

BioGaia®

Press Release, 12 February, 2009 (13 pages)

BioGaia AB Year-end Report 2008

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

- Net sales amounted to SEK 145.2 million (106.6), an increase of SEK 38.6 million (36%) compared to the previous year.
- Operating profit was SEK 25.8 million (8.9), up by SEK 16.9 million compared to the previous year.
- Profit before tax was SEK 24.0 million (10.7), an improvement of SEK 13.3 million compared to the previous year. This figure includes an unrealised foreign exchange loss of SEK 4.5 million on forward exchange contracts.
- Profit after tax was SEK 36.1 million (19.7), an increase of SEK 16.4 million compared to the previous year. Profit for the period includes a deferred tax benefit of SEK 12.1 million (9.0).
- Earnings per share were SEK 2.10 (1.14).
- The year's cash flow from operating activities before change in working capital was SEK 32.4 million (15.8). Total cash flow for the year was SEK 14.3 (3.3). Cash and cash equivalents at 31 December 2008 amounted to SEK 58.1 million (43.0).
- The Board proposes to the upcoming AGM that a dividend be paid to the shareholders.

Key events in the fourth quarter of 2008

- BioGaia invests in LifeTop Cap through new subsidiary – CapAble AB.
- New study confirms that BioGaia's oral health products counteract gingivitis.
- Agreement with Delta Medical for the sale of BioGaia's Probiotic drops and tablets in Kazakhstan and tablets in Ukraine.
- Agreement with Ferring for the sale of BioGaia's Probiotic drops in Ireland and drops and tablets in the Middle East.
- Delivery of LifeTop Straw to China started.
- BioGaia's subsidiary CapAble signs agreement with Mass Probiotics for the sale of LifeTop Cap in North America.

Key events after the end of the financial year

- BioGaia's subsidiary CapAble signs agreement with Aqua Scandik for the sale of LifeTop Cap with Reuteri in Mexico.

"I am very pleased with BioGaia's continued sales growth and dramatic increase in earnings during the past year, which has motivated the Board to propose payment of a shareholder dividend. Because of our strong financial position, this limited capital outflow will not affect our opportunities for expansion. We are seeing sustained strong demand for our products and expect to launch our products in many new countries during 2009," says President Peter Rothschild.

Latest press releases from BioGaia:

2009-01-12	CapAble signs agreement in Mexico
2008-12-19	BioGaia's subsidiary CapAble signs agreement for LifeTop™ Cap in North America
2008-12-15	BioGaia signs distribution agreement for Ireland and Middle East

For additional information contact Peter Rothschild, President, telephone: +46 8 -555 293 00
Jan Annwall, Executive Vice President, telephone: +46 8 - 555 293 00

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.se

BioGaia AB (publ.)

Year-end report 2008

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

The Board of Directors and the President of BioGaia AB (publ) hereby present the year-end report for 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 different strains of 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 42 employees, of whom 17 are based in Stockholm, 18 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 NASDAQ OMX Nordic Exchange Stockholm.

Business model

BioGaia's revenue is derived mainly from the sale of finished consumer products (tablets, drops and oral health products) to distributors, but also revenue from component products such as Reuteri cultures, 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 on the package as the licensor/patent holder.

The majority of BioGaia's finished 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 both the manufacturer and licensor. 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 products sold under the BioGaia brand. In 2008, 20 percent of finished consumer product sales were sold under the BioGaia brand.

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 the risk of infection and improve gut function in pre-term infants,
- reduce gum inflammation, plaque and the risk for dental caries.

KEY EVENTS IN THE FOURTH QUARTER

Launches during the fourth quarter

- Sunstar, oral health products in the USA
- Ferring, Probiotic drops in Lebanon

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.

BioGaia invests in LifeTop Cap in new subsidiary

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

New study confirms that BioGaia's oral health products counteract gingivitis

A new study confirms that chewing gum from BioGaia containing *Lactobacillus reuteri* Prodentis reduces gingivitis. The study also shows that the *Lactobacillus reuteri* Prodentis can interact directly with the human immune system to reduce inflammation.

The study, published by *Acta Odontologica Scandinavica*, was performed by Professor Svante Twetman and his team in the Department of Cariology and Endodontics at the University of Copenhagen in Denmark.

Expanded collaboration in Ukraine and Kazakhstan

In November BioGaia signed an agreement with Delta Medical Promotions A.G. which gives the company exclusive rights to sell BioGaia's Probiotic drops in Kazakhstan and BioGaia's Probiotic tablets in Ukraine and Kazakhstan. The Probiotic drops have already been launched in Ukraine by Delta Medical. The products will be sold under the BioGaia brand.

Agreement for Ireland and the Middle East

In early December BioGaia extended its collaboration with Ferring Pharmaceuticals giving Ferring exclusive rights to sell BioGaia's Probiotic drops in Ireland and BioGaia's Probiotic drops and tablets in Bahrain, Yemen, Qatar, Oman, Kuwait and United Arab Emirates. Ferring already sells BioGaia's Probiotic drops in Spain, Portugal, the Czech Republic, Jordan, Mexico and Lebanon.

BioGaia sells LifeTop Straw to China

In December BioGaia started delivery of products according to the development and sales agreement that was signed 2003 with one of China's largest dairies. The delivery concerns BioGaia's patented straw, LifeTop Straw containing *Lactobacillus acidophilus*.

Agreement with Mass Probiotics

In December BioGaia's subsidiary CapAble signed a licence agreement with the American company Mass Probiotics. The agreement gives Mass Probiotics rights to use CapAble's unique packaging solution LifeTop Cap on its beverages in the USA and Canada. The launch is planned for the first quarter of 2009.

KEY EVENTS AFTER THE END OF THE FINANCIAL YEAR

Agreement with Aqua Scandik

In January 2009 CapAble signed an agreement with the Mexican water company Aqua Scandik granting them the rights to use LifeTop Cap with Reuteri. Aqua Scandik will launch water with Reuteri in three different flavours. The launch is expected to take place in early 2010.

EARLIER EVENTS IN 2008

Launches in the first nine months of 2008

- 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
- 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

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 was terminated and BioGaia has received compensation for lost sales. BioGaia has already signed a new agreement for Ireland with Ferring (see above) and is working to find a new distributor for the UK.

Two agreements with Ferring

In July BioGaia extended its agreement with Ferring Pharmaceuticals to cover 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.

In February BioGaia signed an 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 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 Reuteri in infant and follow on formulas.

BioGaia's patented probiotic 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 in the second half of 2009.

Agreement with Kavli Holding in 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 Reuteri in dairy products in Norway. In September Kavli's subsidiary Q-Mejerierna launched BioQ yoghurt drink on the Norwegian market.

Agreement with Verman for Russia

In June BioGaia signed an additional 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 opened its own office in Moscow from which it manages the Russian business activities.

Agreement with BERICAP

In April BioGaia entered into a global collaborative agreement with Bericap Sarl, a subsidiary of the German Bericap Group and

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 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.

Global agreement with Sunstar

Sunstar Suisse SA had 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 launch will be carried out within a 2-year period. A trial launch in the USA was carried out in the fourth quarter of 2008.

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

JAPANESE VENTURE

The cost of the Japanese venture in 2008 was SEK 10.6 million (8.4), which is higher than anticipated.

BioGaia has decided to change focus from Functional Foods products in grocery stores to sales of drops and straws through distributors to pharmacies and drugstores. In this way the Japanese business model will be adapted to that which is successfully used in other markets.

If these launches by the drugstore chains are successful, costs in the Japanese venture will decrease significantly in the second quarter

and the Japanese subsidiary will achieve cost coverage in the second half of 2009. If the launch is not successful, activities in Japan will be significantly curtailed.

FINANCIAL PERFORMANCE IN 2008

Consolidated net sales amounted to SEK 145.2 million (106.6), an increase of 36% compared to the previous year. BioGaia's Probiotic drops in Europe accounted for most of the period's sales growth.

Gross profit reached SEK 97.0 million (71.5), an improvement of SEK 25.5 million over the previous year.

Selling expenses rose by SEK 5.9 million compared to the previous year, which is mainly explained by increased costs in Japan, higher personnel costs and increased costs for the registration of new products.

R&D expenses amounted to SEK 23 million (17.9), which is equal to 19% (18%) of total operating expenses. The higher R&D expenses are due to an increased level of activity in clinical studies that began during the year, as well as higher laboratory and patent expenses. The amortisation component of R&D expenses amounted to SEK 3.4 million (3.4). Investments in capitalised development expenses totalled SEK 0 (0). BioGaia does not capitalise patent costs.

Operating profit was SEK 25.8 million (8.9), an improvement of SEK 16.9 million compared to the previous year.

Financial expenses include an unrealised foreign exchange loss of SEK 4.5 million on forward exchange contracts in EUR. The company has entered into forward exchange contracts for EUR 4.6 million at an average exchange rate of SEK 9.84. All forward exchange contracts will mature in 2009. The true exchange rate loss or gain depends upon the exchange rate on the exchange contracts due dates. If the EUR exchange rate on the due date is lower/higher than on 31 December 2008 (10.94), then an exchange rate gain/loss will be reported under 2009.

Profit before tax was SEK 24.0 million (10.7).

Profit after tax was SEK 36.1 million (19.7), an improvement of SEK 16.4 million compared to the previous year.

The Group pays no tax due to the existence of a cumulative loss carryforward. The total loss carryforward at 31 December 2008 was SEK 97.9 million, of which SEK 80.2 million was attributable to the Swedish companies. At 31 December 2008 BioGaia recognised a deferred tax asset of SEK 21.1 million,

resulting in a tax benefit of SEK 12.1 million in the income statement. The company has shown a profit since 2006 and is thus regarded as having reached a sustainable profit level. In view of this, BioGaia has recognised the entire deferred tax asset, which is attributable to the Swedish companies, at 31 December 2008.

Earnings per share were SEK 2.10 (1.14).

A total of 128,950 warrants have been subscribed for in BioGaia's ongoing incentive scheme. Since the current share price is significantly lower than the subscription price, the outstanding options have no dilutive effect.

The Group's cash and cash equivalents at 31 December 2008 totalled SEK 58.1 million (43.0). Cash flow for the year was SEK 14.3 million (3.3), an improvement of SEK 11.0 million compared to the previous year.

The company has paid a conditional shareholder contribution of SEK 2.0 million and converted an advance payment of SEK 0.6 million into a conditional shareholder contribution to the associated company TwoPac AB.

Cash flow from operating activities before change in working capital was SEK 32.4 million (15.8), up by SEK 16.6 million over the previous year. The increase in working capital was SEK 13.2 million and is mainly attributable to inventories.

Consolidated equity amounted to SEK 132.4 million (94.9). The Group's equity/assets ratio was 86% (86%).

Capital expenditure on property, plant and equipment totalled SEK 2.4 million (2.0).

The Parent Company reported net sales of SEK 143.6 million (107.0) and a profit after net financial items of SEK 17.8 million (9.0). The figure includes a write-down of receivables from the subsidiary in Japan of SEK 13.5 million as well as a write-down of shares in the subsidiary in Japan of SEK 0.6 million. Profit after tax was SEK 29.5 million (18.0). Cash flow in the Parent Company was SEK 12.8 million. Cash flow from investing activities includes a loan of SEK 10.6 million (7.8) to the Japanese subsidiary.

Financial performance in the fourth quarter of 2008

Fourth quarter net sales amounted to SEK 39.2 million (32.0), up by SEK 7.2 million over the same period of 2007. Compared to the third quarter, sales increased by SEK 5.6 million.

Gross profit was SEK 25.7 million (22.0), an improvement of SEK 3.7 million over the same period of 2007. Compared to the third quarter, gross profit rose by SEK 2.3 million. Gross margins were high in the third quarter due to two one-time payments amounting to SEK 4.2 million.

Operating profit for the fourth quarter was SEK 7.5 million, up by SEK 1.9 million over the corresponding period of 2007 and by SEK 1.9 million over the third quarter.

Profit before tax was SEK 3.9 million, a decrease of SEK 2.4 million compared to the same period of 2007 and decrease of SEK 2.5 million compared to the third quarter. This is explained by an unrealised foreign exchange loss of SEK 4.5 million on forward exchange contracts in EUR (see above).

Fourth quarter profit after tax amounted to SEK 5.0 million, down by SEK 10.3 million from the same period of 2007. Profit for the fourth quarter of 2007 included a deferred tax benefit of SEK 9.0 million, compared to SEK 1.1 million in 2008.

Third quarter cash flow amounted to SEK -1.3 million (-1.6).

EMPLOYEES

The total number of employees in the Group at 31 December 2008 was 42 (37).

Incentive scheme for the employees

In June 2007 BioGaia carried out a warrant program for the employees in which a total of 128,950 warrants were subscribed. Each warrant grants the holder the right to subscribe for one class B share for a price of SEK 76.70 during the period from 15 May to 31 August 2010.

SIGNIFICANT RISKS AND UNCERTAINTIES; GROUP AND PARENT COMPANY

In the previous year's financial statements, capitalized costs for the LifeTop Cap project were described as an uncertain factor. In the autumn of 2008 a new subsidiary was formed to intensify efforts on the patented LifeTop Cap technology. Two new agreements have been signed in December and January, for which reason no uncertainty relating to LifeTop Cap is considered to exist.

The business model earlier used in Japan was associated with a major cost risk. Action has now been taken to change the business model (see above). On the balance sheet date, assets in the Japanese subsidiary are reported at SEK 3.5 million. The company's assessment is that there was no indication of

impairment of these assets on the balance sheet date.

The shares in the associated company (TwoPac AB) and the receivable from the associated company amount to a total of SEK 12.3 million. TwoPac AB's primary operations are development of equipment and manufacturing of BioGaia's Probiotic drops, straws and LifeTop Cap on behalf of BioGaia. The current market downturn is no indication of a decrease in value, since demand for health products is normally not strongly affected by changes in the market cycle. Furthermore, no other indications of a decrease in value are deemed to exist. 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.

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.

The financial goal is to achieve a profit margin of 25% within a 3-5 years. BioGaia's ambition is to pay a shareholder dividend equal to 30% of profit after actual paid tax.

Product launches in a large number of countries are expected to take place during 2009.

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.

APPROPRIATION OF ACCUMULATED DEFICIT

The funds in the Parent Company at the disposal of the Annual General Meeting amount to (SEK 000s):

Retained earnings:	-
Profit for the year:	<u>29,472</u>
Total retained earnings:	<u>29,472</u>

The Board of Directors and Managing Director propose that the company pay a dividend of SEK 0.40 per share, equal to a total distribution of SEK 6.9 million, and that the remaining retained earnings of SEK 22.6 million be carried forward to new account.

CONSOLIDATED INCOME STATEMENTS

(Amounts in SEK 000s)

	Jan-Dec 2008	Jan-Dec 2007	Oct-Dec 2008	Oct-Dec 2007
Net sales	145,190	106,580	39,184	32,029
Cost of goods sold	-48,234	-35,122	-13,440	-10,042
<i>Gross profit</i>	96,956	71,458	25,744	21,987
Other operating income	4,059	1,691	3,619	926
Selling expenses	-43,617	-37,739	-12,695	-10,630
Administrative expenses	-8,193	-7,487	-2,214	-1,857
Research and development expenses	-23,030	-17,938	-6,795	-4,666
Share in profit/loss of associated company	-334	-1,103	-174	-143
<i>Operating profit</i>	25,841	8,882	7,485	5,617
Financial income and expenses	-1,811	1,807	-3,551	688
<i>Profit before tax</i>	24,030	10,689	3,934	6,305
Tax expense for the period	12,091	8,970	1,091	8,970
PROFIT FOR THE PERIOD	36,121	19,659	5,025	15,275
Attributable to:				
Equity holders in the Parent Company	36,121	19,659	5,025	15,275
Minority interests	-	-	-	-
	36,121	19,659	5,025	15,275
Earnings per share				
Basic earnings per share (average number of shares), SEK	2.10	1.14	0.29	0.89
Diluted earnings per share, SEK	2.10	1.14	0.29	0.89
Number of shares, thousands	17,208	17,208	17,208	17,208
Average number of shares, thousands	17,208	17,208	17,208	17,208
Average number of shares after dilution, thousands	17,208	17,208	17,208	17,208

CONSOLIDATED BALANCE SHEETS

(Amounts in SEK 000s)

	31 Dec 2008	31 Dec 2007
ASSETS		
Intangible assets	5,050	8,199
Tangible assets	3,936	2,617
Shares in associated company	7,851	5,585
Long-term receivables from associated company	4,400	4,400
Deferred tax asset	21,100	9,000
Other long-term receivables	47	27
Current assets excl. cash and cash equivalents	53,795	37,968
Cash and cash equivalents	58,127	42,977
TOTAL ASSETS	154,306	110,773
EQUITY AND LIABILITIES		
Equity attributable to:		
Equity holders in the Parent Company	132,321	94,910
Minority interests	99	-
Total equity	132,420	94,910
Interest-free current liabilities	21,886	15,863
TOTAL EQUITY AND LIABILITIES	154,306	110,773

CONSOLIDATED CASH FLOW STATEMENTS

(Amounts in SEK 000s)

	Jan-Dec 2008	Jan-Dec 2007	Oct-Dec 2008	Oct-Dec 2007
<i>Operating activities</i>				
Operating profit	25,841	8,882	7,485	5,617
Depreciation/amortisation	4,260	3,979	1,138	828
Capital gains/losses on the sale of fixed assets	7	-	0	-
Share in profit/loss of associated company	334	1,103	174	143
Other non-cash items	-407	-12	-324	24
Interest received and paid	2,381	1,807	641	687
Cash flow from operating activities before changes in working capital	32,416	15,759	9,114	7,299
Changes in working capital	-13,212	-10,671	-9,450	-8,550
<i>Cash flow from operating activities</i>	19,204	5,088	-336	-1,251
<i>Cash flow from investing activities</i>	-4,966	-2,516	-1,085	-387
<i>Cash flow from financing activities</i>	99	686	99	-
Cash flow for the period	14,337	3,258	-1,322	-1,638
Cash and cash equivalents at beginning of period	42,977	39,719	58,800	44,633
Exchange differences in cash and cash equivalents	813	-	649	-18
Cash and cash equivalents at end of period	58,127	42,977	58,127	42,977

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in SEK 000s)

	Jan-Dec 2008	Jan-Dec 2007
At beginning of year	94,910	74,530
The year's translation difference	1,290	35
Warrants in BioGaia AB	-	686
New share issue in Capable	99	-
Profit for the year	36,121	19,659
At end of year	132,420	94,910

SEGMENT REPORTING – GROUP

(Amounts in SEK 000s)

	Jan-Dec 2008	Jan-Dec 2007
<i>Sales</i>		
Europe	93,973	62,354
USA and Canada	8,851	7,736
Asia	30,618	25,895
Rest of world	11,748	10,595
	145,190	106,580

PARENT COMPANY INCOME STATEMENTS

	Jan-Dec 2008	<u>Jan-Dec 2007</u>
Net sales	143,586	107,034
Cost of goods sold	-47,211	<u>-35,827</u>
<i>Gross profit</i>	96,375	71,207
Selling expenses	-36,035	-30,141
Administrative expenses	-8,167	-7,488
Research and development expenses	-23,042	-17,784
Other operating income	4,059	<u>1,691</u>
<i>Operating profit</i>	33,190	17,485
Result from shares in associated company	-334	-1,103
Result from shares in subsidiary	-569	-
Write-down of receivable from subsidiary 1)	-13,467	-9,424
Net financial items	-1,008	<u>2,086</u>
Profit before tax	17,812	9,044
Tax expense for the period	11,660	<u>9,000</u>
PROFIT FOR THE YEAR	29,472	18,044

1) In the annual report and year-end report for 2007, write-down of receivable from subsidiary was recognised as a selling expense. For the sake of comparability, the write-down is presented separately.

PARENT COMPANY BALANCE SHEETS

	31 Dec 2008	<u>31 Dec 2007</u>
<u>ASSETS</u>		
Intangible assets	5,050	8,199
Tangible assets	3,581	2,287
Shares in group companies	4,469	4,137
Shares in associated companies	7,851	5,585
Long-term receivables from subsidiary	-	1,325
Long-term receivables from associated company	4,400	4,400
Deferred tax asset	20,660	9,000
Current assets excl. cash and cash equivalents	51,017	36,392
Cash and cash equivalents	55,293	<u>42,103</u>
TOTAL ASSETS	152,321	113,428
<u>EQUITY AND LIABILITIES</u>		
Shareholders' equity	124,380	94,908
Interest-free current liabilities	27,941	<u>18,520</u>
TOTAL EQUITY AND LIABILITIES	152,321	113,428

Pledged assets and contingent liabilities for the Parent Company

Floating charges	2,000	2,000
Contingent liabilities	None	None

PARENT COMPANY CASH FLOW STATEMENTS

	Jan-Dec 2008	Jan-Dec 2007
<u>Operating activities</u>		
Operating profit 1)	33,190	17,485
Depreciation/amortisation	4,141	3,902
Capital gains/losses on the sale of fixed assets	7	-
Other non-cash items	-407	-8
Interest received and paid	2,367	2,086
Cash flow from operating activities before changes in working capital	39,298	23,465
Changes in working capital	-10,128	-10,575
<i>Cash flow from operating activities</i>	29,170	12,890
<i>Cash flow from investing activities</i>	-16,388	-10,121
<i>Cash flow from financing activities</i>	-	686
Cash flow for the year	12,782	3,455
Cash and cash equivalents at beginning of year	42,103	38,640
Exchange differences in cash and cash equivalents	408	8
Cash and cash equivalents at end of year	55,293	42,103

1) In the annual report and year-end report for 2007, write-down of receivable from subsidiary was recognised in selling expenses and was thus included in operating profit. For 2008, the write-down is recognised in financial items. For the sake of comparability, the write-down has been correspondingly reclassified in 2007.

2) In the annual report and year-end report for 2007, only the net change in long-term receivables including write-downs in investing activities was recognised. For the sake of comparability, this item has been reclassified.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

(Amounts in SEK 000s)

	Jan-Dec 2008	Jan-Dec 2007
At beginning of year	94,908	76,178
New issue of warrants	-	686
Profit for the year	29,472	18,044
At end of year	124,380	94,908

SEGMENT REPORTING – PARENT COMPANY

(Amounts in SEK 000s)

	Jan-Dec 2008	Jan-Dec 2007
Europe	93,674	62,269
USA and Canada	8,698	7,544
Asia	29,466	26,626
Rest of world	11,748	10,595
	143,586	107,034

RELATED PARTY TRANSACTIONS GROUP AND PARENT COMPANY

(Amounts in SEK 000s)

The Group and the parent company have a 50% holding in TwoPac AB, which is reported as an associated company.

The following transactions have taken place with TwoPac AB.

	Jan-Dec 2008	Jan-Dec 2007
Interest income	285	304
Conditional shareholder contributions paid	2,000	500
Advance payment converted to shareholder contribution	600	-
Loan converted to shareholder contribution	-	1,000
Purchase of goods	8,952	2,259
Advance payments for future deliveries	-	600
Purchase of machinery and equipment	221	1,195

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

Long-term receivables from related parties

	31 Dec 2008	31 Dec 2007
<i>Long-term receivables from TwoPac AB</i>	4,400	4,400

Current transactions with related parties

Current receivables from TwoPac AB	65	85
Current liabilities to TwoPac AB	-118	-
	-53	85

CONSOLIDATED KEY RATIOS 1)

	Jan-Dec 2008	Jan-Dec 2007
Return on		
- average shareholders' equity	31.8%	23.2%
- average capital employed	25.1%	12.7%
Capital employed, SEK 000s	132,420	94,910
Number of shares, thousands	17,208	17,208
Average number of shares, thousands	17,208	17,208
Number of outstanding warrants, thousands	129	129
Average number of outstanding warrants with a dilutive effect, thousands	-	-
Average number of shares after dilution, thousands	17,208	17,208
Basic earnings per share, SEK	2.10	1.14
Diluted earnings per share, SEK	2.10	1.14
Equity per share, SEK	7.69	5.52
Equity per share after dilution, SEK	7.69	5.52
Equity/assets ratio	86%	86%
Average number of employees	39	37

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

ACCOUNTING POLICIES

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, SE-103 64 Stockholm, Sweden, or by e-mail: info@biogaia.se.

FINANCIAL CALENDAR

The annual report will be distributed to all shareholders in March 2009 and can also be ordered by telephone +46 8-55529300 or by e-mail to info@biogaia.se

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 taken up for discussion at the AGM must apply no later than 1 March 2009 to the Board Chairman by mail to BioGaia AB, Box 3242, SE-103 64 Stockholm, Sweden, or by per e-mail to info@biogaia.se .
18 August 2009	Interim report 1 January – 30 June 2009
22 October 2009	Interim report 1 January – 30 September 2009

The Board of Directors and the Managing Director hereby give their assurance that the year-end report provides a true and fair picture of the business operations, financial position and results of operations of the Parent Company and the Group, and presents the significant risks and uncertainties to which the Parent Company and the Group are exposed.

Stockholm, 12 February 2009

The Board of Directors and the President of BioGaia AB

The information in this interim report was submitted for publication on 12 February 2009, 8:30 a.m. CET.

BioGaia AB
Box 3242 SE-103 64 STOCKHOLM, Sweden
Street address: Kungsbrogatan 3A, Stockholm
Telephone: +46 (0)8 555 293 00
www.biogaia.com
Corp. identity no. 556380-8723

For additional information contact:
Peter Rothschild, Managing Director, telephone: +46 (0)8 - 555 293 00,
Jan Annwall, Deputy Managing Director, telephone: +46 (0)8 - 555 293 00

REVIEW REPORT

Introduction

I have reviewed the interim report for BioGaia AB (publ), corporate identity number 556380-8723, for the period from 1 January to 31 December 2008. The Board of Directors and Managing Director are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. My responsibility is to express a conclusion on this interim financial information based on my review.

Scope of review

I conducted my review in accordance with the Standard on Review Engagements SÖG 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by FAR. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing in Sweden (RS) and other generally accepted auditing practices. The procedures performed in a review do not enable me to obtain a level of assurance that would make me aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion based on an audit.

Conclusion

Based on my review, nothing has come to my attention that causes me to believe that the accompanying interim financial information is not, in all material aspects, prepared in accordance with IAS 34 and the Swedish Annual Accounts Act.

Stockholm, 12 February, 2009

**Lena de Rosche
Authorised Public Accountant
Grant Thornton Sweden AB**