

BioGaia®

Press Release, 6 May 2010 (12 pages)
BioGaia AB
Interim report 1 January – 31 March 2010

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

Interim report 1 January – 31 March 2010

- Net sales amounted to SEK 58.6 million (52.2), an increase of SEK 6.4 million (12%). Excluding foreign exchange effects, the increase in net sales was 23%*.
- Operating profit was SEK 14.1 million (13.4), an improvement of SEK 0.7 million (5%). Excluding foreign exchange effects, operating profit rose by 37%*.
- Profit before tax was SEK 18.1 million (15.1), an increase of SEK 3.0 million (20%).
- Profit after tax was SEK 12.2 million (10.4), an improvement of SEK 1.8 million (17%).
- Earnings per share amounted to SEK 0.71 (0.61).
- The period's cash flow from operating activities before changes in working capital was SEK 14.7 million (14.6). Total cash flow for the period was SEK 12.2 million (7.6). Cash and cash equivalents at 31 March 2010 amounted to SEK 112.3 million (65.9).

Key events in the first quarter of 2010

- Agreement with Nippon Access for the sale of a large share of BioGaia's product range in Japan.
- Agreement with Ferring Pharmaceuticals for the sale of Probiotic drops and tablets in Argentina.
- Agreement with Interbat for the sale of Probiotic drops in Indonesia.

“Our business model works well. The model is based on informing physicians through our partners’ sales forces, which results in the physicians recommending the products and the patients buying them in pharmacies. It is satisfying to see how quickly we are growing particularly in Europe” says President Peter Rothschild.

* Most of the company's sales are denominated in EUR. The EUR rate was lower in the first quarter of 2010 than in the corresponding period of 2009. If the EUR rate had been the same, net sales would have been SEK 5.7 million higher. Because the exchange rate fluctuations (mainly in EUR and JPY) have reduced both income and expenses, operating profit would have been SEK 4.2 million higher in the event of an unchanged exchange rate.

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

www.biogaia.com

BioGaia®
Clinically Proven Probiotics

BioGaia AB (publ.)

Interim report

1 January – 31 March 2010

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 interim report for the period from 1 January to 31 March 2010. A brief description of the company's operations is provided on page 12.

PRESIDENT'S COMMENTS

High profitability and continued growth

We are now preparing intensively for launches in a large number of countries and it is encouraging to see how quickly we are entering important markets like France and Germany. Our business model works well. The model is based on informing physicians through our partners' sales forces, which results in the physicians recommending the products and the patients buying them in pharmacies. It is satisfying to see how quickly we are growing particularly in Europe.

In Japan we now introduce our established business model through our new partner Nippon Access, who will work hard to market our products to physicians and other healthcare professionals. Since the launch will take place in the second quarter, sales have not yet started.

In addition, one of our other partners in Japan has announced a price increase, despite the fact that their costs for our product have not risen, which has caused their sales to fall sharply. Our dairy customers in Asia have been impacted by the financial crisis and sales to these customers have subsequently decreased. Since the beginning of the year, we have an employee on site in Shanghai and it is our hope that this will lead to relatively fast results in the form of new agreements in the area.

When it comes to the USA, sales are rising rapidly but from a low level. We are taking active steps working with PR and seeking new inroads into the market.

FINANCIAL PERFORMANCE IN THE FIRST QUARTER OF 2010

Sales

Consolidated net sales reached SEK 58.6 million (52.2), up by 12% over the same period of last year. Most of the company's sales are denominated in EUR. The EUR rate was lower in the first quarter of 2010 than in the same period of 2009. If the EUR rate had been the same, net sales would have been SEK 5.7 million higher. Excluding foreign exchange effects, the increase in net sales was 23%. Because the exchange rate fluctuations (mainly in EUR and JPY) have reduced both income and expenses, operating profit would have been SEK 4.2 million higher in the event of an unchanged exchange rate.

Sales of BioGaia's finished consumer products in Europe accounted for most of the increase in sales compared to the same period of last year. Sales in Asia declined sharply compared to the same period of 2009, mainly because the sales that earlier were made in Japan via the retail trade have now been

discontinued following the decision to distribute the company's products through Nippon Access.

Of total finished consumer products, 35% (28) were sold under the BioGaia brand.

Compared to the previous quarter, net sales rose by SEK 6.3 million.

Sales vary between quarters. For a more accurate picture, a rolling 12-month income statement is shown below.

Gross profit

Gross profit amounted to SEK 39.3 million (35.4), an improvement of SEK 3.9 million compared to the same period of last year.

Other operating expenses

Selling expenses rose by SEK 1.9 million over the same period of last year, which is mainly due to increased marketing activities and higher personnel costs.

R&D expenses amounted to SEK 7.6 million (6.8), which is equal to 17% (18) of total operating expenses and 13% (13) of net sales. The amortisation component of R&D expenses amounted to SEK 0.4 million (0.7). Investments in capitalised development expenses totalled SEK 0 million (0).

Operating profit

Operating profit was SEK 14.1 million (13.4), an increase of SEK 0.7 million (5%) over the same period of last year. Excluding foreign exchange effects, operating profit improved by 37%.

Profit before tax

Profit before tax was SEK 18.1 million (15.1), which is SEK 3.0 million better than in the same period of last year. Net financial items include an unrealised foreign exchange gain of SEK 3.3 million (1.5) on forward exchange contracts in EUR. At 31 March 2010 the company had entered into forward exchange contracts for EUR 11.1 million at an average exchange rate of SEK 10.23. Forward exchange contracts amounting to EUR 5.4 million will mature in 2010 and the remaining EUR 5.7 million will mature 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 March 2010 (9.77), a foreign exchange gain/loss will be recognised.

Profit after tax

Profit after tax was SEK 12.2 million (10.4), which represents an increase of SEK 1.8 million over the same period of last year. This figure includes a reported tax expense of SEK 4.1 million pertaining to a change in the deferred tax asset and an actual tax expense of SEK 1.8 million owing to the fact that the company's former cumulative loss carryforwards in the Swedish companies have now been expended.

Earnings per share

Earnings per share amounted to SEK 0.71 (0.61). A total of 128,950 warrants have been subscribed for in BioGaia's ongoing incentive scheme. Since the share price at 31 March 2010 exceeded the subscription price, the outstanding warrants are estimated to have

a dilutive effect. However, earnings per share after dilution are unchanged at SEK 0.71.

Cash flow

The Group's cash and cash equivalents at 31 March 2010 totalled SEK 112.3 million (65.9).

Cash flow for the period was SEK 12.2 million (7.6), an improvement of SEK 4.6 million over the same period of last year.

Cash flow from operating activities before change in working capital was SEK 14.7 million (14.6).

The Board of Directors has proposed that the 2010 AGM approve a dividend of SEK 25.8 million. The proposed dividend corresponds to SEK 1.50 per share, of which SEK 0.60 is an extraordinary dividend in view of the company's good liquidity and strong balance sheet.

Equity

Consolidated equity amounted to SEK 173.3 million (143.5) and the equity/assets ratio was 88% (88).

Capital expenditure

Capital expenditure on property, plant and equipment totalled SEK 0.1 (0.4).

Parent Company

The Parent Company's net sales are reported at SEK 58.0 million (50.3) and profit before tax was SEK 18.4 million (14.4).

This figure includes an impairment loss of SEK 3.4 million (4.0) on receivables from the Japanese subsidiary. Profit after tax was SEK 13.5 million (9.5). Cash flow in the Parent Company amounted to SEK 12.6 million (8.6). Cash flow from investing activities includes a loan of SEK 3.2 million (3.7) to the Japanese subsidiary.

KEY EVENTS IN THE FIRST QUARTER OF 2010

Launches in the first quarter of 2010

Distributor/licensee	Product	Country
Eczacibasi	Tablets and drops	Turkey
Ewopharma	Tablets and drops	Serbia
InfectoPharm	Drops	Germany
Nestlé	Infant formula with Reuteri	Belgium and Australia
Verman	Tablets (new flavour)	Finland
Verman	Tablets and drops	Russia

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

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 through BioGaia's Japanese subsidiary, which will also support Nippon Access's marketing of the products through education of physicians, sales representatives and marketing staff and participation in negotiations with companies that are interested in selling products with Reuteri. Through 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.

Agreement with Ferring Pharmaceuticals

In March BioGaia signed an agreement with Ferring Pharmaceuticals for the sale of BioGaia's Probiotic drops and tablets in Argentina under BioGaia's own brand. The launch is expected to take place in the first half of 2011.

At the same time that the agreement with Ferring Pharmaceuticals for Argentina was signed, BioGaia discontinued the agreement relating to Egypt. This agreement was signed in 2008, but due to regulatory difficulties no products have been launched. BioGaia has therefore chosen to terminate the agreement with Ferring for Egypt.

Agreement with Interbat

At the end of March BioGaia signed an agreement with the Indonesian pharmaceutical company Interbat for the sale of BioGaia's Probiotic drops in Indonesia under the BioGaia brand. The launch is planned for the first quarter of 2011.

EMPLOYEES

The number of employees in the Group at 31 March 2010 was 45 (43).

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 has now become 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 4.6 million. BioGaia's 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 14.3 million in both the Group and the Parent Company. TwoPac reported a profit of SEK 1.1 million for 2009 and SEK 0.9 million for the first quarter of 2010. TwoPac has previously reported a loss, but has shown a profit since 2009. BioGaia's assessment is therefore that there was no indication of impairment 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 and a loss of SEK 0.5 million for the first quarter of 2010. CapAble, which is 90.1% owned by BioGaia AB, was started in November 2008 to manufacture and sell the patented LifeTop Cap. BioGaia's assessment is that CapAble will generate good profitability, for which reason there was no indication of impairment 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

Amendments to IAS 27 – Consolidated and Separate Financial Statements – and IFRS 3 Business Combinations – are effective as of 1 January 2010. These may have effects for the Group in the future.

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 sustainable profit margin (profit before tax in relation to sales) 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 paid tax.

Product launches in a large number of countries are expected to take place during 2010 and 2011.

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.

Consolidated statement of comprehensive income

(Amounts in SEK 000s)

	Jan-Mar 2010	Jan-Mar 2009	Jan-Dec 2009	April 09- March 10
Net sales	58,568	52,233	203,461	209,796
Cost of goods sold	-19,298	-16,792	-68,151	-70,657
<i>Gross profit</i>	39,270	35,441	135,310	139,139
Other operating income	-	-	750	750
Selling expenses	-14,216	-12,314	-52,906	-54,808
Administrative expenses	-2,558	-2,455	-8,996	-9,099
Research and development expenses	-7,617	-6,841	-27,000	-27,776
Other operating expenses	-1,235	-379	-	-856
Share in profit/loss of associated company	430	-90	590	1,110
<i>Operating profit</i>	14,074	13,362	47,748	48,460
Financial income and expenses	4,059	1,758	5,365	7,666
<i>Profit before tax</i>	18,133	15,120	53,113	56,126
Tax expense	-5,933	-4,690	-17,068	-18,311
PROFIT FOR THE PERIOD	12,200	10,430	36,045	37,815
<u>Other comprehensive income</u>				
Gains and losses arising on translation of the financial statements of foreign operations	-35	694	-464	
Comprehensive income for the period	12,165	11,124	35,581	

Profit for the period attributable to:

Owners of the Parent Company	12,249	10,430	36,310
Non-controlling interests	-49	-	-265
	12,200	10,430	36,045

Comprehensive income for the period attributable to:

Owners of the Parent Company	12,214	11,124	35,846
Non-controlling interests	-49	-	-265
	12,165	11,124	35,581

Earnings per share

Basic earnings per share (average number of shares), SEK	0.71	0.61	2.11
Diluted earnings per share, SEK	0.71	0.61	2.08
Number of shares, thousands	17,208	17,208	17,208
Average number of shares, thousands	17,208	17,208	17,208
Number of outstanding warrants, thousands	129	129	129
Average number of outstanding warrants with a dilutive effect, thousands	129	-	129
Average number of shares after dilution, thousands	17,337	17,208	17,337

CONSOLIDATED BALANCE SHEETS

(Amounts in SEK 000s)

	31 Mar 2010	31 Dec 2009	31 Mar 2009
ASSETS			
Intangible assets	1,931	2,285	4,339
Tangible assets	5,141	5,424	4,036
Shares in associated company	9,871	9,441	7,761
Non-current receivables from associated company	4,400	4,400	4,400
Deferred tax asset	-	4,100	16,410
Other non-current receivables	19	30	50
Current assets excl. cash and cash equivalents	63,076	53,807	59,572
Cash and cash equivalents	112,255	100,327	65,865
TOTAL ASSETS	196,693	179,814	162,433
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent Company	173,498	161,284	143,445
Non-controlling interests	-215	-166	99
Total equity	173,283	161,118	143,544
Interest-free current liabilities	23,410	18,696	18,889
TOTAL EQUITY AND LIABILITIES	196,693	179,814	162,433

CONSOLIDATED CASH FLOW STATEMENTS

(Amounts in SEK 000s)

	Jan-Mar 2010	Jan-Mar 2009	Jan-Dec 2009
Operating activities			
Operating profit	14,074	13,362	47,748
Depreciation/amortisation	742	979	4,144
Share in profit/loss of associated company	-430	90	-590
Other non-cash items	243	-61	208
Interest received and paid	39	271	1,126
Cash flow from operating activities before change in working capital	14,668	14,641	52,636
Change in working capital	-2,411	-6,639	654
Cash flow from operating activities	12,257	8,002	53,290
Cash flow from investing activities	-92	-354	-3,881
Cash flow from financing activities	-	-	-6,883
Cash flow for the period	12,165	7,648	42,526
Cash and cash equivalents at beginning of period	100,327	58,127	58,127
Exchange difference in cash and cash equivalents	-237	90	-326
Cash and cash equivalents at end of period	112,255	65,865	100,327

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in SEK 000s)

	Jan-Mar 2010	Jan-Mar 2009	Jan-Dec 2009
At beginning of period	161,118	132,420	132,420
Dividends	-	-	-6,883
Comprehensive income for the period	12,165	11,124	35,581
At end of period	173,283	143,544	161,118

Segment reporting – Group

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 IN THE GROUP

<u>Revenue by segment</u>	Jan-Mar 2010	Jan-Mar 2009	Jan-Dec 2009
Finished consumer products	48,394	42,846	147,673
Component products	9,766	9,278	53,814
Other products	408	109	1,974
	58,568	52,233	203,461

<u>Gross profit by segment</u>	Jan-Mar 2010	Jan-Mar 2009	Jan-Dec 2009
Finished consumer products	32,065	28,739	94,804
Component products	6,801	6,598	38,816
Other products	404	104	1,690
	39,270	35,441	135,310

<u>Trade receivables by segment</u>	31 Mar 2010	31 Mar 2009	31 Dec 2009
Finished consumer products	31,731	28,657	23,448
Component products	3,886	5,514	4,929
Other products	37	36	344
	35,654	34,207	28,721

Revenue by geographical market

(Amounts in SEK 000s)

<u>Sales</u>	Jan-Mar 2010	Jan-Mar 2009	Jan-Dec 2009
Europe	48,291	35,186	138,430
USA and Canada	4,405	3,967	14,571
Asia	3,202	9,647	37,386
Rest of world	2,670	3,433	13,074
	58,568	52,233	203,461

PARENT COMPANY INCOME STATEMENTS

	Jan-Mar	Jan-Mar	Jan-Dec
	2010	2009	2009
Net sales	58,009	50,343	198,567
Cost of goods sold	-18,874	-15,508	-63,793
<i>Gross profit</i>	39,135	34,835	134,774
Selling expenses	-10,178	-8,682	-38,870
Administrative expenses	-2,538	-2,422	-8,918
Research and development expenses	-7,663	-6,913	-27,278
Other operating income	-	-	750
Other operating expenses	-1,235	-406	-
<i>Operating profit</i>	17,521	16,412	60,458
Result from shares in associated company	-	-	590
Write-down of receivable from subsidiary	-3,384	-4,047	-13,446
Net financial items	4,275	1,991	6,204
Profit before tax	18,412	14,356	53,806
Tax expense	-4,883	-4,840	-17,610
PROFIT FOR THE PERIOD	13,529	9,516	36,196

PARENT COMPANY BALANCE SHEETS

	31 Mar	31 Mar	31 Dec
	2010	2009	2009
<u>ASSETS</u>			
Intangible assets	1,931	4,339	2,285
Tangible assets	3,646	2,497	3,855
Shares in subsidiaries	7,469	4,469	7,469
Shares in associated company	9,441	7,851	9,441
Non-current receivables from subsidiaries	1,022	1,022	1,022
Non-current receivables from associated company	4,400	4,400	4,400
Deferred tax asset	-	15,820	3,050
Current assets excl. cash and cash equivalents	60,650	54,914	50,912
Cash and cash equivalents	108,729	63,950	96,379
TOTAL ASSETS	197,288	159,262	178,813
<u>EQUITY AND LIABILITIES</u>			
Equity	167,222	133,896	153,693
Interest-free current liabilities	30,066	25,366	25,120
TOTAL EQUITY AND LIABILITIES	197,288	159,262	178,813

Pledged assets and contingent liabilities for the Parent Company

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

PARENT COMPANY CASH FLOW STATEMENTS

	Jan-Mar	Jan-Mar	Jan-Dec
	2010	2009	2009
<u>Operating activities</u>			
Operating profit	17,521	16,412	60,458
Depreciation/amortisation	662	913	3,792
Other non-cash items	243	-61	208
Interest received and paid	39	274	1,121
Cash flow from operating activities before change in working capital	18,465	17,538	65,579
Change in working capital	-2,600	-5,133	1,144
<i>Cash flow from operating activities</i>	15,865	12,405	66,723
<i>Cash flow from investing activities</i>	-3,275	-3,809	-18,546
<i>Cash flow from financing activities</i>	-	-	-6,883
Cash flow for the period	12,590	8,596	41,294
Cash and cash equivalents at beginning of period	96,379	55,293	55,293
Exchange differences in cash and cash equivalents	-240	61	-208
Cash and cash equivalents at end of period	108,729	63,950	96,379

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

(Amounts in SEK 000s)	Jan-Mar	Jan-Mar	Jan-Dec
	2009	2009	2009
At beginning of period	153,693	124,380	124,380
Dividends	-	-	-6,883
Profit for the period	13,529	9,516	36,196
At end of period	167,222	133,896	153,693

RELATED PARTY TRANSACTIONS, GROUP AND PARENT COMPANY

(Amounts in SEK 000s)

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

The following transactions have taken place with TwoPac AB.

	Jan-Mar	Jan-Mar	Jan-Dec
	2010	<u>2009</u>	<u>2009</u>
Interest income	25	36	116
Shareholder contributions paid	-	-	1,000
Purchase of goods	4,449	2,460	13,052

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

Non-current receivables from TwoPac AB

	31 Mar	31 Mar	31 Dec
	2010	<u>2009</u>	<u>2009</u>
Non-current receivables from TwoPac AB	4,400	4,400	4,400

Current transactions with related parties

Current receivables from TwoPac AB	25	36	24
Current liabilities to TwoPac AB	-739	<u>-240</u>	<u>-704</u>
	-714	-204	-680

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 board member of the Parent Company. No transactions have taken place between BioGaia and Annwall & Rothschild Investment AB during the period.

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

	Jan-Mar	Jan-Mar	Jan-Dec
	2010	<u>2009</u>	<u>2009</u>
Interest income	210	231	818
Loan provided	3,175	3,669	12,223
Sale of goods	-	148	405

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

No significant transactions have taken place with other related parties.

CONSOLIDATED KEY RATIOS ¹⁾	Jan-Mar	Jan-Mar	Jan-Dec
	2010	2009	2009
Return on			
- average equity	7%	8%	25%
- average capital employed	11%	10%	36%
Capital employed, SEK 000s	173,283	143,544	161,118
Number of shares, thousands	17,208	17,208	17,208
Average number of shares, thousands	17,208	17,208	17,208
Number of outstanding warrants, thousands	129	129	129
Average number of outstanding warrants with a dilutive effect, thousands	129	-	129
Average number of shares after dilution, thousands	17,337	17,208	17,337
Basic earnings per share, SEK	0.71	0.61	2.11
Diluted earnings per share, SEK	0.71	0.61	2.09
Basic equity per share, SEK	10.08	8.34	9.37
Diluted equity per share, SEK	10.01	8.34	9.30
Equity/assets ratio	88%	88%	90%
Operating margin	24%	26%	23%
Profit margin	31%	29%	26%
Average number of employees	45	43	43

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

FINANCIAL CALENDAR

17 August 2010	Interim report 1 January – 30 June 2010
27 October 2010	Interim report 1 January – 30 September 2010
11 February 2011	Year-end report 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, 6 May 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 6 May 2010, 8:00 a.m. CET.

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

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, 2 in Raleigh, USA, 4 in Hiroshima, Japan, and 1 in Shanghai, China.

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 the Apoteket pharmacy chain, 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 BioGaia's 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:

2010-03-31 Notice to attend the Annual General Meeting of BioGaia AB (publ)
2010-03-22 BioGaia signs agreement with pharmaceutical company in Indonesia
2010-03-18 BioGaia signs agreement with Ferring Pharmaceutical in Argentina

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