology and B.Sc. (Hons) Biochemistry, First class, University of Manchester.

Eamonn Connolly has more than 25 years of experience of the pharmaceutical and biotechnology industry from his various positions within companies such as: BioGaia, Fresenius Kabi and Pharmacia & Upjohn.

Previously member of the Board of Directors of IBT.

Shareholding in the Company: 56,864 series B shares and 50 000 warrants.

Daniel Mackey

CFO since 2017. Born 1974.

Bachelor of Science in Economics, State University of New York, Plattsburgh, New York.

Daniel has 20 years of experience from management positions in finance from American and international companies such as Investors Bank & Trust Co, Nordea Investment Management AB and Nordea Bank AB.

Shareholding in the Company: 3 513 series B shares and 50 000 warrants.

Board of Directors

IBT's Board of Directors consists of six (6) ordinary members, including the chairman of the board, with no deputy board members, all of whom are elected for the period up until the end of the annual shareholders' meeting 2018.

Peter Rothschild

Chairman of the Board since 2011. Born 1950.

Master of Business Administration from Stockholm School of Economics.

Chairman of the Board of Directors of BioGaia Production AB, Looft Industries AB, CapAble AB, MetaboGen AB, Nefor Holding AB, Voranco Holding AB, BioGaia Pharma AB and Annwall & Rothschild Investments AB.

Member of the Board of Directors of TriPac AB samt i Glycom A/S. Founder of and Group Director of BioGaia Group and Partner of Argoinvest Kommanditbolag.

Previously CEO of BioGaia (publ), member of the Board of Directors of Moberg Pharma AB (publ) and chairman of the board of TriPac AB.

Shareholding in the Company: 222 198 series A shares and 241 458 series B shares through Annwall & Rothschild Investments AB, a company co-owned with Jan Annwall.

Jan Annwall

Board member since 2014. Born 1950.

Business Administration degree from Stockholm University.

Member of the Board of Directors and CEO of Annwall & Rothschild Investments AB and Konglomeratet AB. Deputy member of the Board of Directors of Looft Industries AB. Founder and Board Member of BioGaia.

Previously member of the Board of Directors of TwoPac Aktiebolag, TwoPac Machine AB, TwoPac Laboratories AB, TriPac AB and CapAble AB and Executive Vice President and CFO of BioGaia.

Shareholding in the Company: 222 198 series A shares and 241 458 series B shares through Annwall & Rothschild Investments AB, a company co- owned with Peter Rothschild.

Anders Ekblom

Board member since 2014. Born 1954.

M.D., Ph.D, D.D.S and Associate Professor at Karolinska Institutet.

Chairman of the Board of Directors of Karolinska University Hospital and TFS International AB. Member of the Board of Directors of the Swedish Research Council, Mereo Biopharma Ltd., Medivir Aktiebolag, AnaMar AB, Alligator Bioscience AB, and NxtScience AB.

Previously Chairman of the Board of Directors and CEO of AstraZeneca AB, member or deputy member of the Board of Directors of a number of subsidiaries of AstraZeneca AB and member of the Board of Directors of SwedenBIO Service AB and Viscogel AB, RSPR Pharma AB, Pharmanest AB, Sällheten Invest AB and Albireo AB.

Shareholding in the Company: 27 519 series B shares through the wholly-owned company NxtScience AB.

Margareta Hagman

Board member since 2015. Born 1966.

Master of Business Administration, Örebro University.

Deputy CEO and CFO of BioGaia AB (publ). Member of the Board of Directors of BioGaia Production AB and CapAble AB.

Shareholding in the Company: 2 100 series B shares.

Eva Idén

Board member since 2017. Born 1966.

Civil engineer in chemistry, Chalmers tekniska högskola.

Chairman of the board of Better & Beyond AB.

Previously held management positions at AstraZeneca AB.

Shareholding in the company: 30 series B shares.

Anthon Jahreskog

Board member since 2017. Born1980.

Candidate degree in Management and systems, City University, London. Bachelor of business administration, Master of science in financial management at University of Cape Town.

Board member of BioGaia AB (publ), SparkHub Ltd. and Hamilton Park Consulting Ltd.

Shareholding in the company: None

Certified Adviser

The Company's Certified Adviser is Erik Penser Bank, tel. + 46 8 463 80 00

Contact Persons

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