

BioGaia®

Press Release 27 October (14 pages)

BioGaia AB

Interim report 1 January – 30 September 2010

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

Interim period, 1 January – 30 September 2010

- Net sales amounted to SEK 173.3 million (151.2), an increase of SEK 22.1 million (15%). Excluding foreign exchange effects, the increase in net sales was 25%¹⁾.
- Operating profit was SEK 40.1 million (36.4), an improvement of SEK 3.7 million (10%). Excluding foreign exchange effects, operating profit rose by 39%¹⁾.
- Profit before tax was SEK 51.1 million (42.6), an increase of SEK 8.5 million (20%).
- Profit after tax was SEK 34.3 million (29.3), an improvement of SEK 5.0 million (17%).
- Earnings per share amounted to SEK 1.99 (1.70).
- The period's cash flow from operating activities before changes in working capital was SEK 41.9 million (40.0). Total cash flow for the period was SEK 25.7 million (29.7). Dividends of SEK 25.8 million (6.9) were paid during the period at the same time that the company raised SEK 4.9 (0,0) million from the new shares issued in connection with the redemption of warrants. Cash and cash equivalents at 30 September 2010 amounted to SEK 125.7 million (87.5).

Third quarter 1 July – 30 September 2010

- Net sales amounted to SEK 48.9 million (38.7), an increase of SEK 10.2 million (26%). Excluding foreign exchange effects and the effect of early deliveries in the second quarter 2009, the increase in net sales was 20%^{1) 2)}.
- Operating profit was SEK 8.6 million (6.4), an improvement of SEK 2.2 million (34%). Excluding foreign exchange effects and early deliveries in the second quarter 2009, operating income rose by 13%^{1) 2)}.
- Profit before tax was SEK 12.9 million (11.3), an increase of SEK 1.6 million (14%).
- Profit after tax was SEK 8.0 million (7.7), an improvement of SEK 0.3 million (4%).

Key events in the third quarter of 2010

- Study showing that *Lactobacillus reuteri* Protectis is effective in infants with chronic constipation published in *Journal of Pediatrics*.
- Collaboration agreement with SCA regarding intimate hygiene products and products for the elderly.

“...Nestlé has started its launch in 19 countries and took sizeable deliveries of cultures for infant formula with Reuteri. Nestlé is thus on its way to becoming one of our largest customers. In other respects we have seen a continuation of the trend noted earlier in the year, namely that sales of probiotic drops and tablets in Europe are very strong, whereas sales in Japan have not yet gained momentum after the change in our business model there” says Peter Rothschild, President of BioGaia.

1) Most of the company's sales are denominated in foreign currency, primarily EUR. With unchanged exchange rates, net sales would have been SEK 15.5 million higher and operating profit would have been SEK 10.5 million higher for the nine-month period.

2) In June 2009, deliveries worth the equivalent of SEK 5.4 million were moved forward from the third to the second quarter, which meant that net sales and profit for the third quarter of last year were lower than normal.

BioGaia AB (publ.)

Interim report

1 January – 30 September 2010

The 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 September 2010. A brief description of the company's operations is provided on page 14.

PRESIDENT'S COMMENTS

Sales

In the third quarter our customers and suppliers in Europe have a lower level of activity due to the summer holiday, which means that sales are usually somewhat lower during this period. This year the difference was evened out to a certain degree since our relatively new customer Nestlé has started its launch in 19 countries and took sizeable deliveries of cultures for infant formula products with Reuteri. Nestlé is thus on its way to becoming one of our largest customers.

In other respects we have seen a continuation of the trend noted earlier in the year, namely that sales of probiotic drops and tablets in Europe are very strong, whereas sales in Japan have not yet gained momentum after the change in our business model there.

It is fantastic to see our sustained growth in more mature markets like Finland and Italy and favourable developments in new markets like Germany and France. We have also noted ongoing success in a number of countries with low populations or income levels, like Ukraine, Slovakia and Bulgaria.

Japan

Although Nippon Access launched our oral health products in Japan via dentists during the quarter, sales are not expected to pick up significantly until next year when our other products are also launched. It has been a long journey to establish BioGaia in Japan, but now we have finally arrived at the launch phase.

Agreement with SCA

The agreement we recently signed with SCA is very exciting in that it opens new doors for distribution and the launch of new products. The results of this collaboration will naturally not be visible for some time, but will strongly enhance our opportunities to launch innovative products with a high customer benefit.

Business model

BioGaia's business model is based on that our distribution partners inform about our clinical studies to doctors and other health professionals, who then recommend the products to their patients. The results of these clinical studies are BioGaia's most effective marketing material. Today there are 75 studies with *Lactobacillus reuteri* 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.

Regulatory situation

In light of the many questions I receive about how BioGaia is affected by the European Food Safety Authority's rules on the use of nutrition and health claims for food products in the EU, I feel there is reason to be clearer about BioGaia's situation and our regulatory strategy.

The EFSA rules refer to food products that reduce the risk for healthy people to become sick. For example, a lower intake of cholesterol reduces the risk for cardiovascular disease or a food has the ability to strengthen immune defence.

In the case of BioGaia's products, these are recommended to patients by doctors and other healthcare professionals, not to reduce the risk of becoming sick but rather because the person in question is in more or less urgent need of the product's probiotic effect. As a result, the EFSA rules are not applicable to the majority of BioGaia's products. Furthermore, because our products are recommended by healthcare professionals, we have no need to make health claims in our marketing materials as would be the case if we were marketing a yoghurt or beverage directly to consumers.

For future products where there is a question of reducing the risk for illness, we will seek approval of health claims from EFSA where we find this possible based on our research results and where the marketing materials need to contain such claims. Together with our partners we are already assessing the opportunities to register our products under the existing regulations as Food for Special Medical Purposes (in Sweden called "SärNär"), natural remedies or other registration categories depending on the type of product involved.

In Turkey, Hong Kong and Canada, our products are registered in a pharmaceutical category (roughly equivalent to natural remedies).

FINANCIAL PERFORMANCE FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2010

Sales

Consolidated net sales reached SEK 173.3 million (151.2), an increase of 15% 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 three quarters of 2010 than in the same period of 2009. If the EUR rate had been the same, net sales would have been SEK 15.5 million higher. Excluding foreign exchange effects, net sales increased by 25%.

Exchange rate fluctuations have reduced both income and expenses. Operating profit would have been SEK 10.5 million higher in the event of unchanged exchange rates.

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. However, end sales of Nestlé's products also take place outside Europe, see under launches below. BioGaia expects to make large deliveries to Nestlé also in the fourth quarter. However, in the future Nestlé may produce the culture itself and BioGaia will in such case receive royalties from Nestlé instead of income from culture deliveries. This will result in lower sales but a higher gross margin than today.

Sales of finished consumer products in Europe also rose significantly.

Sales in Japan and China fell sharply compared to the same period of last year, mainly because the earlier sales via the retail trade were discontinued following the decision to distribute the company's products through Nippon Access, which launched dental products at the end of July. In addition, no deliveries were made to BioGaia's tablet distributor Erina in Japan during the nine-month period and no straws were delivered to Yili in China. Erina has placed an order for delivery in the fourth quarter.

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

BioGaia has filed a lawsuit in the USA against one of the company's earlier licensees, Nature's Way. The agreement with Nature's Way expired in 2007, but the company has despite requests to cease continued to use Reuteri in its marketing and products.

Gross profit

Gross profit amounted to SEK 115.5 million (99.5), an improvement of SEK 16 million compared to the same period of last year.

Other operating expenses

Selling expenses rose by SEK 6.9 million over the same period of last year, which is mainly due to higher personnel costs, partly owing to non-recurring costs of SEK 2.0 million, higher costs of SEK 2.5 million in Japan that are also largely of a non-recurring nature and increased marketing activities. Total costs in Japan amounted to SEK 12.0 million (9.5) for the nine-month period.

R&D expenses amounted to SEK 22.1 million (20.0), which is equal to 16% (17) of total operating expenses and 13% (13) of net sales. The amortisation component of R&D expenses amounted to SEK 1.1 million (2.2). Investments in capitalised development expenses totalled SEK 0 million (0).

Operating profit

Operating profit was SEK 40.1 million (36.4), up by SEK 3.7 million (10%) over the same period of last year. Excluding foreign exchange effects (see above under "Sales"), operating profit improved by 39%.

Profit before tax

Profit before tax was SEK 51.1 million (42.6), which is SEK 8.5 million better than in the same period of last year. Net financial items include an unrealised foreign exchange gain of SEK 7.2 million (5.5) on forward exchange contracts in EUR. At 30 September 2010 the company had entered into forward exchange contracts for EUR 13.1 million at an average exchange rate of SEK 9.79. Forward exchange contracts amounting to EUR 2.4 million will mature in 2010, EUR 8.0 million in 2011 and the remaining EUR 2.7 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 September 2010, (9.17), a foreign exchange gain/loss will be recognised in the future.

Profit after tax

Profit after tax was SEK 34.3 million (29.3), which represents an increase of SEK 5.0 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 12.7 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 1.99 (1.70).

The redemption of warrants on 31 August 2010 led to an increase of 60,400 in the number of class B shares, whereby the number of class B shares thereafter amounts to 16,530,294 with an unchanged number of class A shares, i.e. 740,668. The total number of shares is thus 17,270,962, which is equal to 23,936,974 votes.

In June 2007 BioGaia carried out the warrant programme that was approved by the Annual General Meeting the same year. The employees subscribed for a total of 128,950 warrants. Each warrant granted the holder the right to subscribe for one class B share for SEK 76.70 during the period from 15 May 2010 to 31 August 2010. A total of 63,400 warrants were exercised during the period. With the completion of this warrant programme, BioGaia now has no ongoing warrant programmes.

Cash flow

The Group's cash and cash equivalents at 30 September 2010 totalled SEK 125.7 million (87.5).

Cash flow for the period was SEK 25.8 million (29.7), a decrease of SEK 3.9 million compared to the same period of last year.

Cash flow from financing activities was SEK -20.9 million (-6.9), which is due to the payment of SEK 25.8 million (6.9) in dividends at the same time that the company raised SEK 4.9 million through the new shares issued in connection with the redemption of warrants.

Cash flow from operating activities before changes in working capital was SEK 41.9 million (40.0).

Equity

Consolidated equity amounted to SEK 174.3 million (154.3) and the equity/assets ratio was 82% (90).

Capital expenditure

Capital expenditure on property, plant and equipment totalled SEK 0.4 million (2.5).

Parent Company

The Parent Company's net sales were SEK 173.3 million (146.3) and profit before tax was SEK 52.0 million (42.6). This figure includes an impairment loss of SEK 13.3 million (9.6) on receivables from the Japanese subsidiary. Profit after tax was SEK 36.2 million (28.8). Cash flow in the Parent Company amounted to SEK 26.4 million (30.7). Cash flow from investing activities includes a loan of SEK 11.2 million (8.7) to the Japanese subsidiary.

FINANCIAL PERFORMANCE IN THE THIRD QUARTER OF 2010

Third quarter sales

Net sales for the third quarter amounted to SEK 48.9 million (38.7), up by SEK 10.2 million (26%) over the same period of last year. Excluding foreign exchange effects (see above under "Financial performance during the period from 1 January to 30 September 2010") net sales rose by 37%. In June 2009 deliveries worth the equivalent of SEK 5.4 million were moved forward from the third to the second quarter, which meant that net sales and profit for the third quarter of last year were lower than normal. Excluding foreign exchange effects and early deliveries in the second quarter 2009, net sales rose by 20%.

Component products in Europe accounted for most of the increase in sales. For comments, see above under "Financial performance during the period from 1 January to 30 September 2010".

Compared to the second quarter, net sales declined by SEK 17 million (26%). The drop in sales compared to the previous quarter is mainly due to the summer holiday period in Europe, which takes place in the third quarter and leads to a lower level of activity among both BioGaia's customers and suppliers.

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

Third quarter gross profit

Gross profit amounted to SEK 32.1 million (26.6), an improvement of SEK 5.5 million over the same period of last year. Compared to the previous quarter, gross profit decreased by SEK 12.0 million.

Other operating expenses for the third quarter

Selling expenses for the third quarter were SEK 2.9 million higher than in the same period of last year, mainly due to higher costs in Japan and to a certain extent also increased marketing activities. Total costs in Japan amounted to 4.8 million (2.8) for the quarter.

Operating profit for the third quarter

Operating profit for the third quarter was SEK 8.6 million (6.4), an increase of SEK 2.2 million over the same period of last year. Excluding foreign exchange effects and early deliveries in the second quarter 2009, operating profit rose by 13%. Compared to the second quarter, operating profit was SEK 8.8 million lower.

Profit before tax for the third quarter

Profit before tax for the third quarter was SEK 12.9 million (11.3), which is SEK 1.6 million better than in the same period of last year. Net financial items include an unrealised foreign exchange gain of SEK 2.8 million (4.7) on forward exchange contracts in EUR (for more information – see above).

Profit after tax for the third quarter

Profit after tax for the third quarter was SEK 8.0 million (7.7), which represents an increase of SEK 0.3 million over the same period of last year and a

decrease of SEK 6.1 million compared to the second quarter.

Cash flow for the third quarter

Cash flow for the third quarter was SEK 16.5 million (18.8). Cash flow before changes in working capital was SEK 9.4 million (8.0).

KEY EVENTS IN THE THIRD QUARTER OF 2010

Launches in the third quarter of 2010

Distributor/licensee	Product	Country
Delta Medical	Drops	Belarus, Armenia, Georgia and Azerbaijan
Nestlé	Infant formula with Reuteri	Greece, Romania, Baltic countries, Poland, Morocco, South Africa, Chile, Panama, Costa Rica, Guatemala and Peru
Nippon Access	Dental products (lozenges)	Japan
Thebe	Tablets (new flavour)	South Africa

Study showing that Reuteri is effective in infants with chronic constipation published

The study, which was published in *Journal of Pediatrics*, included 44 infants with confirmed chronic constipation. In the study, which lasted for 8 weeks, three different parameters were measured and the Reuteri group showed better outcomes for two of these parameters, the frequency of bowel movements per week and stool consistency, of which the first was significant. The results of the study once again show the positive effect of Reuteri on infant gut function.

Redemption of warrants

The redemption of warrants on 31 August led to an increase in BioGaia's share capital by SEK 60,400 to SEK 17,270,962. The total number of shares thereby increased by 60,400 class B shares, after which the number of class B shares is 16,530,294 with an unchanged number of class A shares, i.e. 740,668. The total number of shares is thus equal to 23,936,974 votes.

The redemption price for the share was SEK 76.70, which means that the company raised SEK 4,632,680.

With the completion of this warrant programme, BioGaia now has no ongoing warrant programmes.

Collaboration agreement with SCA

At the end of September BioGaia signed a collaboration agreement with SCA. The aim of the agreement is to develop new health-targeted products utilising BioGaia's probiotic bacteria and application technologies combined with SCA's expertise in the field of hygiene products. The objective is to develop products specifically suited to BioGaia's and SCA's distribution networks. The areas of interest are intimate hygiene products and products for the elderly.

EARLIER EVENTS IN 2010

Launches in the first half of 2010

Distributor/licensee	Product	Country
Eczacibasi	Tablets and drops	Turkey
Ewopharma	Tablets and drops	Serbia
Ferring	Drops	Israel
InfectoPharm	Drops	Germany
Nestlé	Infant formula with Reuteri	Belgium, Australia, Mexico, Germany, Italy, Spain and Portugal
Noos and Italcimichi	ORS product with Reuteri	Italy
Pharma Nord	Tablets and drops	Denmark
Verman	Tablets (new flavour)	Finland
Verman	Tablets and drops	Russia

The length of time between contract and launch varies between countries owing partly to the 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 signed an agreement with one of Japan's largest wholesalers in February, 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 will be 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 took place in the 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's Probiotic drops in Indonesia under the BioGaia brand. The launch is planned for the first quarter of 2011.

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 which gives them exclusive rights to sell BioGaia's 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.

Study showing that Reuteri reduced gastrointestinal symptoms and hospital stay in premature newborns published

The study, which was published in *Journal of Perianatology*, 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. LGG is used in many of BioGaia's competing products.

Study showing that Reuteri reduced crying time in infants with colic 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 with supplementation of BioGaia's 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. The study was published in *Pediatrics* in August.

EMPLOYEES

The number of employees in the Group at 30 September 2010 was 45 (44).

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 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 take no 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 4.5 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 14.9 million in the Group and in the parent company. TwoPac reported a profit of SEK 1.1 million for 2009 and SEK 2.2 million for the period from 1 January to 30 September 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 6.0 million in the Parent Company. CapAble reported a loss SEK 2.3 million for the financial year 2009 and a loss of SEK 1.5 million for the period from 1 January to 30 September 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.

The financial target is 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.

BioGaia's ambition is to pay a shareholder dividend equal to 30% of profit after paid tax.

Product launches are planned in a number of countries in the coming 18 months. 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-Sept 2010	Jan-Sept 2009	July-Sept 2010	July-Sept 2009	Jan-Dec 2009	July 09- June 10
Net sales	173,276	151,163	48,856	38,723	203,461	225,574
Cost of goods sold	-57,740	-51,620	-16,711	-12,147	-68,151	-74,271
<i>Gross profit</i>	<i>115,536</i>	<i>99,543</i>	<i>32,145</i>	<i>26,576</i>	<i>135,310</i>	<i>151,303</i>
Other operating income	-	634	-	-	750	116
Selling expenses	-44 950	-38 045	-14 167	-11 245	-52 906	-59 811
Administrative expenses	-6,841	-6,324	-1,819	-1,718	-8,996	-9,513
Research and development expenses	-22,071	-19,952	-6,935	-6,334	-27,000	-29,119
Other operating expenses	-2,696	-	-815	-921	-	-2,696
Share in profit/loss of associated company	1,100	500	215	50	590	1,190
<i>Operating profit</i>	<i>40,078</i>	<i>36,356</i>	<i>8,624</i>	<i>6,408</i>	<i>47,748</i>	<i>51,470</i>
Financial income and expenses	10,975	6,268	4,280	4,902	5,365	10,072
<i>Profit before tax</i>	<i>51,053</i>	<i>42,624</i>	<i>12,904</i>	<i>11,310</i>	<i>53,113</i>	<i>61,542</i>
Tax expense	-16,772	-13,340	-4,905	-3,640	-17,068	-20,500
PROFIT FOR THE PERIOD	34,281	29,284	7,999	7,670	36,045	41,042
<u>Other comprehensive income</u>						
Gains and losses arising on translation of the financial statements of foreign operations	-132	-490	-544	-236	-464	
Comprehensive income for the period	34,149	28,794	7,455	7,434	35,581	

Profit for the period attributable to:

Owners of the Parent Company	34,427	29,284	8,043	7,670	36,310
Non-controlling interests	-146	-	-44	-	-265
	34,281	29,284	7,999	7,670	36,045

Comprehensive income for the period attributable to:

Owners of the Parent Company	34,295	28,794	7,499	7,434	35,846
Non-controlling interests	-146	-	-44	-	-265
	34,149	28,794	7,455	7,434	35,581

Earnings per share

Basic earnings per share (average number of shares), SEK	1.99	1.70	0.46	0.45	2.11
Diluted earnings per share, SEK	1.99	1.69	0.46	0.44	2.09
Number of shares, thousands	17,270	17,208	17,270	17,208	17,208
Average number of shares, thousands	17,216	17,208	17,231	17,208	17,208
Number of outstanding warrants, thousands	-	129	-	129	129
Average number of outstanding warrants with a dilutive effect, thousands	-	129	-	129	129
Average number of shares after dilution, thousands	17,270	17,337	17,270	17,337	17,337

CONSOLIDATED BALANCE SHEETS	30 Sept	31 Dec	30 Sept
(Amounts in SEK 000s)	2010	2009	2009
ASSETS			
Intangible assets	1,413	2,285	2,802
Tangible assets	4,550	5,424	5,447
Shares in associated company	10,541	9,441	9,351
Non-current receivables from associated company	4,400	4,400	4,400
Deferred tax asset	-	4,100	7,760
Other non-current receivables	18	30	30
Current assets excl. cash and cash equivalents	65,308	53,807	55,072
Cash and cash equivalents	125,713	100,327	87,460
TOTAL ASSETS	211,943	179,814	172,322
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent Company	174,632	161,284	154,232
Non-controlling interests	-313	-166	99
Total equity	174,319	161,118	154,331
Interest-free current liabilities	37,624	18,696	17,991
TOTAL EQUITY AND LIABILITIES	211,943	179,814	172,322

CONSOLIDATED CASH FLOW STATEMENTS	Jan-Sept	Jan-Sept	July-Sept	July-Sept	Jan-Dec
(Amounts in SEK 000s)	2010	2009	2010	2009	2009
Operating activities					
Operating profit	40,078	36,356	8,624	6,408	47,748
Depreciation/amortisation	2,051	3,195	561	1,132	4,144
Share in profit/loss of associated company	-1,100	-500	-215	-50	-590
Other non-cash items	394	242	93	231	208
Interest received and paid	483	741	349	263	1,126
Cash flow from operating activities before changes in working capital	41,906	40,034	9,412	7,984	52,636
Changes in working capital	5,090	-22	2,490	11,390	654
<i>Cash flow from operating activities</i>	46,996	40,012	11,902	19,374	53,290
<i>Cash flow from investing activities</i>	-314	-3,479	-6	-607	-3,881
<i>Cash flow from financing activities</i>	-20,948	-6,883	4,633	-	-6,883
Cash flow for the period	25,734	29,650	16,529	18,767	42,526
Cash and cash equivalents at beginning of period	100,327	58,127	109,422	68,964	58,127
Exchange difference in cash and cash equivalents	-348	-317	-238	-271	-326
Cash and cash equivalents at end of period	125,713	87,460	125,713	87,460	100,327

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	Jan-Sept	Jan-Sept	Jan-Dec
(Amounts in SEK 000s)	2010	2009	2009
At beginning of year	161,118	132,420	132,420
New share issue in BioGaia (warrant programme)	4,863	-	-
Dividends	-25,811	-6,883	-6,883
Comprehensive income for the period	34,149	28,794	35,581
At end of period	174,319	154,331	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.

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(Amounts in SEK 000s)

Revenue by segment

	Jan-Sept 2010	Jan-Sept 2009	July-Sept 2010	July-Sept 2009	Jan-Dec 2009
Finished consumer products	120,970	111,250	31,095	27,376	147,673
Component products	50,820	38,430	17,346	10,535	53,814
Other products	1,486	1,483	415	812	1,974
	173,276	151,163	48,856	38,723	203,461

Gross profit by segment

	Jan-Sept 2010	Jan-Sept 2009	July-Sept 2010	July-Sept 2009	Jan-Dec 2009
Finished consumer products	79,633	70,566	19,612	16,551	94,804
Component products	34,566	27,747	12,146	9,377	38,816
Other products	1,337	1,230	387	648	1,690
	115,536	99,543	32,145	26,576	135,310

Trade receivables by segment

	30 Sept 2010	30 Sept 2009	31 Dec 2009
Finished consumer products	17,516	22,565	23,448
Component products	14,182	8,171	4,929
Other products	31	-	344
	31,729	30,736	28,721

Revenue by geographical market

	Jan-Sept 2010	Jan-Sept 2009	July-Sept 2010	July-Sept 2009	Jan-Dec 2009
Sales	131,082	102,701	35,785	26,257	138,430
Europe	11,664	8,724	2,868	2,306	14,571
USA and Canada	15,155	29,500	5,430	6,739	37,386
Rest of world	15,375	10,238	4,773	3,421	13,074
	173,276	151,163	48,856	38,723	203,461

PARENT COMPANY INCOME STATEMENTS

(Amounts in SEK 000s)

	Jan-Sept 2010	Jan-Sept 2009	Jan-Dec 2009
Net sales	173,323	146,333	198,567
Cost of goods sold	-57,749	-48,212	-63,793
<i>Gross profit</i>	115,574	98,121	134,774
Selling expenses	-31,491	-26,899	-38,870
Administrative expenses	-6,778	-6,265	-8,918
Research and development expenses	-22,207	-20,227	-27,278
Other operating income	-	634	750
Other operating expenses	-2,696	-	-
<i>Operating profit</i>	52,402	45,364	60,458
Result from shares in associated company	1,100	-	590
Impairment loss on receivable from subsidiary	-13,342	-9,650	-13,446
Net financial items	11,802	6,910	6,204
Profit before tax	51,962	42,624	53,806
Tax expense	-15,722	-13,800	-17,610
PROFIT FOR THE PERIOD	36,240	28,824	36,196

PARENT COMPANY BALANCE SHEETS**ASSETS**

	30 Sept 2010	30 Sept 2009	31 Dec 2009
Intangible assets	1,413	2,802	2,285
Tangible assets	3,293	3,751	3,855
Shares in subsidiaries	7,469	5,469	7,469
Shares in associated company	10,541	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	-	6,860	3,050
Current assets excl. cash and cash equivalents	62,642	51,500	50,912
Cash and cash equivalents	122,383	85,774	96,379
TOTAL ASSETS	213,163	170,429	178,813
EQUITY AND LIABILITIES			
Equity	168,985	146,321	153,693
Interest-free current liabilities	44,178	24,108	25,120
TOTAL EQUITY AND LIABILITIES	213,163	170,429	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-Sept 2010	Jan-Sept 2009	Jan-Dec 2009
<u>Operating activities</u>			
Operating profit	52,402	45,364	60,458
Depreciation/amortisation	1,811	2,977	3,792
Other non-cash items	374	242	208
Interest received and paid	484	738	1,121
Cash flow from operating activities before changes in working capital	55,071	49,321	65,579
Changes in working capital	3,788	901	1,144
<i>Cash flow from operating activities</i>	58,859	50,222	66,723
<i>Cash flow from investing activities</i>	-11,555	-12,616	-18,546
<i>Cash flow from financing activities</i>	-20,948	-6,883	-6,883
Cash flow for the period	26,356	30,723	41,294
Cash and cash equivalents at beginning of period	96,379	55,293	55,293
Exchange differences in cash and cash equivalents	-352	-242	-208
Cash and cash equivalents at end of period	122,383	85,774	96,379

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

	Jan-Sept 2010	Jan-Sept 2009	Jan-Dec 2009
(Amounts in SEK 000s)			
At beginning of year	153,693	124,380	124,380
New share issue (warrant programme)	4,863	-	-
Dividends	-25,811	-6,883	-6,883
Profit for the period	36,240	28,824	36,196
At end of period	168,985	146,321	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-Sept	Jan-Sept	Jan-Dec
	2010	2009	2009
Interest income	82	92	116
Shareholder contributions paid	-	1,000	1,000
Purchase of goods	12,480	9,626	13,052

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

Non-current receivables from TwoPac AB

	30 Sept	30 Sept	31 Dec
	2010	2009	2009
Non-current receivables from TwoPac AB	4,400	4,400	4,400

Current transactions with related parties

Current receivables from TwoPac AB	31	26	24
Current liabilities to TwoPac AB	-1,081	-620	-704
	-1,050	-594	-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 in Tripac AB.

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

The Parent Company and 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-Sept	Jan-Sept	Jan-Dec
	2010	2009	2009
Interest income	804	625	818
Loan provided	11,174	8,695	12,223
Sale of goods	1,364	330	405
Total	13,342	9,650	13,446

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-Sept	Jan-Sept	Jan-Dec
	2010	2009	2009
Return on			
- average equity	20%	20%	25%
- average capital employed	30%	30%	36%
Capital employed, SEK 000s	174,319	154,331	161,118
Number of shares, thousands	17,270	17,208	17,208
Average number of shares, thousands	17,216	17,208	17,208
Number of outstanding warrants, thousands	-	129	129
Average number of outstanding warrants with a dilutive effect, thousands	-	129	129
Number of shares after dilution, thousands	17,270	17,337	17,337
Basic earnings per share, SEK	1.99	1.70	2.11
Diluted earnings per share, SEK	1.99	1.69	2.09
Basic equity per share, SEK	10.11	8.96	9.37
Diluted equity per share, SEK	10.11	8.90	9.30
Equity/assets ratio	82%	90%	90%
Operating margin	23%	24%	23%
Profit margin	29%	28%	26%
Average number of employees	45	43	43

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

FINANCIAL CALENDAR

11 February 2011 Year-end report 2010
10 May 2011 Interim report 1 January – 31 March 2011
10 May 2011 Annual General Meeting at 4:00 p.m. in Stockholm
Shareholders who wish to have a matter dealt with at the AGM must submit a request by 25 March 2011 to the Board Chairman, BioGaia AB, Box 3242, SE-103 64 STOCKHOLM, Sweden, or by e-mail to mr@biogaia.se

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, 27 October 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

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

The information in this interim report was submitted for publication on 27 October 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 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:

- 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.
- alleviate the side effects of antibiotic treatment,
- reduce the level of *H. pylori* infection,
- protect against GI tract and respiratory tract infections,
- stimulate the human immune system,

Latest press releases from BioGaia:

2010-09-30 Number of shares in BioGaia
2010-09-23 BioGaia and SCA sign collaboration agreement
2010-09-02 Redemption of warrants

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