

**Press Release, 22 February 2010 (14 pages)**  
**BioGaia AB**  
**Year-end report 2009**

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

- Net sales amounted to SEK 203.5 million (145.2), an increase of SEK 58.3 million (40%).
- Operating profit was SEK 47.7 million (25.8), an improvement of SEK 21.9 million (85%).
- Profit before tax was SEK 53.1 million (24.0), an increase of SEK 29.1 million (121%).
- Due to the earlier cumulative loss carry forward, BioGaia pays no tax. The period's reported tax expense of SEK 17.1 million refers to a change in the deferred tax asset. Profit after reported tax was SEK 36.0 million (36.1), a decrease of SEK 0.1 million. Profit for the previous year included a deferred tax benefit of SEK 12.1 million.
- Earnings per share after tax amounted to SEK 2.11 (2.10). Earnings per share before tax amounted to SEK 3.09 (1.40).
- The year's cash flow from operating activities before change in working capital was SEK 52.6 million (32.4). Total cash flow for the year was SEK 42.5 million (14.3). Cash and cash equivalents at 31 December 2009 amounted to SEK 100.3 million (58.1).
- The Board proposes to the upcoming AGM an ordinary dividend of SEK 0.90 and an extraordinary dividend of SEK 0.60, amounting to a total dividend of SEK 1.50 per share.

**Fourth quarter 1 October – 31 December 2009**

- Net sales for the fourth quarter amounted to SEK 52.3 million (39.2), an increase of SEK 13.1 million (33%) compared to the same period of last year.
- Operating profit was SEK 11.4 million (7.5), an improvement of SEK 3.9 million.
- Profit before tax was SEK 10.5 million (3.9), an increase of SEK 6.6 million.
- Due to the earlier cumulative loss carry forward, BioGaia pays no tax. The period's reported tax expense of SEK 3.7 million refers to a change in the deferred tax asset. Profit after reported tax was SEK 6.8 million (5.0), an increase of SEK 1.8 million. Profit for the corresponding period of last year included a deferred tax benefit of SEK 1.1 million.

**Key events in the fourth quarter of 2009**

- Agreement with Pharma Nord for the sale of BioGaia's Probiotic tablets and drops in Denmark.

**Key events after the end of the financial year**

- Agreement with Nippon Access for the sale in Japan of a large part of BioGaia's product line.

**“Both the rapid growth in sales and profit and the enthusiastic reception our products have received in all of the new countries where they have been launched are very satisfying.” says President Peter Rothschild.**

**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 AB (publ.)

### Year-end report

1 January – 31 December 2009

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 the period from 1 January to 31 December 2009. A brief description of the company's operations is provided on page 13.

### PRESIDENT'S COMMENTS

Both the rapid growth in sales and profit and the enthusiastic reception our products have received in all of the new countries where they have been launched are very satisfying. Launches took place in 16 countries during the past year and we have product launches planned for some 20 additional countries during 2010.

We have launched new products in some markets and are currently in discussions with our existing distributors to broaden the range with these new products in a number of countries.

For the past three years we have been working to strengthen our presence in Japan. This work has been costly and arduous, but has now resulted in an agreement with the major Japanese wholesaler Nippon Access, which has access to virtually all distribution channels in Japan. It is our hope that we will see the positive effects of this new partnership in 2010.

At the end of 2009 we reinforced our marketing department and now have even better capacity to support our distributors.

Our clinical study programme is being continuously expanded and we have more patients taking part in clinical studies today than ever before.

### FINANCIAL PERFORMANCE IN 2009

#### **Sales**

Consolidated net sales amounted to SEK 203.5 million (145.2), up by 40% compared to 2008. Of the increase, SEK 13.7 million was attributable to rising exchange rates for EUR and JPY compared to the previous year. Excluding currency effects, net sales strengthened by 31%. The period's exchange rate movements (mainly in EUR and JPY) increased both revenues and costs, resulting in a net gain of SEK 6.4 million.

The sales of BioGaia's finished consumer products in Europe accounted for most of the sales increase compared to last year.

Of total finished consumer products, 31% (21) were sold under the BioGaia brand.

#### **Gross profit**

Gross profit amounted to SEK 135.3 million (97.0), an improvement of SEK 38.3 million compared to the previous year.

#### **Other operating expenses**

Selling expenses rose by SEK 9.3 million over the previous year, which is partly due to increased marketing and PR activities and partly to higher personnel costs.

R&D expenses amounted to SEK 27 million (23.0), which is equal to 17% (19) of total operating expenses and 13% (16) of net sales. The rise in R&D expenses reflects a higher level of activity in clinical studies that began during the year, as well as increased product development costs. The amortisation component of R&D expenses amounted to SEK 3.0 million (3.4). Investments in capitalised development expenses totalled SEK 0 million (0).

#### **Operating profit**

Operating profit was SEK 47.7 million (25.8), an increase of SEK 21.9 million over the previous year.

#### **Profit before tax**

Profit before tax was SEK 53.1 million (24), an increase of SEK 29.1 million over the previous year. Net financial items include an unrealised foreign exchange gain of SEK 4.5 million on forward exchange contracts in EUR. At 31 December 2009 the company had entered into forward exchange contracts for EUR 7.8 at an average exchange rate of SEK 10.70. Forward exchange contracts amounting to EUR 7.2 million will mature in 2010 and the remaining EUR 0.6 million in 2011. 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 31 December 2009 (10.32), a foreign exchange gain/loss will be recognised.

#### **Profit after tax**

Profit after reported tax was SEK 36.0 million (36.1), a decrease of SEK 0.1 million compared to the previous year. Profit for the year includes reported tax expense of SEK 17.1 million pertaining to a change in the deferred tax asset. Profit for the previous year included a deferred tax benefit of SEK 12.1 million.

The Group pays no tax due to the existence of a cumulative loss carryforward. The Group's loss carryforwards at 31 December 2009 amounted to SEK 45.4 million, of which the Swedish companies accounted for SEK 15.6 million. The deferred tax asset amounts to SEK 4.1 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 after tax amounted to SEK 2.11 (2.10). A total of 128,950 warrants have been subscribed for in BioGaia's ongoing incentive scheme. Since the share price at year-end exceeded the subscription price, the outstanding warrants are estimated to have a dilutive effect. After dilution, earnings per share are SEK 2.09.

Profit for the year includes reported tax expense of SEK 17.1 million pertaining to a change in the deferred tax asset. Profit for the previous year included a deferred tax benefit of SEK 12.1 million. Earnings per share before tax and dilution were SEK 3.09 (1.40).

## Cash flow

The Group's cash and cash equivalents at 31 December 2009 totalled SEK 100.3 million (58.1).

Cash flow for the year was SEK 42.5 million (14.3), an improvement of SEK 28.2 million compared to the previous year.

Cash flow from operating activities before change in working capital was SEK 52.6 million (32.4), an increase of SEK 20.2 million compared to the previous year.

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 161.1 million (132.4). The Group's equity/assets ratio was 90% (86).

## Capital expenditure

Capital expenditure on property, plant and equipment totalled SEK 2.9 million (2.4).

## Parent Company

The Parent Company's net sales are reported at SEK 198.6 million (143.6) and profit after net financial items was SEK 53.8 million (17.8).

This figure includes an impairment loss of SEK 13.4 million (13.5) on receivables from the Japanese subsidiary. Profit after tax was SEK 36.2 million (29.5). Cash flow in the Parent Company amounted to SEK 41.3 million (12.8). Cash flow from investing activities includes a loan of SEK 12.2 million (10.6) to the Japanese subsidiary.

## FINANCIAL PERFORMANCE IN THE FOURTH QUARTER

### Fourth quarter sales

Net sales for the fourth quarter amounted to SEK 52.3 million (39.2), up by SEK 13.1 million (33%) over the same period of last year. Compared to the third quarter, net sales rose by SEK 13.6 million.

### Fourth quarter gross profit

Gross profit reached SEK 35.8 million (25.7), an improvement of SEK 10.1 million over the same period of last year. Compared to the third quarter, gross profit rose by SEK 9.2 million.

### Fourth quarter operating profit

Operating profit for the fourth quarter was SEK 11.4 million (7.5), an increase of SEK 3.9 million over the same period of last year. Compared to the third quarter, operating profit improved by SEK 5.0 million.

### Fourth quarter profit after tax

Profit after tax for the fourth quarter was SEK 6.8 million (5.0), up by SEK 1.8 million compared to the same period of last year and down by SEK 0.9 million compared to the third quarter. Third quarter profit included an unrealised foreign exchange gain of SEK 4.7 million on foreign exchange contracts in EUR, while fourth quarter profit included an unrealised

foreign exchange loss of SEK 1.0 million.

Profit for the fourth quarter includes a reported tax expense of SEK 3.7 million pertaining to a change in the deferred tax asset. Profit for the year-earlier period included a deferred tax benefit of SEK 1.1 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.

## Fourth quarter cash flow

Fourth quarter cash flow was SEK 12.9 million (-1.3).

## KEY EVENTS IN THE FOURTH QUARTER

### Launches in the fourth quarter

Distributor/licensee	Product	Country
Ferring	Tablets	Mexico
Ewopharma	Tablets and drops	Croatia
Delta Medical	Drops	Kazakhstan
Laboratoires Bioetic	Tablets and drops	France
Nestlé	Infant formula with Reuteri	France

The length of time between contract and launch varies between countries due to among other things 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 Pharma Nord

BioGaia has signed an agreement with the Danish company Pharma Nord Aps which gives Pharma Nord exclusive rights to sell BioGaia's Probiotic drops and tablets in Denmark. The launch is expected to take place in the first half of 2010.

## KEY EVENTS AFTER THE END OF THE FINANCIAL YEAR

### Agreement with Nippon Access

After a long period of trial sales through various distribution channels and discussions with a number of possible distributors in Japan, BioGaia has chosen to sign an agreement with one of Japan's largest wholesalers, Nippon Access, a subsidiary of the major trading house Itochu Corporation. Aside from distribution of food products through Nippon Access, Itochu also handles distribution of pharmaceuticals to pharmacies via two different subsidiaries. The agreement covers food products and infant formula with Reuteri and BioGaia's primary products such as drops, oral health lozenges and Life Top Straw. Sales will be handled by BioGaia's Japanese subsidiary, which will also support Nippon Access's marketing of the products through training of doctors, sales representatives and marketing staff and participation in negotiations with companies that are interested in selling products with Reuteri. Under the agreement, it is BioGaia's hope that the company's products can be quickly launched on the Japanese market on a large scale via a number of distribution channels that were difficult to reach through the previous business model. The launch will take place in the second quarter of 2010.

This agreement will not affect the existing distributors in Japan, Erina, Chichiyasu and Earth Biochemical.

## **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 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 in New Orleans.

### ***Pharmaceutical in India***

BioGaia has an agreement with Tablets India Ltd. for the production and sale of products based on BioGaia's probiotics on the Indian market.

The first product was launched on the Indian market in April 2009, 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.

### ***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. ORS is administered in the event of diarrhoea and vomiting to quickly restore the body's salt and fluid balance. The probiotic ORS is pre-mixed in a single-portion sachet and was launched in Swedish pharmacies in August 2009.

### ***Agreement with Laboratoires BIOETHIC***

In August BioGaia signed a distribution agreement with the French company Laboratoires BIOETHIC. The agreement gives Laboratoires BIOETHIC exclusive rights to sell BioGaia's Probiotic drops and tablets in France. The products are sold under the

BioGaia brand. The launch of BioGaia's Probiotic drops and tablets took place in the fourth quarter of 2009.

### ***Personnel changes in BioGaia***

Jan Annwall, Executive Vice President, one of the Company's founder, Chief Financial Officer and Board member of BioGaia AB, announced in September that he would leave his position in the company in connection with his 60<sup>th</sup> birthday in April 2010. After this date, Jan will be at the company's disposal on a consulting basis. Jan has declared that he will remain available to serve as Board member at the 2010 Annual General Meeting. BioGaia's Board of Directors has appointed Margareta Hagman och Urban Strindlöv as Executive Vice Presidents of the company as of 1 April 2010. Margareta will be responsible for accounting, finance and administration, while Urban will be responsible for product development and special business development projects.

### ***Extended agreements with Delta Medical and Ewopharma***

In the third quarter BioGaia signed extended agreements with Delta Medical and Ewopharma. The agreement with Delta Medical grants them the right to sell BioGaia's Probiotic drops and tablets in Kazakhstan, Armenia, Azerbadzjan, Belarus, Georgia, Kirgizstan, Turkmenistan and Uzbekistan. The agreement with Ewopharma grants them the right to sell BioGaia's Probiotic drops and tablets in Moldova.

### ***Launches in January - September 2009***

<b>Distributor/licensee</b>	<b>Product</b>	<b>Country</b>
Semper	Oral rehydration solution with Reuteri	Sweden
Ewopharma	Drops and tablets	Romania
Delta Medical	Tablets	Ukraine
Neocare	Drops and tablets	Belgium and Luxembourg
Ferring	Drops	Lebanon, Greece, Saudi Arabia and Ireland
Biolife	Single-portion sachet containing colostrum and Reuteri	China
Tablets India	Capsule with Reuteri	India

## **EMPLOYEES**

The number of employees in the Group at 31 December 2009 was 45 (42).

### ***Ongoing employee incentive scheme***

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

## **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 trial 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 found to be unsuccessful. 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 5.0 million. The company assessment is that there is no indication of impairment of these assets.

The shares in and receivables from the associated company (TwoPac AB) amount to a total of SEK 13.8 million in both the Group and the Parent Company. TwoPac's profit for the year was SEK 1.1 million. TwoPac AB's core 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 TwoPac will generate good profitability, for which reason no impairment loss was recognised on the balance sheet date.

The shares in and receivables from the subsidiary CapAble amount to a total of SEK 5.8 million in the Parent Company. CapAble reported a loss SEK 2.3 million for the financial year 2009. CapAble, which is 90.1% owned by BioGaia AB, was started in November 2008 to manufacture and sell the patented LifeTop Cap. In this bottle closure, it is possible to place sensitive ingredients that could not survive in a beverage within an aluminium blister that is placed inside the cap, to be released into the beverage at the time of consumption. The cap has been developed primarily to contain lactic acid bacteria but is also suitable for vitamins and minerals. The plastic details are purchased from BeriCap in France, while filling and sealing of the blisters is handled by TwoPac AB in Eslöv. Since the start, CapAble has focused mainly on development of production equipment, running in of production and delivery of small volumes to a few customers. BioGaia's assessment is that CapAble will generate good profitability, for which reason no impairment loss was recognised on the balance sheet date.

#### **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 most recent 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 attributable to non-owner transactions 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 to achieve a profit margin of at least 25% within a period of three to five years, 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 paid tax.

Product launches in a large number of countries are expected to take place during 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 a growing distribution network covering a large share of the key markets, BioGaia's future outlook is bright.

#### **PROPOSED APPROPRIATION OF PROFITS**

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

Retained profit:	22,589
Profit for the year:	36,196
Together amounting to:	58,785

The Board of Directors and the President propose that the Company pay an ordinary dividend of SEK 0.90 and considering the good cash position and the strong balance sheet an extraordinary dividend of SEK 0.60, amounting to a total dividend of SEK 1.50 per share. This is equal to a total distribution of SEK 25.8 million. It is proposed that the remaining retained profits of SEK 33.0 million be carried forward to new account.

**CONSOLIDATED INCOME STATEMENTS**

(Amounts in SEK 000s)

	<b>Jan-Dec</b>	Jan-Dec	<b>Oct-Dec</b>	Oct-Dec
	<b>2009</b>	2008	<b>2009</b>	2008
Net sales	<b>203,461</b>	145,190	<b>52,298</b>	39,184
Cost of goods sold	<b>-68,151</b>	-48,234	<b>-16,531</b>	-13,440
<i>Gross profit</i>	<b>135,310</b>	96,956	<b>35,767</b>	25,744
Other operating income 1)	<b>750</b>	4,059	<b>116</b>	3,619
Selling expenses	<b>-52,906</b>	-43,617	<b>-14,861</b>	-12,695
Administrative expenses	<b>-8,996</b>	-8,193	<b>-2,672</b>	-2,214
Research and development expenses	<b>-27,000</b>	-23,030	<b>-7,048</b>	-6,795
Share in profit/loss of associated company	<b>590</b>	-334	<b>90</b>	-174
<i>Operating profit</i>	<b>47,748</b>	25,841	<b>11,392</b>	7,485
Financial income and expenses	<b>5,365</b>	-1,811	<b>-903</b>	-3,551
<i>Profit before tax</i>	<b>53,113</b>	24,030	<b>10,489</b>	3,934
Tax expense	<b>-17,068</b>	12,091	<b>-3,728</b>	1,091
<b>PROFIT FOR THE PERIOD</b>	<b>36,045</b>	36,121	<b>6,761</b>	5,025
<b><u>Other comprehensive income</u></b>				
Gains and losses arising on translation of the financial statements of foreign operations	<b>-464</b>	1,290	<b>26</b>	924
<b>Comprehensive income for the period</b>	<b>35,581</b>	37,411	<b>6,787</b>	5,949

**Profit for the period attributable to:**

Owners of the Parent Company	<b>36,310</b>	36,121	<b>7,026</b>	5,025
Minority interests	<b>-265</b>	-	<b>-265</b>	-
	<b>36,045</b>	36,121	<b>6,761</b>	5,025

**Comprehensive income for the period attributable to:**

Owners of the Parent Company	<b>35,846</b>	37,411	<b>7,052</b>	5,949
Minority interests	<b>-265</b>	-	<b>-265</b>	-
	<b>35,581</b>	37,411	<b>6,787</b>	5,949

1) The full amount consists of foreign exchange gains and foreign exchange losses of an operating nature.

**Earnings per share**

Basic earnings per share, SEK	<b>2.11</b>	2.10	<b>0.41</b>	0.29
Diluted earnings per share, SEK	<b>2.09</b>	2.10	<b>0.41</b>	0.29
Basic earnings per share before tax, SEK	<b>3.09</b>	1.40	<b>0.61</b>	0.23
Diluted earnings per share before tax, SEK	<b>3.06</b>	1.40	<b>0.61</b>	0.23
Number of shares, thousands	<b>17,208</b>	17,208	<b>17,208</b>	17,208
Average number of shares, thousands	<b>17,208</b>	17,208	<b>17,208</b>	17,208
Number of outstanding warrants, thousands	<b>129</b>	129	<b>129</b>	129
Average number of outstanding warrants with a dilutive effect, thousands	<b>129</b>	-	<b>129</b>	-
Average number of shares after dilution, thousands	<b>17,337</b>	17,208	<b>17,337</b>	17,208

**CONSOLIDATED BALANCE SHEETS**

(Amounts in SEK 000s)

	31 Dec 2009	31 Dec 2008
<b>ASSETS</b>		
Intangible assets	2,285	5,050
Tangible assets	5,424	3,936
Shares in associated company	9,441	7,851
Non-current receivables from associated company	4,400	4,400
Deferred tax asset	4,100	21,100
Other non-current receivables	30	47
Current assets excl. cash and cash equivalents	53,807	53,795
Cash and cash equivalents	100,327	58,127
<b>TOTAL ASSETS</b>	<b>179,814</b>	154,306
<b>EQUITY AND LIABILITIES</b>		
Equity attributable to owner in the Parent Company	161,284	132,321
Minority interests	-166	99
Total equity	161,118	132,420
Interest-free current liabilities	18,696	21,886
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>179,814</b>	154,306

**CONSOLIDATED CASH FLOW STATEMENTS**

(Amounts in SEK 000s)

	Jan-Dec 2009	Jan-Dec 2008	Oct-Dec 2009	Oct-Dec 2008
<b>Operating activities</b>				
Operating profit	47,748	25,841	11,392	7,485
Depreciation/amortisation	4,144	4,260	949	1,138
Capital gains/losses on the sale of non-current assets	-	7	-	-
Share in profit/loss of associated company	-590	334	-90	174
Other non-cash items	208	-407	-34	-324
Interest received and paid	1,126	2,381	385	641
Cash flow from operating activities before changes in working capital	52,636	32,416	12,602	9,114
Changes in working capital	654	-13,212	676	-9,450
<i>Cash flow from operating activities</i>	<i>53,290</i>	<i>19,204</i>	<i>13,278</i>	<i>-336</i>
<i>Cash flow from investing activities</i>	<i>-3,881</i>	<i>-4,966</i>	<i>-402</i>	<i>-1,085</i>
<i>Cash flow from financing activities</i>	<i>-6,883</i>	<i>99</i>	<i>0</i>	<i>99</i>
Cash flow for the period	42,526	14,337	12,876	-1,322
Cash and cash equivalents at beginning of period	58,127	42,977	87,460	58,800
Exchange difference in cash and cash equivalents	-326	813	-9	649
Cash and cash equivalents at end of period	100,327	58,127	100,327	58,127

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Amounts in SEK 000s)

	Jan-Dec 2009	Jan-Dec 2008
At beginning of year	132,420	94,910
New share issue in CapAble	-	99
Dividends	-6,883	-
Comprehensive income for the year	35,581	37,411
<b>At end of year</b>	<b>161,118</b>	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)

<b>Revenue by segment</b>	<b>Jan-Dec</b>	Jan-Dec
	<b>2009</b>	<b>2008</b>
Finished consumer products	<b>147,673</b>	106,325
Component products	<b>53,814</b>	36,931
Other products	<b>1,974</b>	1,934
	<b>203,461</b>	145,190

<b>Gross profit by segment</b>	<b>Jan-Dec</b>	Jan-Dec
	<b>2009</b>	<b>2008</b>
Finished consumer products	<b>94,804</b>	68,728
Component products	<b>38,816</b>	26,631
Other products	<b>1,690</b>	1,597
	<b>135,310</b>	96,956

<b>Trade receivables by segment</b>	<b>31 Dec</b>	31 Dec
	<b>2009</b>	<b>2008</b>
Finished consumer products	<b>23,448</b>	20,400
Component products	<b>4,929</b>	8,050
Other products	<b>344</b>	394
	<b>28,721</b>	28,844

### Revenue by geographical market

<b>Sales</b>	<b>Jan-Dec</b>	Jan-Dec
	<b>2009</b>	<b>2008</b>
Europe	<b>138,430</b>	93,973
USA and Canada	<b>14,571</b>	8,851
Asia	<b>37,386</b>	30,618
Rest of world	<b>13,074</b>	11,748
	<b>203,461</b>	145,190

**PARENT COMPANY INCOME STATEMENTS**

(Amounts in SEK 000s)

	Jan-Dec 2009	Jan-Dec 2008
Net sales	198,567	143,586
Cost of goods sold	-63,793	-47,211
<i>Gross profit</i>	134,774	96,375
Selling expenses	-38,870	-36,035
Administrative expenses	-8,918	-8,167
Research and development expenses	-27,278	-23,042
Other operating income	750	4,059
<i>Operating profit</i>	60,458	33,190
Result from shares in associated company	590	-334
Result from shares in subsidiaries	-	-569
Write-down of receivable from subsidiary 1)	-13,446	-13,467
Net financial items	6,204	-1,008
Profit before tax	53,806	17,812
Tax expense	-17,610	11,660
<b>PROFIT FOR THE YEAR</b>	<b>36,196</b>	<b>29,472</b>

**PARENT COMPANY BALANCE SHEETS**

	31 Dec 2009	31 Dec 2008
<b><u>ASSETS</u></b>		
Intangible assets	2,285	5,050
Tangible assets	3,855	3,581
Shares in subsidiaries	7,469	4,469
Shares in associated company	9,441	7,851
Non-current receivables from subsidiaries	1,022	-
Non-current receivables from associated company	4,400	4,400
Deferred tax asset	3,050	20,660
Current assets excl. cash and cash equivalents	50,912	51,017
Cash and cash equivalents	96,379	55,293
<b>TOTAL ASSETS</b>	<b>178,813</b>	<b>152,321</b>
<b><u>EQUITY AND LIABILITIES</u></b>		
Shareholders' equity	153,693	124,380
Interest-free current liabilities	25,120	27,941
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>178,813</b>	<b>152,321</b>

**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 2009	Jan-Dec 2008
<u>Operating activities</u>		
Operating profit	60,458	33,190
Depreciation/amortisation	3,792	4,141
Capital gains/losses on the sale of non-current assets	-	7
Other non-cash items	208	-407
Interest received and paid	1,121	2,367
Cash flow from operating activities before changes in working capital	65,579	39,298
Changes in working capital	1,144	-10,128
<i>Cash flow from operating activities</i>	66,723	29,170
<i>Cash flow from investing activities</i>	-18,546	-16,388
<i>Cash flow from financing activities</i>	-6,883	-
Cash flow for the year	41,294	12,782
Cash and cash equivalents at beginning of year	55,293	42,103
Exchange differences in cash and cash equivalents	-208	408
Cash and cash equivalents at end of year	96,379	55,293

**PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY**

	Jan-Dec 2009	Jan-Dec 2008
(Amounts in SEK 000s)		
At beginning of year	124,380	94,908
Dividends	-6,883	-
Profit for the period	36,196	29,472
<b>At end of year</b>	<b>153,693</b>	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.

	Group Jan-Dec 2009	Jan-Dec 2008	Parent Company Jan-Dec 2009	Jan-Dec 2008
Interest income	116	285	116	285
Shareholder contributions paid	1 000	2 000	1 000	2 000
Purchase of goods	13 052	8 952	12 976	8 952
Conversion of advance payment to conditional shareholder contribution	-	600	-	600
Purchase of machinery and equipment	-	221	-	221

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

***Non-current receivables from TwoPac AB***

	<b>Group</b>		<b>Parent Company</b>	
	<b>31 Dec</b>	31 Dec	<b>31 Dec</b>	31 Dec
	<b>2009</b>	<u>2008</u>	<b>2009</b>	<u>2008</u>
Non-current receivables from TwoPac AB	<b>4,400</b>	4,400	<b>4,400</b>	4,400
<b><i>Current transactions with related parties</i></b>				
Current receivables from TwoPac AB	<b>24</b>	65	<b>24</b>	65
Current liabilities to TwoPac AB	<b>-704</b>	-118	<b>-688</b>	-118
	<b>-680</b>	-53	<b>-664</b>	-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 President and Executive Vice President 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-Dec</b>	Jan-Dec
	<b>2009</b>	<u>2008</u>
Interest income	<b>818</b>	818
Loan provided	<b>12,223</b>	10,595
Purchase of services	-	4,241
Sale of goods	<b>405</b>	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</b>	<b>2009</b>	2008
Return on		
- average shareholders' equity	<b>25%</b>	32%
- average capital employed	<b>36%</b>	25%
Capital employed, SEK 000s	<b>161,118</b>	132,420
Number of shares, thousands	<b>17,208</b>	17,208
Average number of shares, thousands	<b>17,208</b>	17,208
Number of outstanding warrants, thousands	<b>129</b>	129
Average number of outstanding warrants with a dilutive effect, thousands	<b>129</b>	-
Average number of shares after dilution, thousands	<b>17,337</b>	17,208
Basic earnings per share after reported tax, SEK	<b>2.11</b>	2.10
Diluted earnings per share after reported tax, SEK	<b>2.09</b>	2.10
Basic earnings per share after paid tax, SEK	<b>3.09</b>	1.40
Diluted earnings per share after paid tax, SEK	<b>3.06</b>	1.40
Basic equity per share, SEK 2)	<b>9.37</b>	7.69
Diluted equity per share, SEK	<b>9.30</b>	7.69
Equity/assets ratio	<b>90%</b>	86%
Operating margin	<b>23%</b>	18%
Profit margin 1)	<b>26%</b>	17%
Average number of employees	<b>43</b>	39

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

2) Equity: Equity attributable to owners of the Parent Company.

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

#### **NOMINATING COMMITTEE**

In accordance with the decision of the Annual General Meeting, the Nominating Committee has been appointed and consists of Per-Erik Andersson, representing Annwall & Rothschild Investment AB, the company's largest shareholder, Board Chairman David Dangoor, the second largest shareholder, and Sven Zetterqvist, representing Livförsäkringsaktiebolaget Skandia, the fourth largest shareholder. The Nominating Committee can be contacted at the following address: BioGaia AB, Box 3242, SE-103 64 Stockholm, Sweden, or by e-mail to [mr@biogaia.se](mailto:mr@biogaia.se).

#### **FINANCIAL CALENDAR**

The 2009 annual report will be distributed to all shareholders during the last week of March 2010 and can also be ordered by telephone +46 8-55529300 or by e-mail to [mr@biogaia.se](mailto:mr@biogaia.se).

6 May 2010	Interim report 1 January – 31 March 2010
6 May 2010	Annual General Meeting, 4:00 p.m., at Lundqvist & Lindqvist Klara Strand Konferens, Klarabergsviadukten 90, in Stockholm
	Shareholders who wish to have a matter dealt with at the AGM must notify the Board Chairman no later than 1 March 2010 by letter to BioGaia AB, Box 3242, SE-103 64 Stockholm, Sweden, or by e-mail to <a href="mailto:mr@biogaia.se">mr@biogaia.se</a>
17 August 2010	Interim report 1 January – 30 June 2010
27 October 2010	Interim report 1 January – 30 September 2010

**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, 22 February 2010**

**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**  
President

The information in this interim report was submitted for publication on 22 February 2010, 8.00 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 45 employees, of whom 19 are based in Stockholm, 19 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 50 countries worldwide.

In Sweden, BioGaia's products are sold under the brands Semper Magdroppar and Vätskeersättning and Gum PerioBalance lozenges 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.

Some of BioGaias distributors sell finished consumer 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 in a large number of markets. 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.

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

2009-12-09 Changed date for BioGaia's year-end report  
2009-12-08 BioGaia nominates two Executive Vice Presidents  
2009-10-22 Interim report 1 January – 30 September 2009

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

**For additional information contact:**  
**Peter Rothschild, President, telephone: +46 (0)8-555 293 00,**  
**Jan Annwall, Executive Vice President, 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 31 December 2009 and for the financial year 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.

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

**Stockholm, 22 February 2010**

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