

# BioGaia®

**Press Release, 18 August 2009 (14 pages)**

**BioGaia AB**

**Interim report 1 January – 30 June 2009**

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

## Interim report 1 January – 30 June 2009

- Net sales amounted to SEK 112.4 million (72.4), an increase of SEK 40.0 million (55%).
- Operating profit was SEK 29.9 million (12.6), an increase of SEK 17.3 million.
- Profit before tax was SEK 31.3 million (13.6), an increase of SEK 17.7 million.
- Due to earlier cumulative loss carry forward BioGaia pays no tax. Profit after reported tax was SEK 21.6 million (22.1), a decrease of SEK 0.5 million. The period's reported tax expense of SEK 9.7 million refers to a change in the deferred tax asset. Profit for the corresponding period of last year included a tax benefit of SEK 8.5 million.
- Earnings per share were SEK 1.26 (1.29).
- The period's cash flow from operating activities before change in working capital was SEK 32.1 million (16.2). Total cash flow for the period was SEK 10.9 million (5.0). Cash and cash equivalents at 30 June 2009 amounted to SEK 69.0 million.

## Second quarter, 1 April – 30 June 2009

- Net sales for the second quarter amounted to SEK 60.2 million (36.4), an increase of SEK 23.8 million (65%) over the same period of last year. Compared to the first quarter, net sales rose by SEK 8.0 million.
- Operating profit was SEK 16.6 million (5.0), an increase of SEK 11.6 million.
- Profit before tax was SEK 16.2 million (5.6), an increase of SEK 10.6 million.
- Due to earlier cumulative loss carry forward BioGaia pays no tax. Profit after reported tax was SEK 11.2 million (14.1), a decrease of SEK 2.9 million. The period's reported tax expense of SEK 5.0 million refers to a change in the deferred tax asset. Profit for the corresponding period of last year included a tax benefit of SEK 8.5 million.

## Key events in the second quarter of 2009

- Distribution agreement with InfectoPharm for the sale of BioGaia's Probiotic drops in Germany.
- Agreement with Semper for the sale of probiotic oral rehydration solution in Sweden and Norway.

No key events have taken place after the end of the reporting period.

***"We are seeing excellent results from our efforts, with year-on-year sales growth of 55% for the first six months. Even if one takes into account earlier than schedule deliveries for SEK 5.4 million and positive exchange rate effects, sales are increasing very satisfactorily. Furthermore I am very happy that we have succeeded in maintaining our gross margins and above all in containing our fixed costs," says Managing Director Peter Rothschild.***

### **Latest press releases from BioGaia:**

2009-06-30 BioGaia signs new agreement with Semper for unique probiotic oral rehydration solution  
2009-06-11 BioGaia signs distribution agreement in Germany  
2009-04-23 Annual General Meeting of BioGaia

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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](http://www.biogaia.com)

## BioGaia AB (publ.)

### Interim report

1 January – 30 June 2009

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 from 1 January to 30 June 2009. A brief description of the company's operations is provided on page 13.

### MANAGING DIRECTOR'S COMMENTS

Activities in the first half of 2009 were focused on providing greater support to our distributors in connection with launches and naturally also to distributors who have already had our products on the market for some time. This support takes many forms – we produce material based on our clinical studies that are used by distributors to inform physicians about our products, take part in medical conferences in different capacities, train sales staff, arrange lecture tours with well-renowned professors, etc. We are seeing excellent results from our efforts, with year-on-year sales growth of 55% for the first six months. Even if one takes into account earlier than schedule deliveries for SEK 5.4 million and positive exchange rate effects, sales are increasing very satisfactorily. Furthermore I am very happy that we have succeeded in maintaining our gross margins and above all in containing our fixed costs.

### FINANCIAL PERFORMANCE IN THE FIRST HALF OF 2009

#### **Sales**

Consolidated net sales reached SEK 112.4 million (72.4), up by 55% over the same period of last year. Of the increase, SEK 11.8 million was attributable to rising exchange rates for EUR and JPY compared to the year-earlier period. Excluding currency effects, net sales strengthened by SEK 28.2 million (39%). The period's exchange rate movements (mainly in EUR and JPY) increase both revenues and costs, resulting in a net gain of SEK 5.5 million in operating profit.

BioGaia's finished consumer products in Europe accounted for most of the sales increase compared to the same period of last year. Of total finished consumer products, 32% (18%) were sold under the BioGaia brand in the first half of 2009.

The period's sales growth is partly explained by the fact that orders of SEK 5.4 million that were scheduled for delivery in July were delivered already in June. As a result, third quarter sales will be correspondingly lower.

#### **Gross profit**

Gross profit amounted to SEK 73.0 million (47.8), an increase of SEK 25.2 million compared to the same period of last year.

#### **Other operating expenses**

Selling expenses rose by SEK 6.9 million over the same period of last year, which is partly due to an increase of SEK 2.3 million in costs for the Japanese venture owing largely to exchange rate movements in JPY, and partly to increased marketing and PR activities and somewhat higher personnel costs.

R&D expenses amounted to SEK 13.6 million (10.7), which is equal to 16% (18%) of total operating expenses. The rise in R&D expenses reflects a higher level of activity in clinical studies that began during the first half, as well increased product development costs. The amortisation component of R&D expenses amounted to SEK 1.5 million (1.6). Investments in capitalised development expenses totalled SEK 0 million (0).

#### **Operating profit**

Operating profit was SEK 29.9 million (12.6), an increase of SEK 17.3 million compared to the same period of last year.

#### **Profit before tax**

Profit before tax was SEK 31.3 million (13.6), up by SEK 17.7 million over the same period of last year. Net financial items include an unrealised foreign exchange gain of SEK 0.9 million on forward exchange contracts in EUR. The company has entered into forward exchange contracts for EUR 8.0 million at an average exchange rate of SEK 10.75. Forward exchange contracts amounting to EUR 3.2 million will mature in 2009 and the remaining EUR 4.8 million in 2010. The actual foreign exchange gain/loss depends on the exchange rate on the maturity date of the contracts. If the EUR rate on the maturity date is lower/higher than that at 30 June 2009 (10.87), a foreign exchange gain/loss will be recognised.

#### **Profit after tax**

Profit after reported tax was SEK 21.6 million (22.1), a decrease of SEK 0.5 million compared to the same period of last year. Profit for the period includes a tax expense of SEK 9.7 million, compared to a tax benefit of SEK 8.5 million in the year-earlier period.

The Group pays no tax due to the existence of a cumulative loss carryforward. The Group's loss carryforwards at 30 June 2009 amounted to SEK 66.3 million, of which the Swedish companies accounted for SEK 43.4 million. The deferred tax asset amounts to SEK 11.4 million and is attributable to the Swedish companies. The reported tax expense is attributable to a change in the deferred tax asset.

#### **Earnings per share**

Earnings per share amounted to SEK 1.26 (1.29). A total of 128,950 warrants have been subscribed for in BioGaia's ongoing incentive scheme. Since the current share price is lower than the subscription price, the outstanding options have no dilutive effect.

#### **Cash flow**

The Group's cash and cash equivalents at 30 June 2009 totalled SEK 69.0 million (58.1).

Cash flow for the period was SEK 10.9 million (5.0), an improvement of SEK 5.9 million compared to the same period of last year.

Cash flow from operating activities before change in working capital was SEK 32.1 million (16.2), an increase of SEK 15.9 million over the same period of last year. The increase in working capital was SEK 11.4 million and is mainly attributable to trade receivables.

During the period, the Group paid dividends of SEK 6.9 million and a conditional shareholder contribution of SEK 1.0 million to the associated company TwoPac.

#### **Equity**

Consolidated equity amounted to SEK 146.9 million (117.0). The Group's equity/assets ratio was 89% (86%).

#### **Capital expenditure**

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

#### **Parent Company**

The Parent Company's net sales were SEK 108.5 million (72.6) and a profit after net financial items of SEK 31.2 million (14.3).

### **FINANCIAL PERFORMANCE IN THE SECOND QUARTER OF 2009**

#### **Second quarter sales**

Net sales for the second quarter amounted to SEK 60.2 million (36.4), up by SEK 23.8 million over the same period of last year. Compared to the first quarter, net sales rose by SEK 8.0 million. The period's sales growth is partly explained by the fact that orders amounting to SEK 5.4 million that were scheduled for delivery in July were delivered already in June. As a result, third quarter sales will be correspondingly lower. Aside from these early deliveries and exchange rate movements, net sales rose by 31% over the same period of last year.

#### **Second quarter gross profit**

Gross profit reached SEK 37.5 million, an improvement of SEK 14.1 million over the same period of last year. Compared to the first quarter, gross profit rose by SEK 2.1 million. Gross margin weakened in the second quarter, partly due to the product mix and partly to one-time costs arising from problems in production of dental products.

#### **Second quarter operating profit**

Operating profit for the second quarter was SEK 16.6 million (5.0), an increase of SEK 11.6 million over the same period of last year. Compared to the first quarter, operating profit improved by SEK 3.2 million.

Selling expenses for the quarter were higher than in the first quarter, mainly as a result of various marketing activities and somewhat higher personnel costs. Among other things, in the second quarter the company hosted the customer event that is known as BioGaia Academy and is held around every 18 months. In addition, BioGaia participated in the ESPGHAN meeting in Budapest.

#### **Second quarter profit after tax**

Profit after tax for the second quarter was SEK 11.2 million, a decrease of SEK 2.9 million compared to the same period of last year and an improvement of SEK 0.8 million compared to the first quarter. Second quarter profit includes a tax expense of SEK 5.0 million. Profit for the year-earlier period included a tax benefit of SEK 8.5 million.

The Group pays no tax due to the existence of a cumulative loss carryforward. The reported tax expense is attributable to a change in the deferred tax asset.

#### **Second quarter cash flow**

Second quarter cash flow was SEK 3.2 (1.5) million.

The increase in working capital was SEK 4.8 million, and is mainly attributable to trade receivables. During the period, the Group paid dividends of SEK 6.9 million and a conditional shareholder contribution of SEK 1.0 million to the associated company TwoPac.

### **KEY EVENTS IN THE SECOND QUARTER**

#### **Launches in the second quarter**

- Tablets India, capsule with Reuteri in India
- Ferring, BioGaia's Probiotic drops in Saudi Arabia and Ireland

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 InfectoPharm**

In June BioGaia signed an exclusive distribution agreement for BioGaia's Probiotic drops with the German pharmaceutical company InfectoPharm. The product will be sold under the BioGaia brand and the launch is scheduled for 2010.

#### **Agreement with Semper**

At the end of June BioGaia signed an agreement with Semper giving Semper exclusive rights to distribute a probiotic oral rehydration solution (ORS) containing Reuteri in Sweden and Norway. The probiotic ORS is pre-mixed in a 5.5 g single-portion sachet and will be launched in Swedish pharmacies starting in August 2009.

### **EARLIER EVENTS IN 2009**

#### **Agreement with Aqua Scandik**

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

#### **Study shows that BioGaia's Probiotic chewable tablets are effective in decreasing diarrhoea caused by antibiotics**

In a new double blind, placebo-controlled clinical study, supplementation with BioGaia's Probiotic

chewable tablets containing *L. reuteri* was effective in reducing the incidence of diarrhoea in hospitalised patients who were treated with antibiotics. The study, which was performed at the University Hospitals Case Medical Center in Cleveland, Ohio, USA, was presented by Cimperman and colleagues at the Clinical Nutrition Week 2009 Conference on 1-4 February in New Orleans.

#### **Pharmaceutical in India**

BioGaia has signed an agreement with Tablets India Ltd. for the production and sale of products based on BioGaia's probiotics on the Indian market. The launch took place in April 2009.

The first product to be launched on the Indian market is a capsule under the brand name Apylori Probiotic Capsules. The product is manufactured by Tablets India and registered as a pharmaceutical that will be prescribed by physicians and distributed through pharmacies.

#### **Distribution agreement with Ewopharma for Serbia and Croatia**

In March BioGaia extended its collaboration with the Swiss pharmaceutical company Ewopharma AG, giving the company exclusive rights to sell BioGaia's Probiotic drops and tablets under the BioGaia brand in Serbia and Croatia.

Ewopharma already sells BioGaia's Probiotic tablets and drops in Poland, Slovakia, Hungary and Slovenia and BioGaia's Probiotic tablets in the Czech Republic. The products are sold under the BioGaia brand.

#### **Launches in the first quarter**

- Ferring, BioGaia's Probiotic drops in Lebanon and Greece
- Ferring, BioGaia's Probiotic tablets in Canada
- BioLife, portion-packed bags containing colostrum and Reuteri in China

#### **BIOGAIA JAPAN**

Efforts are underway to adapt the business model in Japan to the model that has been used successfully in other markets. The strategy is to shift the focus from Functional Foods products in grocery stores to sales of drops and straws in pharmacies and drugstores. Although it is still too early to determine whether these measures will be successful, the current outlook is positive. These changes will not affect the existing distributors in Japan, Erina and Chichiyasu.

#### **EMPLOYEES**

The number of employees in the Group at 30 June 2009 was 43 (37).

#### **REPORTING OF CLINICAL STUDIES**

Publication of clinical trial results is a key success factor for BioGaia. The International Committee of Medical Journal Editors has initiated a policy requiring clinical investigators to deposit information about trial design into an accepted clinical trials registry before the onset of patient enrolment, and this is now becoming a prerequisite for publication of

trial outcomes in major medical journals. ClinicalTrials.gov is a registry of clinical trials provided by the U.S. National Institutes of Health and BioGaia encourages all clinicians working with BioGaia products to register their trials on this site. Many of the trials are registered at an early stage, which means that some of the registered trials will not be performed as planned.

Consequently, BioGaia does not take any responsibility for ensuring that the registered trials reach completion or are successfully reported in the register or the scientific literature. When clinical trials results do become available, BioGaia will report these through press releases if such results are of significant importance to its operations.

#### **SIGNIFICANT RISKS AND UNCERTAINTIES: GROUP AND PARENT COMPANY**

The previously chosen business model in Japan was associated with significant cost risk. Measures have now been taken to change the business model (see above). On the balance sheet date, assets in the Japanese subsidiary were reported at SEK 4.1 million. The company's assessment is that there is no indication of impairment of these assets.

The shares in the associated company (TwoPac AB) and the receivable from the associated company amount to a total of SEK 13.7 million in the Group and SEK 13.2 million in the Parent company. The associated company 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. 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 TwoPac will generate good profitability, for which reason no impairment loss was recognised on the balance sheet date. Should the investment in TwoPac 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.

For more information, see pages 4 and 5 and Notes 29 and 30 of the annual report for 2008.

#### **ACCOUNTING POLICIES**

The consolidated financial statements are presented 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.

Unless otherwise stated below, the Group and the Parent Company apply the same accounting and valuation standards as in the 2008 annual report.

#### ***New accounting standards:***

The revised IAS 1, Presentation of Financial Statements, is applied with effect from 1 January

2009. Among other things, the revision means that income and expenses that were previously recognised directly in equity are now recognised in connection with the income statement.

IFRS 8, Operating Segments, is applied with effect from 1 January 2009. The standard requires adaptation of segment information to the reporting used internally by the company's management for monitoring of operations. The application of IFRS 8 has led to a change in the operating segments so that these now consist of the following:

- Finished consumer products: sales of tablets, drops, oral health products, etc.
- Component products: sales of cultures as an ingredient in licensee products, products (such as baby formula and dairy products), royalty income from the use of Reuteri and sales of LifeTop Straw and Life Top Cap.
- Other products: Animal Health, etc.

The application of IFRS 8 has not had any impact on the Group's profit, financial position, cash flow or changes in equity.

## **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 target is a profit margin of at least 25%, with continued strong growth and increased investments in research, product development and brand building. 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 and 2010.

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

## Consolidated statements of comprehensive income

(Amounts in SEK 000s)	<b>Jan-June 2009</b>	Jan-June 2008	<b>Apr-June 2009</b>	Apr-June 2008	Jan-Dec 2008
Net sales	112,440	72,448	60,207	36,369	145,190
Cost of goods sold	-39,473	-24,663	-22,681	-13,006	-48,234
<i>Gross profit</i>	72,967	47,785	37,526	23,363	96,956
Other operating income	1,555	238	1,934	74	4,059
Selling expenses	-26,800	-19,902	-14,486	-10,605	-43,617
Administrative expenses	-4,606	-4,430	-2,151	-2,220	-8,193
Research and development expenses	-13,618	-10,707	-6,777	-5,428	-23,030
Share in profit/loss of associated company	450	-410	540	-150	-334
<i>Operating profit</i>	29,948	12,574	16,586	5,034	25,841
Financial income and expenses	1,366	1,055	-392	581	-1,811
<i>Profit before tax</i>	31,314	13,629	16,194	5,615	24,030
Tax expense for the period	-9,700	8,500	-5,010	8,500	12,091
<b>PROFIT FOR THE PERIOD</b>	<b>21,614</b>	22,129	<b>11,184</b>	14,115	36,121
<b><u>Other comprehensive income</u></b>					
Gains and losses arising on translation of the financial statements of foreign operations	-254	-19	-948	-19	1,290
<b>Comprehensive income for the period</b>	<b>21,360</b>	22,110	<b>10,236</b>	14,096	37,411
<b><u>Profit for the period attributable to:</u></b>					
Equity holders of the Parent Company	21,614	22,129	11,184	14,115	36,121
Minority interests	-	-	-	-	-
	<b>21,614</b>	22,129	11,184	14,115	36,121
<b><u>Comprehensive income for the period attributable to:</u></b>					
Equity holders of the Parent Company	21,360	22,110	10,236	14,096	37,411
Minority interests	-	-	-	-	-
	<b>21,360</b>	22,110	10,236	14,096	37,411
<b><u>Earnings per share</u></b>					
Basic earnings per share (average number of shares), SEK	1.26	1.29	0.65	0.82	2.10
Diluted earnings per share, SEK	1.26	1.29	0.65	0.82	2.10
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

<b><u>CONSOLIDATED BALANCE SHEETS</u></b>	<b>30 June</b>	31 Dec	30 June
(Amounts in SEK 000s)	<b>2009</b>	2008	2008
<b><u>ASSETS</u></b>			
Intangible assets	<b>3,562</b>	5,050	6,631
Tangible assets	<b>5,224</b>	3,936	3,645
Shares in associated company	<b>9,301</b>	7,851	7,175
Non-current receivables from associated company	<b>4,400</b>	4,400	4,400
Deferred tax asset	<b>11,400</b>	21,100	17,500
Other non-current receivables	<b>46</b>	47	46
Current assets excl. cash and cash equivalents	<b>62,435</b>	53,795	48,304
Cash and cash equivalents	<b>68,964</b>	58,127	47,924
<b>TOTAL ASSETS</b>	<b>165,332</b>	154,306	135,625
<b><u>EQUITY AND LIABILITIES</u></b>			
Equity attributable to equity holders in the Parent Company	<b>146,798</b>	132,321	117,020
Minority interests	<b>99</b>	99	-
Total equity	<b>146,897</b>	132,420	117,020
Interest-free current liabilities	<b>18,435</b>	21,886	18,605
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>165,332</b>	154,306	135,625

<b><u>CONSOLIDATED CASH FLOW STATEMENTS</u></b>	<b>Jan-June</b>	Jan-June	<b>Apr-June</b>	Apr-June	Jan-Dec
(Amounts in SEK 000s)	<b>2009</b>	2008	<b>2009</b>	2008	2008
<b><u>Operating activities</u></b>					
Operating profit	<b>29,948</b>	12,574	<b>16,586</b>	5,034	25,841
Depreciation/amortisation	<b>2,063</b>	2,079	<b>1,084</b>	1,059	4,260
Capital gains/losses on the sale of non-current assets	-	7	-	-	7
Share in profit/loss of associated company	<b>-450</b>	410	<b>-540</b>	150	334
Other non-cash items	<b>11</b>	30	<b>72</b>	2	-407
Interest received and paid	<b>478</b>	1,055	<b>207</b>	581	2,381
Cash flow from operating activities before changes in working capital	<b>32,050</b>	16,155	<b>17,409</b>	6,826	32,416
Changes in working capital	<b>-11,412</b>	-7,596	<b>-4,773</b>	-4,185	-13,212
<i>Cash flow from operating activities</i>	<b>20,638</b>	8,559	<b>12,636</b>	2,641	19,204
<i>Cash flow from investing activities</i>	<b>-2,872</b>	-3,581	<b>-2,518</b>	-1,183	-4,966
<i>Cash flow from financing activities</i>	<b>-6,883</b>	-	<b>-6,883</b>	-	99
Cash flow for the period	<b>10,883</b>	4,978	<b>3,235</b>	1,458	14,337
Cash and cash equivalents at beginning of period	<b>58,127</b>	42,977	<b>65,865</b>	46,487	42,977
Exchange difference in cash and cash equivalents	<b>-46</b>	-31	<b>-136</b>	-21	813
Cash and cash equivalents at end of period	<b>68,964</b>	47,924	<b>68,964</b>	47,924	58,127

<b><u>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY</u></b>	<b>Jan-June</b>	Jan-June	Jan-Dec
(Amounts in SEK 000s)	<b>2009</b>	2008	2008
At beginning of year	<b>132,420</b>	94,910	94,910
New share issue in CapAble	-	-	99
Dividends	<b>-6,883</b>	-	-
Comprehensive income for the period	<b>21,360</b>	22,110	37,411
<b>At end of period</b>	<b>146,897</b>	117,020	132,420

### Segment reporting – Group

Since 2003 the company has had only one operating segment, Animal & Human Health, which consists of the Human Health and Animal Health market units.

Starting on 1 January 2009, the Group has implemented IFRS 8 Operating Segments. The Group Management has analysed the Group's internal reporting and established that the Group's operations are steered and evaluated based on the following segments:

- Finished consumer products: sales of tablets, drops and oral health products, etc.
- Component products: sales of cultures as an ingredient in licensee products, products (such as baby formula and dairy products), royalty income from the use of Reuteri and sales of LifeTop Straw and Life Top Cap.
- Other products: Animal Health, etc.

### SEGMENT REPORTING – GROUP

(Amounts in SEK 000s)

#### Revenue by segment

	<b>Jan-June 2009</b>	Jan-June 2008	Jan-Dec 2008
Finished consumer products	<b>83,874</b>	55,820	106,325
Component products	<b>27,895</b>	15,472	36,931
Other products	<b>671</b>	1,156	1,934
	<b>112,440</b>	72,448	145,190

#### Gross profit by segment

	<b>Jan-June 2009</b>	Jan-June 2008	Jan-Dec 2008
Finished consumer products	<b>54,015</b>	35,460	68,728
Component products	<b>18,370</b>	11,321	26,631
Other products	<b>582</b>	1,004	1,597
	<b>72,967</b>	47,785	96,956

#### Trade receivables by segment

	<b>30 June 2009</b>	30 June 2008	31 Dec 2008
Finished consumer products	<b>26,145</b>	19,694	20,400
Component products	<b>13,626</b>	3,685	8,050
Other products	<b>3</b>	279	394
	<b>39,774</b>	23,658	28,844

#### Revenue by geographical market

	<b>Jan-June 2009</b>	Jan-June 2008	Jan-Dec 2008
<u>Sales</u>			
Europe	<b>76,444</b>	48,999	93,973
USA and Canada	<b>6,418</b>	2,504	8,851
Asia	<b>22,761</b>	14,245	30,618
Rest of world	<b>6,817</b>	6,700	11,748
	<b>112,440</b>	72,448	145,190

<b><u>PARENT COMPANY INCOME STATEMENTS</u></b>	<b>Jan-June</b>	Jan-June	Jan-Dec
(Amounts in SEK 000s)	<b>2009</b>	2008	2008
Net sales	<b>108,480</b>	72,635	143,586
Cost of goods sold	<b>-36,640</b>	-24,695	-47,211
<i>Gross profit</i>	<b>71,840</b>	47,940	96,375
Selling expenses 1)	<b>-18,862</b>	-16,594	-36,035
Administrative expenses	<b>-4,566</b>	-4,429	-8,167
Research and development expenses	<b>-13,810</b>	-10,961	-23,042
Other operating income	<b>1,555</b>	238	4,059
<i>Operating profit</i>	<b>36,157</b>	16,194	33,190
Result from shares in associated company	-	-	-334
Result from shares in subsidiary	-	-	-569
Write-down of receivable from subsidiary 1)	<b>-6,803</b>	-3,258	-13,467
Net financial items	<b>1,826</b>	1,314	-1,008
Profit before tax	<b>31,180</b>	14,250	17,812
Tax expense for the period	<b>-10,000</b>	8,500	11,660
<b>PROFIT FOR THE PERIOD</b>	<b>21,180</b>	22,750	29,472

1) In the income statement for January – June 2008, write-down of receivable from subsidiary was recognised in selling expenses. For the sake of comparability, the write-down has been reclassified.

<b><u>PARENT COMPANY BALANCE SHEETS</u></b>	<b>30 June</b>	30 June	31 Dec
	<b>2009</b>	2008	2008
<b><u>ASSETS</u></b>			
Intangible assets	<b>3,562</b>	6,631	5,050
Tangible assets	<b>3,418</b>	3,347	3,581
Shares in group companies	<b>5,469</b>	4,137	4,469
Shares in associated companies	<b>8,851</b>	7,585	7,851
Non-current receivables from subsidiary	<b>1,022</b>	1,801	-
Non-current receivables from associated company	<b>4,400</b>	4,400	4,400
Deferred tax asset	<b>10,660</b>	17,500	20,660
Current assets excl. cash and cash equivalents	<b>59,402</b>	46,259	51,017
Cash and cash equivalents	<b>66,868</b>	47,023	55,293
<b>TOTAL ASSETS</b>	<b>163,652</b>	138,683	152,321
<b><u>EQUITY AND LIABILITIES</u></b>			
Shareholders' equity	<b>138,677</b>	117,658	124,380
Interest-free current liabilities	<b>24,975</b>	21,025	27,941
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>163,652</b>	138,683	152,321

**Pledged assets and contingent liabilities for the Parent Company**

Floating charges	<b>2,000</b>	2,000	2,000
Contingent liabilities	<b>None</b>	None	None

**PARENT COMPANY CASH FLOW STATEMENTS**

	<b>Jan-June 2009</b>	Jan-June 2008	Jan-Dec 2008
<u>Operating activities</u>			
Operating profit 1)	<b>36,157</b>	16,194	33,190
Depreciation/amortisation	<b>1,928</b>	2,021	4,141
Capital gains/losses on the sale of non-current assets	-	7	7
Other non-cash items	<b>10</b>	29	-407
Interest received and paid	<b>490</b>	1,699	2,367
Cash flow from operating activities before changes in working capital	<b>38,585</b>	19,950	39,298
Changes in working capital	<b>-10,683</b>	-7,363	-10,128
<i>Cash flow from operating activities</i>	<b>27,902</b>	12,587	29,170
<i>Cash flow from investing activities 1)</i>	<b>-9,434</b>	-7,639	-16,388
<i>Cash flow from financing activities</i>	<b>-6,883</b>	-	-
Cash flow for the year	<b>11,585</b>	4,948	12,782
Cash and cash equivalents at beginning of year	<b>55,293</b>	42,103	42,103
Exchange differences in cash and cash equivalents	<b>-10</b>	-28	408
Cash and cash equivalents at end of year	<b>66,868</b>	47,023	55,293

1) In the income statement for January – June 2008, write-down of receivable from subsidiary was recognised in selling expenses. For the sake of comparability, the write-down has been reclassified.

**PARENT COMPANY STATEMENT OF CHANGES IN EQUITY**

	<b>Jan-June 2009</b>	Jan-June 2008	Jan-Dec 2008
(Amounts in SEK 000s)			
At beginning of year	<b>124,380</b>	94,908	94,908
Dividends	<b>-6,883</b>	-	-
Profit for the period	<b>21,180</b>	22,750	29,472
<b>At end of period</b>	<b>138,677</b>	117,658	124,380

**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.

	<b>Jan-June 2009</b>	Jan-June 2008	Jan-Dec 2008
Interest income	<b>66</b>	144	285
Conditional shareholder contributions paid	<b>1,000</b>	2,000	2,000
Advance payment converted to shareholder contribution	-	-	600
Purchase of goods	<b>6,843</b>	3,267	8,952
Purchase of machinery and equipment	-	-	221

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

<b>Non-current receivables from TwoPac AB</b>	<b>30 June</b>	30 June	31 Dec
	<b>2009</b>	2008	2008
Non-current receivables from TwoPac AB	<b>4,400</b>	4,400	4,400
<b>Current transactions with related parties</b>			
Current receivables from TwoPac AB	<b>30</b>	74	65
Current liabilities to TwoPac AB	<b>-322</b>	-1031	-118
	<b>-292</b>	-957	-53

Annwall & Rothschild Investment AB holds 740,668 class A shares and 1,251,391 class B shares, corresponding to 11.6% of the share capital and 36.3% of the votes. Annwall & Rothschild Investment AB is owned by Peter Rothschild and Jan Annwall, who are Managing Director and Deputy Managing Director of the Parent Company. The transaction that has taken place refers to a dividend of SEK 0.40 per share. No other transactions have taken place between BioGaia and Annwall & Rothschild Investment AB.

**RELATED PARTY TRANSACTIONS – PARENT COMPANY**

(Amounts in SEK 000s)

The Parent Company holds 100% of the shares in BioGaia Biologics Inc., USA, BioGaia Japan Inc. and TriPac AB.

The Parent Company holds 90.1% of the shares in CapAble AB.

The Parent Company and the Group own 50% of TwoPac AB and report this holding as an associated company.

For transactions with the associated company TwoPac AB – see above.

***The following transactions have taken place with BioGaia Japan***

	<b>Jan-June</b>	Jan-June	Jan-Dec
	<b>2009</b>	2008	2008
Interest income	<b>448</b>	353	818
Loan provided	<b>6,135</b>	4,118	10,595
Purchase of services	-	-	4,241
Sale of goods	<b>220</b>	542	730

Due to uncertainty as to whether the receivable from BioGaia Japan will be recovered within the foreseeable future, a provision has been made for this receivable.

No significant transactions have taken place with other related parties.

<b>CONSOLIDATED KEY RATIOS 1)</b>	<b>Jan-June</b>	Jan-June	Jan-Dec
	<b>2009</b>	2008	2008
Return on			
- average shareholders' equity	<b>15.5%</b>	20.9%	31.8%
- average capital employed	<b>22.4%</b>	12.9%	25.1%
Capital employed, SEK 000s	<b>146,897</b>	117,020	132,420
Number of shares, thousands	<b>17,208</b>	17,208	17,208
Average number of shares, thousands	<b>17,208</b>	17,208	17,208
Number of outstanding warrants, thousands	<b>129</b>	129	129
Average number of outstanding warrants with a dilutive effect, thousands	-	-	-
Average number of shares after dilution, thousands	<b>17,208</b>	17,208	17,208
Basic earnings per share, SEK	<b>1.26</b>	1.29	2.10
Diluted earnings per share, SEK	<b>1.26</b>	1.29	2.10
Equity per share, SEK	<b>8.53</b>	6.80	7.69
Diluted equity per share, SEK	<b>8.53</b>	6.80	7.69
Equity/assets ratio	<b>89%</b>	86%	86%
Operating margin	<b>27%</b>	17%	18%
Profit margin 1)	<b>28%</b>	19%	17%
Average number of employees	<b>43</b>	37	39

1) Profit margin: Profit before tax in relation to sales.

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

#### **FINANCIAL CALENDAR**

22 October 2009      Interim report 1 January – 30 September 2009  
18 February 2010      Year-end report 2009

**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, 18 August 2009**

**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 18 August 2009, 8:15 a.m. CET.

## **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 43 employees, of whom 18 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 net sales consist mainly of revenue from the sale of finished consumer products (tablets, drops and oral health products) to distributors, but also of revenue from the sale of 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 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 there are a number of distributors that sell BioGaia's 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,
- reduce the occurrence of infantile colic,
- reduce the risk of infection and improve gastrointestinal function in pre-term newborns,
- reduce gum inflammation, plaque and the risk for dental caries.

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**Telephone: +46 (0)8 555 293 00 Corp. identity no. 556380-8723**  
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**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 at 30 June 2009 and for the six-month period then ended. 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.

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 and for the Parent Company in accordance with the Swedish Annual Accounts Act.

**Stockholm, 18 August 2009**

**Lena de Rosche**

Authorised Public Accountant  
Grant Thornton Sweden AB