

Press Release, 17 august 2010 (14 pages)

BioGaia AB

Interim report 1 January – 30 June 2010

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

Interim period, 1 January – 30 June 2010

- Net sales amounted to SEK 124.4 million (112.4), an increase of SEK 12.0 million (11%). Excluding foreign exchange effects and early deliveries in the previous year, the increase in net sales was 27%*.
- Operating profit was SEK 31.5 million (29.9), an improvement of SEK 1.6 million (5 %). Excluding foreign exchange effects and early deliveries in the previous year, operating profit rose by 49%*.
- Profit before tax was SEK 38.1 million (31.3), an increase of SEK 6.8 million (22%).
- Profit after tax was SEK 26.3 million (21.6), an improvement of SEK 4.7 million (22%).
- Earnings per share amounted to SEK 1.53 (1.26).
- The period's cash flow from operating activities before changes in working capital was SEK 32.5 million (32.1). Total cash flow for the period was SEK 9.2 million (10.9). Dividends of SEK 25.8 million (6.9) were paid during the period. Cash and cash equivalents at 30 June 2010 amounted to SEK 109.4 million (69.0).
- The Board has decided to change the financial target to an operating margin of 30% from the previous net margin of 25%.

Second quarter, 1 April – 30 June 2010

- Net sales amounted to SEK 65.9 million (60.2), an increase of SEK 5.7 million (9%). Excluding foreign exchange effects and early deliveries in the previous year, the increase in net sales was 30%*.
- Operating profit was SEK 17.4 (16.6) million, an improvement of SEK 0.8 million (5%). Excluding foreign exchange effects and early deliveries in the previous year, operating profit rose by 61%*.
- Profit before tax was SEK 20.0 million (16.2), an increase of SEK 3.8 million (23%).
- Profit after tax was SEK 14.1 (11.2), an improvement of SEK 2.9 million (26%).

Key events in the second quarter of 2010

- A study showing that Reuteri reduced gastrointestinal symptoms and hospital stay in premature newborns was published in Journal of Perinatology.
- Agreement with Asia United Medical in China for the sale of BioGaia Probiotic drops in China.
- A study showing that *Lactobacillus reuteri* Protectis reduced crying time in infants with colic was presented at ESPGHAN in Istanbul.

Key events after the end of the second quarter

- A study showing that *Lactobacillus reuteri* Protectis was effective in infants with chronic constipation was published in Journal of Pediatrics.

“Despite negative currency exchange effects, we continue to generate a very strong result and cash flow, and the underlying trend continues to be very positive.

We are pleased to note that Nestlé has now started the launch of infant formula with Reuteri in a number of countries. We have delivered significant volumes of Reuteri cultures to Nestlé in the first six months of 2010 and count on that this will continue throughout the rest of the year” says Peter Rothschild, President of BioGaia.

* Most of the company's sales are denominated in EUR. With unchanged exchange rates, net sales would have been SEK 11.2 million higher and operating profit would have been SEK 7.8 million higher. In June 2009, deliveries worth SEK 5.4 million were moved forward, which meant that net sales and profit for the second quarter of last year were higher than normal.

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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.se

BioGaia AB (publ.)

Interim report

1 January – 30 June 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 30 June 2010. A brief description of the company's operations is provided on page 14.

PRESIDENT'S COMMENTS

Strategies in a functioning business model

RESEARCH STRATEGY

BioGaia's research is based on a network of scientists and clinics around the world. This network is important in several respects. Not only are a number of product ideas generated by the scientists' activities, but also clinical studies are carried out in hospitals worldwide. The results from the clinical studies are BioGaia's most effective marketing material and are used to convince doctors and other healthcare professionals to recommend the company's products to their patients.

In a short span of time we have published three additional successful clinical studies that are now part of our partners' sales material. A total of 75 studies have been conducted on around 5,000 people, which means that our family of lactic acid bacteria strains is one of the most thoroughly studied in the world.

DISTRIBUTION STRATEGY

The other large network of major importance for BioGaia is made up of our distribution partners who market and sell our products in more than 50 countries. Now that we also have our own brand, it is relatively easy for us to launch "line extensions" through our existing partner network. We have successfully launched an ORS (oral rehydration solution) with Reuteri as well as a strawberry-flavoured tablet to a few of our partners and are currently in the process of presenting these products in virtually all of our markets.

The financial performance

Despite negative currency exchange effects, we continue to generate a very strong result and cash flow, and the underlying trend continues to be very positive.

We are pleased to note that Nestlé has now started the launch of infant formula with Reuteri in a number of countries. We have delivered significant volumes of Reuteri cultures to Nestlé in the first six months of 2010 and count on that this will continue throughout the rest of the year.

In July, somewhat later than planned, Nippon Access launched our oral health products to dentists in Japan and there is great interest for what is judged to be a novel line of treatment of known problems such as gingivitis and plaque.

FINANCIAL PERFORMANCE IN THE FIRST HALF OF 2010

Sales

Consolidated net sales reached SEK 124.4 million (112.4), an increase of 11% 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 half of 2010 than in the same period of 2009. If the EUR rate had been the same, net sales would have been SEK 11.2 million higher. Furthermore, deliveries of SEK 5.4 million were moved forward to the second quarter of 2009. Excluding foreign exchange effects and early deliveries in the previous year, net sales increased by SEK 28.6 million (27%). Exchange rate fluctuations (mainly in EUR and JPY) have reduced both income and expenses. Operating profit would have been SEK 7.8 million higher in the event of unchanged exchange rates. Including the effect of early deliveries in 2009, operating profit would have been SEK 12.9 million (49%) higher than in the same period of last year.

Sales of BioGaia's component products in Europe accounted for most of the increase in sales compared to the same period of last year. This is mainly due to large deliveries of cultures to Nestlé. BioGaia counts on that large deliveries will also be made to Nestlé throughout the remainder of the year. However, in the future Nestlé may produce the culture itself and BioGaia will in such case receive royalties on Nestlé's sales instead of income from culture deliveries. This will result in lower sales but a higher gross margin than today.

Sales in Asia declined sharply compared to the same period of 2009, mainly because the earlier sales in Japan via the retail trade were discontinued following the decision to distribute the company's products through Nippon Access, which launched at the end of July. In addition, no deliveries were made to BioGaia's tablet distributor Erina in Japan during the six-month period and no straws were delivered to Yili in China.

Of total finished consumer products, 37% (32) were sold under the BioGaia brand.

Gross profit

Gross profit amounted to SEK 83.4 million (73.0), an improvement of SEK 10.4 million compared to the same period of last year.

Other operating expenses

Selling expenses rose by SEK 4.0 million over the same period of last year, which is mainly due to higher personnel costs, partly owing to non-recurring costs of SEK 2.0 million, as well as increased marketing activities.

R&D expenses amounted to SEK 15.1 million (13.6), which is equal to 16% (16) of total operating expenses and 12% (12) of net sales. The amortisation component of R&D expenses amounted to SEK 0.7 million (1.5). Investments in capitalised development expenses totalled SEK 0 million (0).

Operating profit

Operating profit was SEK 31.5 million (29.9), up by SEK 1.6 million (5%) over the same period of last year. Excluding foreign exchange effects and early deliveries in the previous year (see above under "Sales"), operating profit improved by 49%.

Profit before tax

Profit before tax was SEK 38.1 million (31.3), which is SEK 6.8 million better than in the same period of last year. Net financial items include an unrealised foreign exchange gain of SEK 4.4 million (0.9) on forward exchange contracts in EUR. At 30 June 2010 the company had entered into forward exchange contracts for EUR 12.8 million at an average exchange rate of SEK 9.99. Forward exchange contracts amounting to EUR 4.2 million will mature in 2010, EUR 7.5 million in 2011 and the remaining EUR 1.1 million in 2012. 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 2010 (9.53), a foreign exchange gain/loss will be recognised in the future.

Profit after tax

Profit after tax was SEK 26.3 million (21.6), which represents an increase of SEK 4.7 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 7.8 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 1.53 (1.26).

A total of 128,950 warrants have been subscribed for in BioGaia's ongoing incentive scheme. At the end of May, 3,000 warrants were exercised. The remaining 125,950 warrants expire on 31 August 2010. Since the share price at 30 June 2010 exceeded the subscription price, the outstanding warrants are estimated to have a dilutive effect. Earnings per share after dilution are SEK 1.52.

Cash flow

The Group's cash and cash equivalents at 30 June 2010 totalled SEK 109.4 million (69.0).

Cash flow for the period was SEK 9.2 million (10.9), a decrease of SEK 1.7 million compared to the same period of last year. This is mainly due to the payment of SEK 25.8 million (6.9) in dividends during the period.

Cash flow from operating activities before changes in working capital was SEK 32.5 million (32.1).

Equity

Consolidated equity amounted to SEK 162.2 million (146.9) and the equity/assets ratio was 83% (89).

Capital expenditure

Capital expenditure on property, plant and equipment totalled SEK 0.3 million (1.9).

Parent Company

The Parent Company's net sales are reported at SEK 124.4 million (108.5) and profit after net financial items was SEK 39.2 million (31.2). This figure includes an impairment loss of SEK 7.8 million (6.8) on receivables from the Japanese subsidiary. Profit after tax was SEK 28.4 million (21.2). Cash flow in the Parent Company amounted to SEK 9.8

million (11.6). Cash flow from investing activities includes a loan of SEK 6.3 million (6.1) to the Japanese subsidiary.

FINANCIAL PERFORMANCE IN THE SECOND QUARTER OF 2010

Second quarter sales

Net sales for the second quarter amounted to SEK 65.9 million (60.2), up by SEK 5.7 million (9%) over the same period of last year. Excluding foreign exchange effects and early deliveries in the previous year (see above under "Financial performance in the first half of 2010"), net sales rose by SEK 30%.

Compared to the first quarter, net sales improved by SEK 7.3 million (12%).

Component products in Europe accounted for most of the increase in sales. For comments, see above under "Financial performance in the first half of 2010".

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

Second quarter gross profit

Gross profit amounted to SEK 44.1 million (37.5), an improvement of SEK 6.6 million over the same period of last year. Compared to the previous quarter, gross profit rose by SEK 4.8 million.

Other operating expenses in the second quarter

Selling expenses for the second quarter were higher than in the same period of last year, which is mainly due to higher personnel costs, partly owing to non-recurring costs of SEK 2.0 million, as well as increased marketing activities.

Operating profit for the second quarter

Operating profit for the second quarter was SEK 17.4 million (16.6), an increase of SEK 0.8 million over the same period of last year. Compared to the first quarter, operating profit was SEK 3.3 million higher.

Profit before tax for the second quarter

Profit before tax for the second quarter was SEK 20.0 million (16.2), which is SEK 3.8 million better than in the same period of last year. Net financial items include an unrealised foreign exchange gain of SEK 1.2 million (-0.6) on forward exchange contracts in EUR (for more information – see above).

Profit after tax for the second quarter

Profit after tax for the second quarter was SEK 14.1 million (11.2), which represents an increase of SEK 2.9 million over the same period of last year and an improvement of SEK 1.9 million compared to the first quarter.

Cash flow for the second quarter

Cash flow for the second quarter was SEK -3.0 million (3.2). During the period, the Group paid dividends of SEK 25.8 million (6.9).

KEY EVENTS IN THE SECOND QUARTER OF 2010

Launches in the second quarter of 2010

Distributor/licensee	Product	Country
Ferring	Drops	Israel
Nestlé	Infant formula with Reuteri	Mexico, Germany, Italy, Spain and Portugal
Noos and Italchimichi	ORS product with Reuteri	Italy
Pharma Nord	Tablets and drops	Denmark

Agreement with Asia United (Kina)

At the beginning of June BioGaia signed an agreement with the pharmaceutical and biotechnology company Asia United (China) Medical Co. Limited for exclusive rights to sell BioGaia Probiotic drops in mainland China.

The product is expected to be launched at the end of 2011 following the necessary local registration, which will be handled by Asia United. The drops will be sold under the BioGaia brand.

A study showing that Reuteri reduced gastrointestinal symptoms and hospital stay in premature newborns was published

The study, which was published in Journal of Perinatology, showed that infants supplemented with *L. reuteri* Protectis had a significantly reduced number of gastrointestinal symptoms compared to those supplemented with *L. rhamnosus* (LGG) and the control group. The duration of hospital stay was also significantly reduced among those receiving *L. reuteri* Protectis.

A study showing that Reuteri reduced crying time in infants with colic was presented

At ESPGHAN in Istanbul during June, Doctor Savino from Regina Margherita Children's Hospital, University of Turin, Italy, presented a new study confirming that crying time in infants with colic is reduced by supplementation of BioGaia Probiotic drops. After only one week of supplementation the reduction in daily crying time was 74% among the infants receiving Reuteri, compared to 38% in the placebo group. At the end of the study, after 21 days, a significant difference was noted between the two groups.

Increase in number of shares in BioGaia

The exercise of subscription warrants in May led to an increase in BioGaia's share capital by SEK 3,000, which amounts to a total of SEK 17,210,562 since 26 May 2010. The number of shares has increased by 3,000 class B shares to a total of 740,668 class A shares and 16,469,894 class B shares, which is equal to 23,876,574 votes.

KEY EVENTS AFTER THE END OF THE SECOND QUARTER

A study showing that Reuteri is effective in infants with chronic constipation was published

The study was published in Journal of Pediatrics and was conducted on 44 infants with confirmed chronic constipation. In the study, which ran for 8 weeks,

three different parameters were measured and the Reuteri group performed better with regard to two of these parameters, of which one significantly better. The results of the study once again show the positive effect of Reuteri on infant gut function.

EARLIER EVENTS IN 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 Group

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 Group, a subsidiary of the major trading house Itochu Corporation. Aside from distribution of food products through Nippon Access Group, Itochu also handles distribution of pharmaceuticals to pharmacies via two different subsidiaries. The agreement covers food products with Reuteri, 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 was expected to take place in the second quarter of 2010 but has been postponed until the beginning of third quarter.

The agreement will not affect BioGaia's 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 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 30 June 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. 3,000 warrants were exercised in May (see above).

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 trials results do become available, BioGaia will report these through press releases.

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 6.0 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 14.7 million in the Group. TwoPac reported a profit of SEK 1.1 million for 2009 and SEK 1.8 million for the first half 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 5.9 million in the

Parent Company. CapAble reported a loss SEK 2.3 million for the financial year 2009 and a loss of SEK 1.0 million for the first half 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 made a conditional shareholder contribution of SEK 3 million to CapAble in 2009. 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 have applied 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.

Due to the Company's increased profitability the Board has decided to change the financial target to a sustainable operating margin (operating profit in relation to sales) of at least 30% with continued strong growth and increased investments in research, product development and brand building. The earlier target was a net margin of 25%. Since the company has no influence on foreign exchange or interest rate movements, the Board is of the opinion that operating margin is a better gauge of the company's profitability and development.

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-June 2010	Jan-June 2009	Apr-June 2010	Apr-June 2009	Jan-Dec 2009	July 2009- June 2010
Net sales	124,420	112,440	65,852	60,207	203,461	215,441
Cost of goods sold	-41,029	-39,473	-21,731	-22,681	-68,151	-69,707
<i>Gross profit</i>	83,391	72,967	44,121	37,526	135,310	145,734
Other operating income	-	1,555	-	1,934	750	-805
Selling expenses	-30,783	-26,800	-16,567	-14,486	-52,906	-56,889
Administrative expenses	-5,022	-4,606	-2,464	-2,151	-8,996	-9,412
Research and development expenses	-15,136	-13,618	-7,519	-6,777	-27,000	-28,518
Other operating expenses	-1,881	-	-646	-	-	-1,881
Share in profit/loss of associated company	885	450	455	540	590	1,025
<i>Operating profit</i>	31,454	29,948	17,380	16,586	47,748	49,254
Financial income and expenses	6,695	1,366	2,636	-392	5,365	10,694
<i>Profit before tax</i>	38,149	31,314	20,016	16,194	53,113	59,948
Tax expense	-11,867	-9,700	-5,934	-5,010	-17,068	-19,235
PROFIT FOR THE PERIOD	26,282	21,614	14,082	11,184	36,045	40,713
<u>Other comprehensive income</u>						
Gains and losses arising on translation of the financial statements of foreign operations	412	-254	447	-948	-464	
Comprehensive income for the period	26,694	21,360	14,529	10,236	35,581	

Profit for the period attributable to:

Owners of the Parent Company	26,384	21,614	14,135	11,184	36,310
Non-controlling interests	-102	-	-53	-	-265
	26,282	21,614	14,082	11,184	36,045

Comprehensive income for the period attributable to:

Owners of the Parent Company	26,796	21,360	14,582	10,236	35,846
Non-controlling interests	-102	-	-53	-	-265
	26,694	21,360	14,529	10,236	35,581

Earnings per share

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

	1,53	1,26	0,82	0,65	2,11
Diluted earnings per share, SEK	1,52	1,26	0,81	0,65	2,09
Number of shares, thousands	17,211	17,208	17,211	17,208	17,208
Average number of shares, thousands	17,209	17,208	17,209	17,208	17,208
Number of outstanding warrants, thousands	126	129	126	129	129
Average number of outstanding warrants with a dilutive effect, thousands	126	-	126	-	129
Average number of shares after dilution, thousands	17,337	17,208	17,337	17,208	17,337

CONSOLIDATED BALANCE SHEETS	30 June	31 Dec	30 June
(Amounts in SEK 000s)	2010	2009	2009
ASSETS			
Intangible assets	1,577	2,285	3,562
Tangible assets	4,999	5,424	5,224
Shares in associated company	10,326	9,441	9,301
Non-current receivables from associated company	4,400	4,400	4,400
Deferred tax asset	-	4,100	11,400
Other non-current receivables	21	30	46
Current assets excl. cash and cash equivalents	65,640	53,807	62,435
Cash and cash equivalents	109,422	100,327	68,964
TOTAL ASSETS	196,385	179,814	165,332
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent Company	162,499	161,284	146,798
Non-controlling interests	-268	-166	99
Total equity	162,231	161,118	146,897
Interest-free current liabilities	34,154	18,696	18,435
TOTAL EQUITY AND LIABILITIES	196,385	179,814	165,332

CONSOLIDATED CASH FLOW STATEMENTS	Jan-June	Jan-June	Apr-June	Apr-June	Jan-Dec
(Amounts in SEK 000s)	2010	2009	2010	2009	2009
Operating activities					
Operating profit	31,454	29,948	17,380	16,586	47,748
Depreciation/amortisation	1,490	2,063	748	1,084	4,144
Share in profit/loss of associated company	-885	-450	-455	-540	-590
Other non-cash items	301	11	58	72	208
Interest received and paid	134	478	95	207	1,126
Cash flow from operating activities before changes in working capital	32,494	32,050	17,826	17,409	52,636
Changes in working capital	2,600	-11,412	5,011	-4,773	654
<i>Cash flow from operating activities</i>	<i>35,094</i>	<i>20,638</i>	<i>22,837</i>	<i>12,636</i>	<i>53,290</i>
<i>Cash flow from investing activities</i>	<i>-308</i>	<i>-2,872</i>	<i>-216</i>	<i>-2,518</i>	<i>-3,881</i>
<i>Cash flow from financing activities</i>	<i>-25,581</i>	<i>-6,883</i>	<i>-25,581</i>	<i>-6,883</i>	<i>-6,883</i>
Cash flow for the period	9,205	10,883	-2,960	3,235	42,526
Cash and cash equivalents at beginning of period	100,327	58,127	112,255	65,865	58,127
Exchange difference in cash and cash equivalents	-110	-46	127	-136	-326
Cash and cash equivalents at end of period	109,422	68,964	109,422	68,964	100,327

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in SEK 000s)	Jan-June	Jan-June	Jan-Dec
	2010	2009	2009
At beginning of year	161,118	132,420	132,420
New share issue in BioGaia (warrant programme)	230	-	-
Dividends	-25,811	-6,883	-6,883
Comprehensive income for the period	26,694	21,360	35,581
At end of period	162,231	146,897	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.

RAPPORTERING AV SEGMENT KONCERNEN

(Amounts in SEK 000s)

	Jan-June	Jan-June	Apr-June	Apr-June	Jan-Dec
	2010	2009	2010	2009	2009
Revenue by segment					
Finished consumer products	89,875	83,874	41,481	41,028	147,673
Component products	33,474	27,895	23,708	18,617	53,814
Other products	1,071	671	663	562	1,974
	124,420	112,440	65,852	60,207	203,461

	Jan-June	Jan-June	Apr-June	Apr-June	Jan-Dec
	2010	2009	2010	2009	2009
Gross profit by segment					
Finished consumer products	60,021	54,015	27,956	25,276	94,804
Component products	22,420	18,370	15,619	11,772	38,816
Other products	950	582	546	478	1,690
	83,391	72,967	44,121	37,526	135,310

	30 June	30 June	31 Dec
	2010	2009	2009
Trade receivables by segment			
Finished consumer products	25,539	26,145	23,448
Component products	11,282	13,626	4,929
Other products	298	3	344
	37,119	39,774	28,721

Revenue by geographical market

	Jan-June	Jan-June	Apr-June	Apr-June	Jan-Dec
	2010	2009	2010	2009	2009
Sales					
Europe	95,297	76,444	47,006	41,258	138,430
USA and Canada	8,796	6,418	4,391	2,451	14,571
Asia	9,725	22,761	6,523	13,114	37,386
Rest of world	10,602	6,817	7,932	3,384	13,074
	124,420	112,440	65,852	60,207	203,461

PARENT COMPANY INCOME STATEMENTS

(Amounts in SEK 000s)

	Jan-June 2010	Jan-June 2009	Jan-Dec 2009
Net sales	124,416	108,480	198,567
Cost of goods sold	-40,913	-36,640	-63,793
<i>Gross profit</i>	83,503	71,840	134,774
Selling expenses	-22,528	-18,862	-38,870
Administrative expenses	-4,978	-4,566	-8,918
Research and development expenses	-15,234	-13,810	-27,278
Other operating income	-	1,555	750
Other operating expenses	-1,882	-	-
<i>Operating profit</i>	38,881	36,157	60,458
Result from shares in associated company	885	-	590
Impairment loss on receivable from subsidiary	-7,758	-6,803	-13,446
Net financial items	7,182	1,826	6,204
Profit before tax	39,190	31,180	53,806
Tax expense	-10,817	-10,000	-17,610
Profit for the period	28,373	21,180	36,196

PARENT COMPANY BALANCE SHEETS**ASSETS**

	30 June 2010	30 June 2009	31 Dec 2009
Intangible assets	1,577	3,562	2,285
Tangible assets	3,490	3,418	3,855
Shares in subsidiaries	7,469	5,469	7,469
Shares in associated company	10,326	8,851	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	-	10,660	3,050
Current assets excl. cash and cash equivalents	62,841	59,402	50,912
Cash and cash equivalents	105,916	66,868	96,379
TOTAL ASSETS	197,041	163,652	178,813

EQUITY AND LIABILITIES

Equity	156,485	138,677	153,693
Interest-free current liabilities	40,556	24,975	25,120
TOTAL EQUITY AND LIABILITIES	197,041	163,652	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-June	Jan-June	Jan-Dec
	2010	2009	2009
<u>Operating activities</u>			
Operating profit	38,881	36,157	60,458
Depreciation/amortisation	1,330	1,928	3,792
Other non-cash items	301	10	208
Interest received and paid	134	490	1,121
Cash flow from operating activities before changes in working capital	40,646	38,585	65,579
Changes in working capital	1,365	-10,683	1,144
<i>Cash flow from operating activities</i>	42,011	27,902	66,723
<i>Cash flow from investing activities</i>	-6,606	-9,434	-18,546
<i>Cash flow from financing activities</i>	-25,581	-6,883	-6,883
Cash flow for the period	9,824	11,585	41,294
Cash and cash equivalents at beginning of period	96,379	55,293	55,293
Exchange differences in cash and cash equivalents	-287	-10	-208
Cash and cash equivalents at end of period	105,916	66,868	96,379

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

(Amounts in SEK 000s)

	Jan-June	Jan-June	Jan-Dec
	2010	2009	2009
At beginning of year	153,693	124,380	124,380
New share issue (warrant programme)	230	-	-
Dividends	-25,811	-6,883	-6,883
Profit for the period	28,373	21,180	36,196
At end of period	156,485	138,677	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-June	Jan-June	Jan-Dec
	2010	2009	2009
Interest income	51	66	116
Shareholder contributions paid	-	1,000	1,000
Purchase of goods	9,326	6,843	13,052

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

Non-current receivables from TwoPac AB

	30 June	30 June	31 Dec
	2010	2009	2009
Non-current receivables from TwoPac AB	4,400	4,400	4,400
<i>Current transactions with related parties</i>			
Current receivables from TwoPac AB	26	30	24
Current liabilities to TwoPac AB	-376	-322	-704
	-350	-292	-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, President of BioGaia AB, and Jan Annwall, a member of the Board of the Parent Company. The transaction that has taken place is a dividend of SEK 1.50 per share. No other 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, which is reported as an associated company.

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

The following transactions have taken place with BioGaia Japan

	Jan-June	Jan-June	Jan-Dec
	2010	2009	2009
Interest income	472	448	818
Loan provided	6,348	6,135	12,223
Sale of goods	939	220	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-June	Jan-June	Jan-Dec
	2010	2009	2009
Return on			
- average equity	16%	16%	25%
- average capital employed	24%	22%	36%
Capital employed, SEK 000s	162,231	146,897	161,118
Number of shares, thousands	17,211	17,208	17,208
Average number of shares, thousands	17,209	17,208	17,208
Number of outstanding warrants, thousands	126	129	129
Average number of outstanding warrants with a dilutive effect, thousands	126	-	129
Number of shares after dilution, thousands	17,337	17,208	17,337
Basic earnings per share, SEK	1.53	1.26	2.11
Diluted earnings per share, SEK	1.52	1.26	2.09
Basic equity per share, SEK	9.44	8.53	9.37
Diluted equity per share, SEK	9.37	8.53	9.30
Equity/assets ratio	83%	89%	90%
Operating margin	25%	27%	23%
Profit margin	31%	28%	26%
Average number of employees	45	43	43

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

FINANCIAL CALENDAR

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, 17 August 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 17 August 2010, 8:00 a.m. CET.

Review report

We have reviewed the interim financial information (interim report) for BioGaia AB (publ), corporate identity number 556380-8723 at 30 June 2010 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. Our responsibility is to express a conclusion on this interim financial information based on my review.

We conducted our review in accordance with the Swedish Standard on Review Engagements (SÖG) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and 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 us to obtain a level of assurance that would make us 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 our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not, in all material aspects, prepared for the Group in accordance with IAS 34 and the Swedish Annual Accounts Act for the Parent Company in accordance with the Swedish Annual Accounts Act.

Stockholm, 17 August 2010

Grant Thornton Sweden AB

**Lena Möllerström Nording
Authorised Public Accountant**

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 18 are based in Stockholm, 20 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 preterm newborns,
- reduce gum inflammation, plaque and the risk for dental caries.

Latest press releases from BioGaia:

2010-07-22 New study published: *Lactobacillus reuteri* Protectis effective in infants with chronic constipation

2010-06-10 New study published: *Lactobacillus reuteri* Protectis reduced crying time in infants with colic

2010-06-03 BioGaia signs agreement for China

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