

BioGaia®

Press Release, 23 October, 2008 (11 pages)

BioGaia AB Interim Report 1 January – 30 September 2008

(Figures in brackets refer to the same period of last year)

- Net sales amounted to SEK 106.0 million (74.6), an increase of SEK 31.4 million (42%) compared to the same period of last year.
- Operating profit was SEK 18.4 million (3.3), an improvement of SEK 15.1 million compared to the same period of last year.
- Profit before tax was SEK 20.1 million (4.4), an improvement of SEK 15.7 million compared to the same period of last year.
- Profit after tax was SEK 31.1 million (4.4), an improvement of SEK 26.7 million over the same period of last year. Profit for the period includes a tax benefit of SEK 11 million pertaining to a change in the deferred tax asset.
- Earnings per share were SEK 1.81 (0.25).
- The period's cash flow from operating activities before change in working capital was SEK 23.3 million (8.5). Total cash flow for the period was SEK 15.7 million (4.9). Cash and cash equivalents at 30 September 2008 totalled SEK 58.8 million (44.6).

Key events in the third quarter of 2008

- Extended agreement with Ferring for the sale of BioGaia's Probiotic drops and tablets in 10 countries in Latin America.
- Agreement with AllergyCare AG for the sale of BioGaia's Probiotic drops and tablets in Switzerland.
- Global license agreement with Nestlé Nutrition regarding the right to use Reuteri in dairy products in infant and follow on formulas.
- License agreement with Kavli regarding the right to use Reuteri in dairy products in Norway.
- Nestlé launches "Boost Kid Essentials" in the US with BioGaia's Probiotic straw.

Key events after the end of the third quarter

- BioGaia invests in LifeTop Cap in new subsidiary.

"Our long-term focus on research and product development has given us unique products with very positive clinical results. That there is a demand for these products in the market is visible in our robust sales growth with healthy gross margins and net margins of around 20%. We are not noticing any negative effects of the financial crisis or market downturn, as our products are sold primarily via pharmacies and belong to a segment that is generally not as cycle-sensitive as many others. We therefore look forward to continued strong growth.

The company has a very solid financial position with no loans, net cash of SEK 59 million and an equity/assets ratio of 87 %", says Managing Director Peter Rothschild.

Latest press releases from BioGaia:

2008-10-08	BioGaia invests in LifeTop Cap in new subsidiary
2008-09-17	Nestlé launches "Boost Kid Essentials" in the US with BioGaia's Probiotic straw
2008-09-08	Q-Mejerierna launches yoghurt drink with BioGaia's probiotic

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BioGaia is a biotechnology company that develops, markets and sells probiotic products with documented health benefits. The products are primarily based on the lactic acid bacterium *Lactobacillus reuteri* (Reuteri), which has probiotic, health-enhancing effects. The class B share of the Parent Company BioGaia AB is quoted on the Small Cap list of the Nasdaq OMX Nordic Exchange Stockholm.
www.biogaia.com

BioGaia AB (publ)

Interim report

1 January – 30 September 2008

Figures in brackets refer to the same period of last year.

The Board of Directors and the Managing Director of BioGaia AB (publ) hereby present the interim report for the period 1 January – 30 September 2008.

BioGaia AB

The company

BioGaia is a biotechnology company that develops, markets and sells probiotic products with documented health benefits. The products are primarily based on the lactic acid bacterium *Lactobacillus reuteri* (Reuteri) which has health-enhancing effects. BioGaia has also developed unique delivery systems, such as probiotic-containing straws and caps, that make it possible to create probiotic products with a long shelf life.

BioGaia has 39 employees, of whom 16 are based in Stockholm, 16 in Lund, 3 in Raleigh, USA, and 4 in Hiroshima, Japan.

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

Business model

BioGaia's revenue is derived mainly from the sale of finished products, but also from license rights for the use of Reuteri cultures in customers' own products (such as baby formula and dairy products).

The finished probiotic products consist of tablets, drops and oral health products (chewing gum and lozenges), as well as probiotic-containing straws and caps.

BioGaia's products are sold through nutrition, food, natural health and pharmaceutical companies in some 40 countries worldwide. In Sweden, BioGaia's products are sold under the brands Semper Magdroppar and Gum PerioBalance chewing gum in pharmacies, as well as Semper whole grain cereal and infant formula with active culture and Probiomax gut health tablets in grocery stores.

BioGaia holds patents for the use of Reuteri and certain delivery systems in all major markets.

The BioGaia brand

BioGaia's licensees add Reuteri culture to their products and sell these under their own brand names. On these products, the BioGaia brand is shown in the package as the licensor/patent holder.

The majority of BioGaia's consumer products are sold to distributors, which then sell the products under their own brand names. For these products, the BioGaia brand is shown on the consumer package since BioGaia is the manufacturer. At the end of 2005 BioGaia launched its own consumer brand and today has many distributors in a large number of countries that sell finished products under the BioGaia brand. One central part of BioGaia's strategy is to increase the share of sales consisting of BioGaia-branded products.

Research and clinical studies

BioGaia's research is focused on selection of different probiotics for gut health, the immune system and oral health. Extensive clinical studies have shown that BioGaia's various probiotic products:

- stimulate the human immune system,
- protect against GI tract and respiratory tract infections,
- alleviate the side effects of antibiotic treatment,
- reduce the level of *H. pylori* infection,
- relieve infantile colic,
- reduce gum inflammation, plaque and the risk for dental caries,
- reduce the risk of infection in pre-term infants.

KEY EVENTS IN THE THIRD QUARTER

Launches during the third quarter

- Recalcine, BioGaia's Probiotic drops and tablets in Chile
- Q-mejerierna, yoghurt drink with Reuteri in Norway
- Nestlé, the nutritional beverage "Boost Kid Essentials" for children with BioGaia's Probiotic straw
- EwoPharma, BioGaia's Probiotic drops and tablets in Slovenia

The length of time between contract and launch varies between countries due to differing amounts of time needed for the registration process. The products are normally registered as dietary supplements and in certain cases as pharmaceuticals.

Agreement with Forest terminated

Forest Laboratories has previously had the right to sell BioGaia's Probiotic drops in the UK and Ireland. Due to unsatisfactory sales performance, the agreement has been terminated and BioGaia has received compensation for lost sales during the quarter. BioGaia is working to find new distributors for these markets.

Extended distribution agreement with Ferring

In July BioGaia extended its agreement with Ferring Pharmaceuticals and covers thereby essentially all of Latin America. The agreement gives Ferring exclusive rights to sell BioGaia's Probiotic tablets and drops in 10 additional countries: Colombia, Costa Rica, Nicaragua, Panama, the Dominican Republic, Guatemala, Honduras, Cuba, El Salvador and Trinidad-Tobago. The products will be sold under the BioGaia brand.

Agreement with AllergyCare AG

In July BioGaia signed a distribution agreement with the Swiss-based pharmaceutical company AllergyCare AG. The agreement gives AllergyCare exclusive rights to sell BioGaia's Probiotic drops and tablets in Switzerland and Liechtenstein. The products will be sold under the BioGaia brand.

Agreement with Nestlé Nutrition

In August BioGaia AB signed a global license agreement with Nestlé Nutrition, giving Nestlé the right to use *Lactobacillus reuteri* in infant and follow on formulas.

BioGaia's patented probiotic, *Lactobacillus reuteri*, is already used in formula products in some European and Asian countries. The new agreement with Nestlé will cover the world market, excluding Japan, and Korea. The first product is planned to be launched during 2009.

Agreement with Kavli Holding A/S, Norway

BioGaia has signed an exclusive license agreement with Kavli Holding AS in Norway. The agreement gives Kavli the right to use BioGaia's patented *Lactobacillus reuteri* in dairy products in Norway.

In September Kavli's subsidiary Q-Mejerierna launched BioQ yoghurt drink on the Norwegian market.

KEY EVENTS AFTER THE END OF THE QUARTER

BioGaia invests in LifeTop Cap in new subsidiary

BioGaia has decided to intensify the work on its patented LifeTop Cap technology through the newly formed subsidiary CapAble AB.

CapAble, based in Stockholm, will work primarily with marketing and sales of LifeTop Cap, and in collaboration with BERICAP, will be responsible for further development of a full range of products in this area. Manufacturing will be handled by Bericap SA and BioGaia's 50%-owned associated company TwoPac AB.

BioGaia's former Marketing Director Staffan Pålsson owns just under 10% of the company and is its Managing Director.

EARLIER EVENTS IN 2008

Launches in the first half of the year

- Ferring, BioGaia's Probiotic drops in Jordan and Mexico
- Delta Medical, BioGaia's Probiotic drops in Ukraine
- Ewopharma, BioGaia's Probiotic drops and tablets in Hungary and Bulgaria
- Ewopharma, BioGaia's Probiotic tablets in the Czech Republic
- Sunstar – Probiotic lozenges in the UK
- Semper – Infant formula with Reuteri in Sweden

Global agreement with Sunstar

Sunstar Suisse SA had since earlier an option for a distribution agreement covering a large number of countries. At the beginning of January 2008, Sunstar exercised this option and signed an additional agreement with BioGaia that gives Sunstar exclusive rights to distribute BioGaia's probiotic oral health products in more than 100 countries.

The products will be sold under Sunstar's GUM PerioBalance brand. The agreement also includes possibilities for joint development of new oral products. The launch will be carried out within a 2-year period. One of the first launches will take place in the USA during 2008.

Sunstar already distributes BioGaia's oral health products in Germany, France, Italy, Spain, Sweden and Norway.

BioGaia continues its Japanese venture

The sales of BioGaia's Probiotic drops and drinks with BioGaia's Probiotic straw that were started in 2007 are continuing in 2008. Efforts to adapt the products and marketing to the Japanese market are in progress. This venture is part of BioGaia's long-term focus on its own brand. The cost of the Japanese venture during the nine-month period was SEK 7.3 million (6.2), which is higher than anticipated. The net cost on a full-year basis is expected to be lower than in the prior year.

New agreement with Ferring

In February BioGaia signed a new agreement with Ferring Pharmaceuticals in Switzerland, giving Ferring exclusive rights to sell BioGaia's Probiotic drops in Australia, New Zealand and Israel, and BioGaia's Probiotic tablets in Brazil, Egypt, Greece, Iran, Jordan, Canada, Lebanon, Mexico, Saudi Arabia and Syria.

The drops have been launched in Spain, Portugal, the Czech Republic, Canada, Jordan and Mexico. Ferring also has exclusive rights to sell BioGaia's Probiotic drops in Brazil, Egypt, Greece, Iran, Lebanon, Saudi Arabia and Syria.

Agreement with NeoCare

In April BioGaia signed an agreement with the Belgium pharmaceutical company NeoCare, giving NeoCare the right to sell BioGaia's Probiotic drops and tablets in Belgium and Luxembourg. The products will be sold under BioGaia's brand.

Agreement with BERICAP

In April BioGaia entered into a global collaborative agreement with Bericap Sarl, a subsidiary of the German Bericap Group, one of the world's largest manufacturers of plastic caps and other packaging closures.

Under the agreement, the two companies will collaborate in development, manufacturing, marketing and sales of BioGaia's patented beverage cap, LifeTop Cap, which has been developed to protect sensitive ingredients such as probiotics from the effects of moisture, heat and light in PET bottles.

The Bericap Group will market LifeTop Cap to its customers worldwide, manufacture the plastic details and develop new varieties for different bottle types. BioGaia will sell and market the product and, through its 50%-owned company Two Pac, handle the ingredients and manufacture the aluminium blister that protects the ingredients and is placed in the LifeTop Cap.

Agreement with Verman for Russia

In June BioGaia signed an additional collaborative agreement with BioGaia's Finnish partner, Verman OY, for the Russian market. Under the agreement, Verman has been granted a non-exclusive right to distribute and sell BioGaia's Probiotic tablets and drops on the Russian market under Verman's own Rela brand. Today Rela is the top-selling probiotic brand in the Finnish pharmacy market. In autumn 2008 Verman is opening its own office in Moscow from which it manages the Russian business activities.

Annual General Meeting of BioGaia

The Annual General Meeting of BioGaia AB on 22 April 2008 unanimously passed the following resolutions, among others:

- that no dividend would be paid to the shareholders
- re-election of Board members Jan Annwall, Stefan Elving, Thomas Flinck, David Dangoor, Inger Holmström and Paula Zeilon
- election of Jörgen Thorball

- re-election of David Dangoor as Board Chairman
- regarding principles for remuneration and other terms of employment for senior executives in accordance with the Board's proposal
- regarding the Nominating Committee in accordance with the proposal in the notice of AGM.

FINANCIAL PERFORMANCE DURING JANUARY – SEPTEMBER 2008

The Group's net sales amounted to SEK 106.0 million (74.6), an increase of 42% compared to the same period of last year. Sales of BioGaia's Probiotic drops in Europe accounted for most of the period's sales growth.

Gross profit reached SEK 71.2 million, an improvement of SEK 21.7 million over the same period of last year.

Selling expenses rose by SEK 3.8 million compared to the same period of last year, which is mainly explained by higher personnel costs and increased costs for the registration of new products.

The period's R&D expenses amounted to SEK 16.2 million (13.3), which is equal to 18% (19%) of total operating expenses. The higher R&D expenses are due to an increased level of activity in clinical studies that began during the period. The amortisation component of R&D expenses amounted to SEK 2.3 million (2.6). Investments in capitalised development expenses totalled SEK 0 million (0).

Operating profit was SEK 18.4 million (3.3), an improvement of SEK 15.1 million compared to the same period of last year.

Profit after tax was SEK 31.1 million (4.4), an improvement of SEK 26.7 million compared to the same period of last year.

The Group pays no tax due to the existence of a cumulative loss carryforward. The total loss carryforward in the Group at 31 December 2007 was SEK 123.1 million, of which SEK 113.1 million was attributable to the Swedish companies.

At 30 September 2008 BioGaia recognised a deferred tax asset of SEK 20.0 million, resulting in a tax benefit of SEK 11.0 million in the income statement. In connection with future reports, the company will decide whether or not to recognise additional deferred tax assets.

The Group's cash and cash equivalents at 30 September 2008 totalled SEK 58.8 million (44.6).

Cash flow for the period was SEK 15.7 million (4.9), an improvement of SEK 10.8 million compared to the same period of last year.

In the first nine months of 2008 the company paid a conditional shareholder contribution of SEK 2.0 million to the associated company TwoPac AB.

Cash flow from operating activities before change in working capital was SEK 23.3 million (8.5), which is SEK 14.8 million better than for the same period of last year. The increase in working capital was SEK 3.8 million and is mainly attributable to inventories.

Consolidated equity amounted to SEK 126.4 million (79.7). The Group's equity/assets ratio was 87% (84%).

Capital expenditure on property, plant and equipment totalled SEK 1.9 million (1.6).

The Parent Company reported net sales of SEK 105.8 million (75.2) and a profit after net financial items of SEK 20.3 million (10.4).

Financial performance in the third quarter of 2008

Third quarter net sales amounted to SEK 33.6 million, up by SEK 10.2 million over the same period of last year. Compared to the second quarter, sales declined by SEK 2.8 million.

Operating profit for the third quarter was SEK 5.8 million, an increase of SEK 5.1 million over the same period of last year. Compared to the second quarter, operating profit rose by SEK 0.7 million as a result of higher gross margins for the period that are partly attributable to two lump sum payments totalling SEK 4.2 million and somewhat lower operating expenses.

Profit after tax for the third quarter was SEK 9.0 million, an improvement of SEK 7.9 million compared to the same period of last year. Profit for the period includes a tax benefit of SEK 2.5 million.

Third quarter cash flow was SEK 10.7 million.

EMPLOYEES

The total number of employees in the Group at 30 September 2008 was 39 (37).

SIGNIFICANT RISKS AND UNCERTAINTIES: GROUP AND PARENT COMPANY

No major changes in significant risks and uncertainties took place during the period.

The business model chosen in Japan is associated with increased cost risk. Although the market has shown a strong interest in these products, relatively large volumes are needed to achieve adequate profitability.

The shares in the associated company (TwoPac AB) and the receivable from the associated company amounted to a total of SEK 11.8 million. TwoPac AB's primary operations are development of equipment and manufacturing of BioGaia's Probiotic drops and straws and LifeTop Cap on behalf of BioGaia. BioGaia's assessment is that the cash flow from TwoPac will generate good profitability, for which reason no impairment loss was recognised on the balance sheet date. Should the investment in Two Pac fail in full or in part, BioGaia may be forced to recognise an impairment loss on all or parts of the holding in and receivables from the associated company.

BioGaia's capitalised development expenditure amounts to SEK 5.9 million, of which SEK 1.9 million refers to the LifeTop Cap project. BioGaia has one sales agreement for LifeTop Cap and has received inquiries from a number of potential customers. BioGaia has also signed a collaborative agreement with Bericap (see above), one of the world's largest manufacturers of plastic caps. BioGaia's assessment is that the cash flow from LifeTop Cap will generate good profitability, for which reason no impairment loss has been recognised. Should this investment fail in full or in part, BioGaia may be forced to recognise an impairment loss on all or parts of the project. BioGaia is now investing further in LifeTop Cap through the formation of a new subsidiary (see above).

FUTURE OUTLOOK

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

In the remainder of 2008 and during 2009 BioGaia expects the tablets, drops and oral health products to be launched in a large number of countries.

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

CONSOLIDATED INCOME STATEMENTS

(Amounts in SEK 000s)

	Jan-Sept 2008	Jan-Sept 2007	July-Sept 2008	July-Sept 2007	Jan-Dec 2007
Net sales	106,006	74,551	33,558	23,388	106,580
Cost of goods sold	-34,794	-25,080	-10,131	-8,095	-35,122
<i>Gross profit</i>	71,212	49,471	23,427	15,293	71,458
Other operating income	440	765	202	328	1,691
Selling expenses	-30,922	-27,109	-11,020	-8,917	-37,739
Administrative expenses	-5,979	-5,630	-1,549	-1,663	-7,487
Research and development expenses	-16,235	-13,272	-5,528	-4,256	-17,938
Share in profit/loss of associated company	-160	-960	250	-120	-1,103
<i>Operating profit</i>	18,356	3,265	5,782	665	8,882
Financial income and expenses	1,740	1,119	685	433	1,807
<i>Profit before tax</i>	20,096	4,384	6,467	1,098	10,689
Tax expense for the period	11,000	-	2,500	-	8,970
PROFIT FOR THE PERIOD	31,096	4,384	8,967	1,098	19,659

Earnings per share

Basic earnings per share (average number of shares), SEK

	1.81	0.25	0.52	0.06	1.14
Diluted earnings per share, SEK	1.81	0.25	0.52	0.06	1.14
Number of shares, thousands	17,208	17,208	17,208	17,208	17,208
Average number of shares, thousands	17,208	17,208	17,208	17,208	17,208
Average number of shares after dilution, thousands	17,208	17,208	17,208	17,208	17,208

CONSOLIDATED BALANCE SHEETS

(Amounts in SEK 000s)

ASSETS

	30 Sept 2008	31 Dec 2007	30 Sept 2007
Intangible assets	5,863	8,199	8,829
Tangible assets	3,719	2,617	2,443
Shares in associated company	7,425	5,585	4,728
Long-term receivables from associated company	4,400	4,400	5,400
Deferred tax asset	20,000	9,000	-
Other long-term receivables	41	27	17
Current assets excl. cash and cash equivalents	44,757	37,968	28,529
Cash and cash equivalents	58,800	42,977	44,633
TOTAL ASSETS	145,005	110,773	94,579

EQUITY AND LIABILITIES

Shareholders' equity	126,353	94,910	79,693
Interest-free current liabilities	18,652	15,863	14,886
TOTAL EQUITY AND LIABILITIES	145,005	110,773	94,579

CONSOLIDATED CASH FLOW**STATEMENTS**

(Amounts in SEK 000s)

Operating activities

	Jan-Sept 2008	Jan-Sept 2007	July-Sept 2008	July-Sept 2007	Jan-Dec 2007
Operating profit	18,356	3,265	5,782	665	8,882
Depreciation/amortisation	3,122	3,151	1,043	1,061	3,979
Capital gains/losses on the sale of fixed assets	7	-	-	-	-
Share in profit/loss of associated company	160	960	-250	120	1,103
Other non-cash items	-83	-36	-113	-3	-12
Interest received and paid	1,740	1,120	685	434	1,807
Cash flow from operating activities before changes in working capital	23,302	8,460	7,147	2,277	15,759
Changes in working capital	-3,762	-2,121	3,834	2,062	-10,671
<i>Cash flow from operating activities</i>	19,540	6,339	10,981	4,339	5,088
<i>Cash flow from investing activities</i>	-3,881	-2,129	-300	-789	-2,516
<i>Cash flow from financing activities</i>	-	686	-	-	686
Cash flow for the period	15,659	4,896	10,681	3,550	3,258
Cash and cash equivalents at beginning of period	42,977	39,719	47,924	41,087	39,719
Exchange differences in cash and cash equivalents	164	18	195	-4	-
Cash and cash equivalents at end of period	58,800	44,633	58,800	44,633	42,977

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in SEK 000s)

	Jan-Sept 2008	Jan-Sept 2007	Jan-Dec 2007
At beginning of period	94,910	74,530	74,530
The period's translation difference	347	93	35
Warrants in BioGaia AB	-	686	686
Profit for the period	31,096	4,384	19,659
At end of period	126,353	79,693	94,910

SEGMENT REPORTING – GROUP

(Amounts in SEK 000s)

<u>Sales</u>	Jan-Sept 2008	Jan-Sept 2007	Jan-Dec 2007
Europe	68,623	44,718	62,354
USA and Canada	7,184	5,734	7,736
Asia	19,999	17,056	25,895
Rest of world	10,200	7,043	10,595
	106,006	74,551	106,580

PARENT COMPANY INCOME STATEMENTS

	Jan-Sept 2008	Jan-Sept 2007	Jan-Dec 2007
Net sales	105,755	75,237	107,034
Cost of goods sold	-34,662	-25,932	-35,827
<i>Gross profit</i>	71,093	49,305	71,207
Selling expenses	-31,837	-21,950	-39,565
Administrative expenses	-5,979	-5,630	-7,488
Research and development expenses	-16,286	-13,251	-17,784
Other operating income	440	765	1,691
<i>Operating profit</i>	17,431	9,239	8,061
Result from shares in associated company	-	-	-1,103
Net financial items	2,832	1,177	2,086
Profit before tax	20,263	10,416	9,044
Tax expense for the period	11,000	-	9,000
PROFIT FOR THE PERIOD	31,263	10,416	18,044

PARENT COMPANY BALANCE SHEETS

	30 Sept 2008	31 Dec 2007	30 Sept 2007
<u>ASSETS</u>			
Intangible assets	5,863	8,199	8,829
Tangible assets	3,371	2,287	2,272
Shares in group companies	4,237	4,137	4,137
Shares in associated company	7,585	5,585	5,688
Long-term receivables from subsidiaries	1,930	1,325	6,831
Long-term receivables from associated company	4,400	4,400	5,400
Deferred tax asset	20,000	9,000	-
Current assets excl. cash and cash equivalents	41,994	36,392	27,725
Cash and cash equivalents	57,593	42,103	43,705
TOTAL ASSETS	146,973	113,428	104,587
<u>EQUITY AND LIABILITIES</u>			
Shareholders' equity	126,171	94,908	87,280
Interest-free current liabilities	20,802	18,520	17,307
TOTAL EQUITY AND LIABILITIES	139,493	113,428	104,587

Pledged assets and contingent liabilities for the Parent Company

Floating charges	2,000	2,000	2,000
Guarantees	None	None	None

PARENT COMPANY CASH FLOW STATEMENTS

	Jan-Sept 2008	Jan-Sept 2007	Jan-Dec 2007
<u>Operating activities</u>			
Operating profit	17,431	9,239	8,061
Depreciation/amortisation	3,048	3,090	3,902
Capital gains/losses on the sale of fixed assets	7	-	-
Provision for long-term receivable from subsidiary 1)	8,092	-	7,330
Other non-cash items	-84	-39	-8
Interest received and paid	2,832	1,177	2,086
Cash flow from operating activities before changes in working capital	31,326	13,467	21,371
Changes in working capital	-3,320	-167	-9,373
<i>Cash flow from operating activities</i>	28,006	13,300	11,998
<i>Cash flow from investing activities</i>	-12,600	-8,960	-9,229
<i>Cash flow from financing activities</i>	-	686	686
Cash flow for the period	15,406	5,026	3,455
Cash and cash equivalents at beginning of period	42,103	38,640	38,640
Exchange differences in cash and cash equivalents	84	39	8
Cash and cash equivalents at end of period	57,593	43,705	42,103

1) Recognised net in investing activities at 31 December 2007

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

(Amounts in SEK 000s)	Jan-Sept 2008	Jan-Sept 2007	Jan-Dec 2007
At beginning of period	94,908	76,178	76,178
New issue of warrants	-	686	686
Profit for the period	31,263	10,416	18,044
At end of period	126,171	87,280	94,908

SEGMENT REPORTING – PARENT COMPANY

(Amounts in SEK 000s)	Jan-Sept 2008	Jan-Sept 2007	Jan-Dec 2007
Europe	68,325	44,634	62,269
USA and Canada	7,184	5,587	7,544
Asia	20,046	17,973	26,626
Rest of world	10,200	7,043	10,595
	105,755	75,237	107,034

RELATED PARTY TRANSACTIONS, GROUP AND PARENT COMPANY

(Amounts in SEK 000s)

The Group has a 50% holding in TwoPac AB, which is reported as an associated company.

The following transactions have taken place with TwoPac AB.

	Jan-Sept 2008	Jan-Sept 2007	Jan-Dec 2007
Interest income	220	219	304
Shareholder contributions paid	2,000	500	500
Loan converted to shareholder contribution	-	-	1,000
Purchase of goods	6,036	1,087	2,259
Advance payments for future deliveries	-	600	600
Purchase of machinery and equipment	-	1,195	1,195

The closing balance at the end of the period was as follows:

Long-term receivables from TwoPac AB

	30 Sept 2008	30 Sept 2007	31 Dec 2007
Long-term receivables from TwoPac AB	4,400	5,400	4,400

Current transactions with related parties

Current receivables from TwoPac AB	76	77	85
Current liabilities to TwoPac AB	-1,520	-114	-
	-1,444	-37	85

CONSOLIDATED KEY RATIOS 1)

	Jan-Sept 2008	Jan-Sept 2007	Jan-Dec 2007
Return on			
- average shareholders' equity	28.1%	5.7%	23.2%
- average capital employed	18.2%	5.8%	12.7%
Capital employed, SEK 000s	126,353	79,693	94,910
Number of shares, thousands	17,208	17,208	17,208
Average number of shares, thousands	17,208	17,208	17,208
Number of outstanding warrants, thousands	129	129	129
Average number of outstanding warrants with a dilutive effect, thousands	-	-	-
Average number of shares after dilution, thousands	17,208	17,208	17,208
Basic earnings per share, SEK	1.81	0.25	1.14
Diluted earnings per share, SEK	1.81	0.25	1.14
Equity per share, SEK	7.34	4.63	5.52
Equity per share after dilution, SEK	7.34	4.63	5.52
Equity/assets ratio	87%	84%	86%
Average number of employees	38	37	37

1) The definitions of key ratios correspond to those in the annual report.

ACCOUNTING POLICIES

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) established by the International Accounting Standards Board (IASB) and the interpretations published by the International Financial Reporting Interpretations Committee (IFRIC) that have been endorsed by the European Commission for application in the EU.

This interim report has been prepared for the Group in accordance with IAS 34, Interim Financial Reporting, and the Annual Accounts Act, and for the Parent Company in accordance with the Annual Accounts Act.

The Group and the Parent Company apply the same accounting and valuation principles as in the 2007 annual report.

NOMINATING COMMITTEE

In accordance with the decision of the AGM, the Nominating Committee has been formed and consists of Lars Hallén, the second largest shareholder, Board Chairman David Dangoor, the third largest shareholder, and Sven Zetterqvist, representing Livförsäkringsaktiebolaget Skandia, the fourth largest shareholder. The largest shareholder, Annwall & Rothschild Investment AB, has declined participation in the Nominating Committee. The Nominating Committee can be contacted on the following address: BioGaia AB, Box 3242, 103 64 Stockholm or by e-mail: info@biogaia.se.

FINANCIAL CALENDAR

12 February 2009	Year-end report 2008
22 April 2009	Interim report 1 January – 31 March 2009
22 April 2009	AGM, 4:00 p.m., Stockholm.

Shareholders who wish to have a matter addressed by the AGM must notify the Board Chairman, BioGaia AB, Box 3242, 103 64 Stockholm or by e-mail info@biogaia.se by 1 March 2009 at the latest.

This interim report provides a true and fair picture of the business activities, financial position and results of operations of the Parent Company and the Group, and describes the significant risks and uncertainties to which the Parent Company and the Group companies are exposed.

Stockholm, 23 October 2008

David Dangoor
Board Chairman

Jan Annwall
Board member

Stefan Elving
Board member

Thomas Flinck
Board member

Inger Holmström
Board member

Jörgen Thorball
Board member

Paula Zeilon
Board member

Peter Rothschild
Managing Director

The information in this interim report was submitted for publication on 23 October 2008, 8:30 a.m. CET.

This report has not been examined by the Company's independent auditors.

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