

BioGaia®

Press Release, 17 August 2011 (14 pages)

BioGaia AB

Interim report 1 January – 30 June 2011

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

Interim period, 1 January – 30 June 2011

- Net sales reached SEK 159.5 million (124.4), an increase of SEK 35.1 million (28%). Excluding foreign exchange effects, the increase in net sales was 39%¹⁾.
- Operating profit was SEK 57.3 million (31.5)²⁾, an improvement of SEK 25.8 million (82%). Excluding foreign exchange effects, operating profit rose by 110%¹⁾.
- Profit before tax was SEK 57.8 million (38.1)²⁾, an increase of SEK 19.7 million (52%).
- Profit after tax was SEK 42.2 million (26.3)²⁾, an improvement of SEK 15.9 million (60%).
- Earnings per share amounted to SEK 2.38 (1.53).
- The period's cash flow from operating activities before changes in working capital was SEK 38.8 million (32.5). Total cash flow for the period was SEK -20.2 million (9.2). During the period BioGaia paid dividends of SEK 34.5 million and corporate tax of SEK 24.5 million (of which SEK 18.4 million refers to the financial year 2010). Cash and cash equivalents at 30 June 2011 amounted to SEK 126.6 million (109.4).

Second quarter, 1 April – 30 June 2011

- Net sales reached SEK 89.6 million (65.9), an increase of SEK 23.7 million (36%). Excluding foreign exchange effects net sales were up by 45%¹⁾.
- Operating profit was 33.9 million (17.4)²⁾, an improvement of SEK 16.5 million (95%). Excluding foreign exchange effects operating profit increased by 120%¹⁾.
- Profit before tax was SEK 32.3 million (20.0)²⁾, an increase of SEK 12.3 million (62%).
- Profit after tax was SEK 23.7 million (14.1)²⁾, an improvement of SEK 9.6 million (68%).

Key events after the end of the second quarter of 2011

- Agreement for the sale of drops and tablets in Morocco.

“The positive trend that we saw in the first quarter continued in the second quarter of the year, which has enabled us to report new record figures for both sales and profit. We are noting continued strong growth in sales to our Japanese customers, as well as to Nestlé and several other key customers in Europe. Italy continues to be our largest market for finished products and we continue to grow there,” says Peter Rothschild, President of BioGaia.

BioGaia has published this information in accordance with the Swedish Securities Market Act. The information was issued for publication on 17 August 2011, 8:00 a.m. CET.

*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*

1) Most of the company's sales are denominated in EUR. With unchanged exchange rates compared to the previous year, net sales would have been SEK 12.8 million higher and operating profit would have been SEK 9.0 million higher for the period January – June 2011. For the second quarter, April – June 2011, net sales would have been SEK 6.0 higher and operating profit would have been SEK 4.3 million higher.

2) The 50%-owned company TwoPac AB is consolidated as a group company with effect from 1 January 2011. TwoPac was previously reported as an associated company. If TwoPac had also been consolidated in the previous year, operating profit for the period January-June 2010 would have been SEK 32.4 million, profit before tax would have been SEK 39.0 million and profit after tax would have been SEK 27.2 million. The corresponding figures for April-June 2010 are an operating profit of SEK 17.9 million, profit before tax of SEK 20.5 million and profit after tax of SEK 14.5 million. Profit attributable to owners of the Parent Company and earnings per share would have been unchanged for both periods. See also information on page 8.

BioGaia AB (publ.)

Interim report 1 January – 30 June 2011

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 June 2011. A brief description of the company's operations is provided on page 14.

PRESIDENT'S COMMENTS

The positive trend that we saw in the first quarter continued in the second quarter of the year, which has enabled us to report new record figures for both sales and profit. We are noting continued strong growth in sales to our Japanese customers, as well as to Nestlé and several other key customers in Europe. Italy continues to be our largest market for finished products and we continue to grow there.

Eastern Europe is another market where we are seeing strong growth. We are currently rolling out our new products – the oral rehydration solution (ORS), vitamin D drops and strawberry-flavoured tablets, in an increasing number of countries, which is also contributing to higher sales.

In North America, sales are declining and have reached a completely unacceptable level. We are now working actively to make changes in our distribution system in the USA to better realise the great potential we believe exists in this market.

Our deliberate strategy to create a global probiotic brand has resulted in that close to 40% of our finished products are now sold under the BioGaia brand, which is a positive trend considering that we did not start marketing our own brand until 2006. In addition, our early customers such as those in Italy, Finland and South Africa have their own brands that are also showing favourable sales development.

The BioGaia brand is primarily marketed to doctors and other healthcare professionals. Our goal is to make them aware that BioGaia are the most serious, clinically proven, effective and safe probiotic products on the market. To achieve this, we hold events such as a number of satellite symposia in connection with major international medical conferences where leading scientists report on new research findings in the field of probiotics. This marketing is an important part of our business model – the model that is today generating excellent financial results and providing scope for us to invest in research and development for future probiotic products.

FINANCIAL PERFORMANCE IN THE FIRST HALF OF 2011

Introduction

Until 31 December 2010, BioGaia's 50%-owned company TwoPac AB was reported as an associated company. As a result of BioGaia's decision to finance TwoPac's new factory in Eslöv (for more information see below), BioGaia has gained a controlling influence over TwoPac, which is thus consolidated as of 1 January 2011. Comparative figures for the corresponding period of last year are provided on page 8.

Sales

Consolidated net sales reached SEK 159.5 million (124.4), an increase of 28% compared to 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 2011 than in the same period of 2010. If the EUR rate had been the same, net sales would have been SEK 12.8 million higher. Excluding foreign exchange effects, net sales increased by 39%.

Exchange rate fluctuations have reduced both income and expenses. Operating profit would have been SEK 9.0 million higher in the event of unchanged exchange rates.

Sales increased in all markets except North America.

Sales in Asia rose by SEK 10.7 million (110%), from SEK 9.7 million to SEK 20.4 million. This is mainly due to higher sales in Japan but also to the fact that negotiations with Yili in China led to a solution that contributed to higher sales during the period. The increase in Asia referred primarily to finished consumer products.

Sales in Europe were up by SEK 27.0 million to SEK 122.3 million (28%), which is mainly explained by sales of bacteria cultures to Nestlé as well as increased sales of finished consumer products above all in Italy and Eastern Europe. Final sales of Nestlé's products also take place outside Europe.

Sales in the USA and Canada fell from SEK 8.8 million to SEK 4.4 million, mainly due to Nestlé's discontinued sales of beverages with BioGaia's LifeTop Straw and lower sales of oral health products in the USA.

Sales in the rest of the world rose from SEK 10.6 million to SEK 12.4 million (17%) as a result of higher sales of finished consumer products in Australia and South America.

Of total finished consumer products, 38% (37) were sold under the BioGaia brand.

Gross profit

Gross profit amounted to SEK 111.2 million (83.4), an improvement of SEK 27.8 million compared to the same period of last year. Gross margin rose from 67% to 70%, mainly because the consolidation of TwoPac in 2011 has reduced the company's cost of goods sold. For more information, see page 8.

Operating expenses

Selling expenses were up by SEK 1.5 million compared to the same period of last year. Selling expenses for the corresponding period of 2010 included one-time costs of SEK 2.0 million. Aside from these, selling expenses rose by SEK 3.5 million primarily as an effect of increased marketing activities.

Administrative expenses increased by SEK 1.2 million, mainly owing to the fact that administrative expenses in TwoPac AB, which is now reported as a group company, were not included in the same period of last year.

R&D expenses amounted to SEK 16.9 million (15.1), which is equal to 16% (16) of total operating expenses and 11% (12) of net sales. The increase of SEK 1.8 million is explained by higher activity in product development and clinical trials.

The amortisation component of R&D expenses was SEK 0.7 million (0.7). Investments in capitalised development expenses totalled SEK 0 million (0).

Other operating income/expenses refer to foreign exchange gains/losses on operating receivables and liabilities. For the first half of 2011 these gave rise to operating income of SEK 1.5 million, compared to an operating expense of SEK 1.9 million in the same period of last year.

Operating profit

Operating profit was SEK 57.3 million (31.5), which is SEK 25.8 million (82%) better than in the same period of last year. Excluding foreign exchange effects (see above under "Sales") operating profit improved by 110%.

Financial items and profit before tax

Profit before tax was SEK 57.8 million (38.1), an improvement of SEK 19.7 million over the same period of last year. Net financial items include an unrealised foreign exchange loss of SEK 1.3 million on forward exchange contracts in EUR (the same period of last year included an unrealised foreign exchange gain of SEK 4.4 million). At 30 June 2011 the company had outstanding forward exchange contracts for EUR 13.6 million at an average exchange rate of SEK 9.38. Forward exchange contracts amounting to EUR 5.4 million will mature for payment in 2011, EUR 7.0 million in 2012 and the remaining EUR 1.2 million in 2013. The actual 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 2011 (9.21), an exchange gain/loss will be recognised in the future.

Profit after tax

Profit after tax was SEK 42.2 million (26.3), which represents an increase of SEK 15.9 million over the same period or last year.

The tax rate for the Group was 27% (31). The Group pays tax on profits in the Swedish companies. The loss in Japan is not deductible against the Swedish profits. Since the loss in Japan has decreased compared to the same period of last year, the tax rate for the Group is lower. Loss carryforwards in the Japanese subsidiary amount to SEK 49.6 million. The deferred tax asset for these has not been recognised, since a sustainable profit level has not yet been shown in the Japanese subsidiary.

Earnings per share

Earnings per share amounted to SEK 2.38 (1.53).

Cash flow

The Group's cash and cash equivalents at 30 June 2011 totalled SEK 126.6 million (109.4).

Cash flow amounted to SEK -20.2 million (9.2), down by SEK 29.4 million compared to the same period of last year. This is partly due to payment of SEK 34.5 million in dividends and partly due to payment of SEK 24.5 million in tax (of which SEK 18.4 million refers to the financial year 2010) during the period. In addition, working capital rose by SEK 20.4 million, primarily attributable to trade receivables and inventories.

Equity

Consolidated equity amounted to SEK 192.0 million (162.2) and the equity/assets ratio was 81% (83).

Capital expenditure

Capital expenditure on property, plant and equipment totalled SEK 6.7 million (0.3), of which SEK 6.4 million refers to TwoPac AB.

Parent Company

The Parent Company's net sales are reported at SEK 155.5 million (124.4) and profit before tax was SEK 55.3 million (39.2). Due to uncertainty about whether the receivable from BioGaia Japan will be recovered in the foreseeable future, a provision has been made for this amount. This had led to an impairment loss of SEK 5.3 million (7.8) that has had a negative impact on earnings. Profit after tax was SEK 39.7 million (28.4). Cash flow in the Parent Company was SEK -29.3 (9.8) million. This is partly due to payment of SEK 34.5 million in dividends and partly due to payment of SEK 24.5 million in tax, of which SEK 18.4 million refers to the financial year 2010. Cash flow from investing activities includes a loan of SEK 2.8 million (6.3) to the Japanese subsidiary and a loan of SEK 11.1 million (0) to the subsidiary TwoPac.

FINANCIAL PERFORMANCE IN THE SECOND QUARTER OF 2011

Second quarter sales

Net sales for the second quarter reached SEK 89.6 million (65.9), up by SEK 23.7 million (36%) over the same period of last year. Excluding foreign exchange effects (see above under "Financial performance in the first half of 2011"), net sales rose by 45%.

Finished consumer products in Europe accounted for most of the increase in sales. For comments, see above under "Financial performance in the first half of 2011".

Compared to the first quarter, net sales grew by SEK 19.7 million (28%). The increase is primarily attributable to sales of component products in Europe.

Sales vary between quarters. For a more accurate picture, a rolling 12-month income statement is presented on page 6.

Gross profit for the second quarter

Gross profit was SEK 62.7 million (44.1), an improvement of SEK 18.6 over the same period of last year. Compared to the preceding quarter, gross profit increased by 14.2 million.

Other operating expenses for the second quarter

Selling expenses for the second quarter were SEK 1.5 million higher than the same period of last year. The corresponding period of 2010 included one-time costs of SEK 2.0 million. Excluding these, selling expenses rose by SEK 3.5 million compared to the same period of last year mainly as a result of increased marketing activities. Compared to the previous quarter, selling expenses were up by SEK 4.0 million, which is also due to increase marketing activities and to a certain extent higher personnel expenses.

Administrative expenses increased by SEK 0.9 million compared to the same period of last year, mainly owing to the fact that administrative expenses in TwoPac AB, which is now reported as a group company, were not included in the same period of 2010.

R&D expenses rose by SEK 1.5 million compared to the same period of last year due to increased activity in product development and clinical trials.

Operating profit for the second quarter

Operating profit for the second quarter was SEK 33.9 million (17.4), an improvement of SEK 16.5 million over the same period of last year. Compared to the first quarter, operating profit was SEK 10.5 million higher.

Profit before tax for the second quarter

Profit before tax for the second quarter was SEK 32.3 million (20.0), up by SEK 12.3 million compared to the same period of last year. Net financial items include an unrealised foreign exchange loss of SEK 2.6 million on forward exchange contracts in EUR (for more information – see above). The corresponding period of 2010 included an unrealised foreign exchange gain of SEK 1.2 million.

Profit after tax for the second quarter

Profit after tax was SEK 23.7 million (14.1), which is an improvement of SEK 9.6 million over the same period of last year and SEK 5.2 million over the first quarter of 2011.

Cash flow for the second quarter

Cash flow for the second quarter was SEK -22.1 million (-3.0). During the period, the Group paid dividends of SEK 34.5 million (25.8) and tax of SEK 6.1 million.

KEY EVENTS IN THE SECOND QUARTER OF 2011

Launches in the second quarter of 2011

| Distributor/ licensee | Product | Country |
|----------------------------------|---------------------------------|---|
| Delta Medical | Oral Rehydration Solution (ORS) | Ukraine |
| Ewopharma | Oral health product | Slovakia and Bulgaria |
| Laboratorios Casen-Fleet | Tablets (new flavour) | Spain |
| Nestlé | Infant formula with Reuteri | Philippines, Iran, Indonesia and Malaysia |

KEY EVENTS AFTER THE END OF THE SECOND QUARTER

Agreement with Galenica

At the beginning of August BioGaia signed an agreement with the Moroccan pharmaceutical company Galenica SA. The agreement gives Galenica exclusive rights to distribute BioGaia's Probiotic drops and tablets under the BioGaia brand in Morocco. The launch is planned for the first quarter of 2012.

KEY EVENTS EARLIER IN 2011

Launches in the first quarter of 2011

| Distributor/ licensee | Product | Country |
|----------------------------------|--|---------------------------|
| Blackmores | Relaunch of tablets | Australia and New Zealand |
| Ferring | Tablets and drops | Guatemala |
| Ferring | Tablets (new flavour) | Greece |
| Verman | Oral Rehydration Solution (ORS) and drops with Vitamin D | Finland |

Agreement with Cube Pharmaceuticals

At the beginning of 2011 BioGaia signed an agreement with Cube Pharmaceuticals giving the company exclusive rights to distribute BioGaia's new Oral Rehydration Solution (ORS) in Greece. The launch has been postponed and is now planned for the fourth quarter of 2011.

Decision to invest in new production facility

TwoPac, which is owned 50% by BioGaia and 50% by TwoPac's management, produces straws and oil drops containing probiotics as well as LifeTop Cap, a bottle cap which contains sensitive ingredients, for BioGaia. Due to growing volumes and stricter quality requirements from the authorities and customers, the existing facilities are no longer suitable and TwoPac has decided to build its own factory in Eslöv where the company currently rents premises.

The investment is estimated at approximately SEK 20 million and will be financed with TwoPac's own operating surplus and through a loan from BioGaia. The factory is expected to go into operation at the beginning of 2012.

Until 31 December 2010, TwoPac was reported as an associated company. As a result of the financing arrangement described above, BioGaia has gained a controlling influence over TwoPac, which is thus consolidated in the BioGaia Group as of January 2011. No additional consideration has been paid for the associated company. The fair value of the shares has been determined as the existing historical cost and no surplus values have been identified. This means that no revaluation effects have arisen.

For comparative information showing how the Group results would have been affected if TwoPac had been consolidated in the Group during 2010, see page 8.

EMPLOYEES

The number of employees in the Group at 30 June 2011 was 61 (45), of which the number of employees in TwoPac was 12.

SIGNIFICANT RISKS AND UNCERTAINTIES; GROUP AND PARENT COMPANY

The business model previously used in Japan was found to be unsuccessful and the company has changed to the business model that is used successfully in other markets. The Japanese subsidiary's sales have now picked up and are expected to increase continuously. In the group on the balance sheet date, assets in the Japanese subsidiary were reported at SEK 6.9 million. BioGaia's assessment is that there is no indication of impairment of these assets.

The shares in the subsidiary CapAble amount to a total of SEK 6.9 million in the Parent Company. So far CapAble has reported a loss. CapAble, which is 90.1% owned by BioGaia AB, was started in November 2008 to manufacture and sell the patented LifeTop Cap. BioGaia made total conditional shareholder contributions of SEK 6 million to CapAble in 2009 and 2010. BioGaia's assessment is that CapAble will show good profits, for which reason there was no indication of impairment on the balance sheet date.

For further information see the administration report and Notes 29 and 30 of the annual report for 2010.

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 IFRS 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 Parent Company have applied the same accounting and valuation standards as in the latest annual report.

New accounting standards

The following new standards and interpretations are effective as of 1 January 2011:

- ✓ IAS 32 Financial Instruments: Presentation – Classification of rights issues – amendments
- ✓ IFRS 1 First-time Adoption of IFRS – amendments
- ✓ IFRIC 14 Prepayment of a Minimum Funding Requirement – amendments
- ✓ IAS 24 Related Party Disclosures – revision
- ✓ IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – interpretation
- ✓ Annual improvements

The changed IFRS standards and IFRIC interpretations have not had any significant impact on the Group's profit, financial position or disclosures.

Standards and interpretations that are not yet effective and are awaiting approval from the EU have not been evaluated by BioGaia.

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 tax.

Product launches are planned in a number of countries over the next 12-18 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-June | Jan-June | Apr-June | April-June | Jan-Dec | July 2010- |
|---|-----------------|----------|-----------------|------------|---------|------------|
| | 2011 | 2010 | 2011 | 2010 | 2010 | June 2011 |
| Net sales | 159,489 | 124,420 | 89,634 | 65,852 | 236,033 | 271,102 |
| Cost of goods sold | -48,281 | -41,029 | -26,943 | -21,731 | -77,150 | -84,402 |
| <i>Gross profit</i> | 111,208 | 83,391 | 62,691 | 44,121 | 158,883 | 186,700 |
| Selling expenses | -32,259 | -30,783 | -18,119 | -16,567 | -61,336 | -62,812 |
| Administrative expenses | -6,214 | -5,022 | -3,401 | -2,464 | -9,849 | -11,041 |
| Research and development expenses | -16,946 | -15,136 | -8,978 | -7,519 | -29,386 | -31,196 |
| Other operating income/expenses | 1,505 | -1,881 | 1,716 | -646 | -3,242 | 144 |
| Share in profit/loss of associated company | - | 885 | - | 455 | 1,200 | 315 |
| <i>Operating profit</i> | 57,294 | 31,454 | 33,909 | 17,380 | 56,270 | 82,110 |
| Financial income ¹⁾ | 1,304 | 6,740 | 755 | 2,648 | 13,517 | 8,081 |
| Financial expenses ²⁾ | -769 | -45 | -2,387 | -12 | -100 | -824 |
| <i>Profit before tax</i> | 57,829 | 38,149 | 32,277 | 20,016 | 69,687 | 89,367 |
| Tax expense | -15,650 | -11,867 | -8,579 | -5,934 | -22,519 | -26,302 |
| PROFIT FOR THE PERIOD | 42,179 | 26,282 | 23,698 | 14,082 | 47,168 | 63,065 |
| Other comprehensive income | | | | | | |
| Gains/losses arising on translation of the financial statements of foreign operations | -315 | 412 | 163 | 447 | -15 | -742 |
| Comprehensive income for the period | 41,864 | 26,694 | 23,861 | 14,529 | 47,153 | 62,323 |

Profit for the period attributable to:

| | | | | | | |
|------------------------------|---------------|--------|---------------|--------|--------|--------|
| Owners of the Parent Company | 41,110 | 26,384 | 23,196 | 14,135 | 47,250 | 61,976 |
| Non-controlling interests | 1,069 | -102 | 502 | -53 | -82 | 1,089 |
| | 42,179 | 26,282 | 23,698 | 14,082 | 47,168 | 63,065 |

Comprehensive income for the period attributable to:

| | | | | | | |
|------------------------------|---------------|--------|---------------|--------|--------|--------|
| Owners of the Parent Company | 40,795 | 26,796 | 23,359 | 14,582 | 47,235 | 61,234 |
| Non-controlling interests | 1,069 | -102 | 502 | -53 | -82 | 1,089 |
| | 41,864 | 26,694 | 23,861 | 14,529 | 47,153 | 62,323 |

Earnings per share

| | | | | | | |
|--|---------------|--------|---------------|--------|--------|--------|
| Basic earnings per share (average number of shares), SEK | 2.38 | 1.53 | 1.34 | 0.82 | 2.74 | 3.59 |
| Diluted earnings per share, SEK | 2.38 | 1.52 | 1.34 | 0.81 | 2.74 | 3.59 |
| Number of shares, thousands | 17,271 | 17,211 | 17,271 | 17,211 | 17,271 | 17,271 |
| Average number of shares, thousands | 17,271 | 17,209 | 17,271 | 17,209 | 17,230 | 17,246 |
| Number of outstanding warrants, thousands | - | 126 | - | 126 | - | - |
| Number of outstanding warrants with a dilutive effect, thousands | - | 126 | - | 126 | - | - |
| Number of shares after dilution, thousands | 17,271 | 17,337 | 17,271 | 17,337 | 17,271 | 17,271 |

1) Financial income consists of:

| | | | | | | |
|--|--------------|-------|------------|-------|--------|--|
| Interest income | 1,304 | 175 | 755 | 109 | 1,091 | |
| Exchange gains on forward exchange contracts | - | 6,565 | - | 2,539 | 12,426 | |
| | 1,304 | 6,740 | 755 | 2,648 | 13,517 | |

2) Financial expenses consist of:

| | | | | | | |
|---|-------------|-----|---------------|-----|-----|--|
| Exchange losses on forward exchange contracts | -714 | - | -2,367 | - | - | |
| Other financial expenses | -55 | -45 | -20 | -12 | 100 | |
| | -769 | -45 | -2,387 | -12 | 100 | |

| CONSOLIDATED BALANCE SHEETS | 30 June | 31 Dec | 30 June |
|---|----------------|---------|---------|
| (Amounts in SEK 000s) | 2011 | 2010 | 2010 |
| ASSETS | | | |
| Intangible assets | 693 | 1,173 | 1,577 |
| Tangible assets | 16,484 | 4,216 | 4,999 |
| Shares in associated company | - | 10,641 | 10,326 |
| Non-current receivables from associated company | - | 4,400 | 4,400 |
| Other non-current receivables | 17 | 18 | 21 |
| <i>Total non-current assets</i> | 17,194 | 20,448 | 21,323 |
| Current assets excl. cash and cash equivalents | 92,416 | 60,471 | 65,640 |
| Cash and cash equivalents | 126,646 | 146,903 | 109,422 |
| <i>Total current assets</i> | 219,062 | 207,374 | 175,062 |
| TOTAL ASSETS | 236,256 | 227,822 | 196,385 |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to owners of the Parent Company | 193,478 | 187,225 | 162,499 |
| Non-controlling interests | -1,493 | 98 | -268 |
| Total equity | 191,985 | 187,323 | 162,231 |
| Interest-free current liabilities | 44,271 | 40,499 | 34,154 |
| TOTAL EQUITY AND LIABILITIES | 236,256 | 227,822 | 196,385 |
| Pledged assets | 9,091 | 2,000 | 2,000 |

| CONSOLIDATED CASH FLOW STATEMENTS | Jan-June | Jan-June | Apr-June | Apr-June | Jan-Dec |
|---|-----------------|----------|-----------------|----------|---------|
| (Amounts in SEK 000s) | 2011 | 2010 | 2011 | 2010 | 2010 |
| <i>Operating activities</i> | | | | | |
| Operating profit | 57,294 | 31,454 | 33,909 | 17,380 | 56,270 |
| Depreciation/amortisation | 4,466 | 1,490 | 3,227 | 748 | 2,836 |
| Share in profit/loss of associated company | - | -885 | - | -455 | -1,200 |
| Other non-cash items | -71 | 301 | -208 | 58 | 986 |
| | 61,689 | 32,360 | 36,928 | 17,731 | 58,892 |
| Gains/losses on realised forward exchange contracts | 310 | - | -1,625 | - | 6,144 |
| Paid tax | -24,472 | - | -6,097 | - | - |
| Interest received and paid | 1,249 | 134 | 735 | 95 | 995 |
| | 38,776 | 32,494 | 29,941 | 17,826 | 66,031 |
| Cash flow from operating activities before changes in working capital | 38,776 | 32,494 | 29,941 | 17,826 | 66,031 |
| Changes in working capital | -20,387 | 2,600 | -11,985 | 5,011 | 2,934 |
| <i>Cash flow from operating activities</i> | 18,389 | 35,094 | 17,956 | 22,837 | 68,965 |
| <i>Cash flow from investing activities</i> | -4,051 | -308 | -5,539 | -216 | -522 |
| <i>Cash flow from financing activities</i> | -34,542 | -25,581 | -34,542 | -25,581 | -20,948 |
| Cash flow for the period | -20,204 | 9,205 | -22,125 | -2,960 | 47,495 |
| Cash and cash equivalents at beginning of period | 146,903 | 100,327 | 148,514 | 112,255 | 100,327 |
| Exchange difference in cash and cash equivalents | -53 | -110 | 257 | 127 | -919 |
| Cash and cash equivalents at end of period | 126,646 | 109,422 | 126,646 | 109,422 | 146,903 |

Effect of consolidation of TwoPac as a group company

In 2010 TwoPac was reported as an associated company in the BioGaia Group. As of 1 January 2011, TwoPac is reported as a group company (subsidiary). If TwoPac had been consolidated in 2010, the figures for that year would have been affected as follows:

| | Jan-June | Jan-June | April-June | April-June |
|--|--------------------|--------------------|--------------------|--------------------|
| | 2010 ¹⁾ | 2010 ²⁾ | 2010 ¹⁾ | 2010 ²⁾ |
| Net sales | 124,420 | 124,420 | 65,852 | 65,852 |
| Gross profit | 86,695 | 83,391 | 46,158 | 44,121 |
| Operating profit | 32,388 | 31,454 | 17,853 | 17,380 |
| Profit for the period before tax | 39,033 | 38,149 | 20,463 | 20,016 |
| Profit for the period | 27,166 | 26,282 | 14,534 | 14,082 |
| Profit for the period attributable to owners of the Parent Company | 26,384 | 26,384 | 14,135 | 14,135 |
| Basic earnings per share | 1.53 | 1.53 | 0.82 | 0.82 |
| Operating margin | 26% | 25% | 27% | 26% |
| Profit margin | 31% | 31% | 31% | 30% |
| Number of employees | 55 | 45 | 55 | 45 |

Balance sheet items on the balance sheet date, 30 June 2010:

| | Jan-June | Jan-June |
|---|----------|----------|
| | 2010 | 2010 |
| Property, plant and equipment | 14,307 | 4,999 |
| Balance sheet total | 194,896 | 196,385 |
| Equity | 159,252 | 162,231 |
| Equity attributable to owners of the Parent Company | 162,499 | 162,499 |

1) If TwoPac had been reported as a group company in 2010.

2) Corresponds to the comparative figures above, i.e. TwoPac is reported as an associated company.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in SEK 000s)

| | Jan-June | Jan-June | Jan-Dec |
|--|----------------|----------------|----------------|
| | 2011 | 2010 | 2010 |
| At beginning of period | 187,323 | 161,118 | 161,118 |
| New share issue in BioGaia (warrant programme) | - | 230 | 4,863 |
| Dividends | -34,542 | -25,811 | -25,811 |
| Change in group structure | -2,660 | - | - |
| Comprehensive income for the period | 41,864 | 26,694 | 47,153 |
| At end of period | 191,985 | 162,231 | 187,323 |

REPORTING BY SEGMENT – GROUP

(Amounts in SEK 000s)

| <u>Revenue by segment</u> | Jan-June | Jan-June | April-June | April-June | Jan-Dec |
|----------------------------|----------------|----------------|---------------|---------------|----------------|
| | 2011 | 2010 | 2011 | 2010 | 2010 |
| Finished consumer products | 111,460 | 89,875 | 57,895 | 41,481 | 165,590 |
| Component products | 47,312 | 33,474 | 31,388 | 23,708 | 68,559 |
| Other products | 717 | 1,071 | 351 | 663 | 1,884 |
| | 159,489 | 124,420 | 89,634 | 65,852 | 236,033 |

| <u>Gross profit by segment</u> | Jan-June | Jan-June | April-June | April-June | Jan-Dec |
|--------------------------------|----------------|---------------|---------------|---------------|----------------|
| | 2011 | 2010 | 2011 | 2010 | 2010 |
| Finished consumer products | 77,713 | 60,021 | 41,032 | 27,956 | 109,476 |
| Component products | 32,790 | 22,420 | 21,316 | 15,619 | 47,680 |
| Other products | 705 | 950 | 343 | 546 | 1,727 |
| | 111,208 | 83,391 | 62,691 | 44,121 | 158,883 |

Revenue by geographical market

| | Jan-June | Jan-June | April-June | April-June | Jan-Dec |
|----------------|----------------|----------------|---------------|---------------|----------------|
| | 2011 | 2010 | 2011 | 2010 | 2010 |
| Europe | 122,304 | 95,297 | 68,511 | 47,006 | 183,858 |
| USA and Canada | 4,366 | 8,796 | 3,138 | 4,391 | 13,879 |
| Asia | 20,422 | 9,725 | 11,638 | 6,523 | 19,564 |
| Rest of world | 12,397 | 10,602 | 6,347 | 7,932 | 18,732 |
| | 159,489 | 124,420 | 89,634 | 65,852 | 236,033 |

PARENT COMPANY INCOME STATEMENTS

(Amounts in SEK 000s)

| | Jan-June 2011 | Jan-June 2010 | Jan-Dec 2010 |
|---|------------------|------------------|-----------------|
| Net sales | 155,493 | 124,416 | 233,988 |
| Cost of goods sold | -51,239 | -40,913 | -76,698 |
| <i>Gross profit</i> | 104,254 | 83,503 | 157,290 |
| Selling expenses | -24,618 | -22,528 | -42,355 |
| Administrative expenses | -5,455 | -4,978 | -9,743 |
| Research and development expenses | -16,888 | -15,234 | -29,497 |
| Other operating income/expenses | 1,505 | -1,882 | -3,242 |
| <i>Operating profit</i> | 58,798 | 38,881 | 72,453 |
| Share in profit/loss of associated company | - | 885 | 1,200 |
| Impairment loss on receivable from subsidiary | -5,262 | -7,758 | -16,928 |
| Net financial items | 1,806 | 7,182 | 14,665 |
| Profit before tax | 55,342 | 39,190 | 71,390 |
| Tax expense | -15,650 | -10,817 | -23,038 |
| PROFIT FOR THE PERIOD | 39,692 | 28,373 | 48,352 |

PARENT COMPANY BALANCE SHEETS**ASSETS**

| | 30 June 2011 | 30 June 2010 | 30 Dec 2010 |
|---|-----------------|-----------------|----------------|
| Intangible assets | 693 | 1,577 | 1,173 |
| Property, plant and equipment | 2,577 | 3,490 | 3,034 |
| Shares in group companies | 21,110 | 7,469 | 10,469 |
| Shares in associated company | - | 10,326 | 10,641 |
| Non-current receivables from subsidiaries | 16,513 | 1,022 | 1,022 |
| Non-current receivables from associated company | - | 4,400 | 4,400 |
| <i>Total non-current assets</i> | 40,893 | 28,284 | 30,739 |
| Current assets excl. cash and cash equivalents | 86,880 | 62,841 | 56,430 |
| Cash and cash equivalents | 111,601 | 105,916 | 140,840 |
| <i>Total current assets</i> | 198,481 | 168,757 | 197,270 |
| TOTAL ASSETS | 239,374 | 197,041 | 228,009 |
| EQUITY AND LIABILITIES | | | |
| Equity | 181,782 | 156,485 | 176,632 |
| Interest-free current liabilities | 57,592 | 40,556 | 51,377 |
| TOTAL EQUITY AND LIABILITIES | 239,374 | 197,041 | 228,009 |
| Pledged assets | 2,000 | 2,000 | 2,000 |

PARENT COMPANY CASH FLOW STATEMENTS

| | Jan-June | Jan-June | Jan-Dec |
|---|-----------------|-------------|-------------|
| | 2011 | 2010 | 2010 |
| <i>Operating activities</i> | | | |
| Operating profit | 58,798 | 38,881 | 72,453 |
| Depreciation/amortisation | 1,100 | 1,330 | 2,369 |
| Other non-cash items | -73 | 301 | 968 |
| Gain/losses on realised foreign exchange contracts | 310 | - | 6,144 |
| Paid tax | -24,472 | - | - |
| Interest received and paid | 1,257 | 134 | 988 |
| Cash flow from operating activities before changes in working capital | 36,920 | 40,646 | 82,922 |
| Changes in working capital | -17,617 | 1,365 | 1,231 |
| <i>Cash flow from operating activities</i> | 19,303 | 42,011 | 84,153 |
| <i>Cash flow from investing activities</i> | -14,073 | -6,606 | -17,780 |
| <i>Cash flow from financing activities</i> | -34,542 | -25,581 | -20,948 |
| Cash flow for the period | -29,312 | 9,824 | 45,425 |
| Cash and cash equivalents at beginning of period | 140,840 | 96,379 | 96,379 |
| Exchange difference in cash and cash equivalents | 73 | -287 | -964 |
| Cash and cash equivalents at end of period | 111,601 | 105,916 | 140,840 |

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

(Amounts in SEK 000s)

| | Jan-June | Jan-June | Jan-Dec |
|-------------------------------------|-----------------|-------------|-------------|
| | 2011 | 2010 | 2010 |
| At beginning of year | 176,632 | 153,693 | 153,693 |
| New share issue (warrant programme) | - | 230 | 4,863 |
| Dividends | -34,542 | -25,811 | -25,811 |
| Group contributions | - | - | -4,465 |
| Profit for the period | 39,692 | 28,373 | 48,352 |
| At end of period | 181,782 | 156,485 | 176,632 |

RELATED PARTY TRANSACTIONS – PARENT COMPANY

(Amounts in SEK 000s)

Annwall & Rothschild Investment AB holds 740,668 class A shares and 1,259,332 class B shares, corresponding to 11.6% of the share capital and 36.2% 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 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 hold 50% of the shares in TwoPac AB, which is reported as a group company as of 1 January 2011 (previously as an associated company).

The following transactions have taken place with BioGaia Japan

| | Jan-June 2011 | Jan-June 2010 | Jan-Dec 2010 |
|-----------------|------------------|------------------|-----------------|
| Interest income | 1,065 | 472 | 1,224 |
| Loan provided | -2,819 | -6,348 | -14,339 |
| Sale of goods | 1,378 | 939 | 1,364 |

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

No significant transactions have taken place with other related parties.

The following transactions have taken place with TwoPac AB (incl. subsidiary)

| | Jan-June 2011 | Jan-June 2010 | Jan-Dec 2010 |
|-------------------|------------------|------------------|-----------------|
| Interest income | 176 | 51 | 119 |
| Loan provided | -11,091 | - | - |
| Purchase of goods | -11,979 | -9,326 | -15,974 |

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

| | 30 June 2011 | 30 June 2010 | 31 Dec 2010 |
|---|-----------------|-----------------|----------------|
| Non-current receivables from TwoPac AB (incl. subsidiary) | 15,491 | 4,400 | 4,400 |
| Current transactions with related parties | | | |
| Current receivables from TwoPac AB | 46 | 26 | 37 |
| Current liabilities to TwoPac AB | -3,810 | -376 | -1,066 |
| | -3,764 | -350 | -1,029 |

CONSOLIDATED KEY RATIOS

| | Jan-June 2011 | Jan-June 2010 | Jan-Dec 2010 |
|--|--------------------------|------------------|-----------------|
| Return on | | | |
| - average equity, % | 22% | 16% | 27% |
| - average capital employed, % | 62% | 24% | 40% |
| Capital employed, SEK 000s | 191,985 | 162,231 | 187,323 |
| Number of shares, thousands | 17,271 | 17,211 | 17,271 |
| Average number of shares, thousands | 17,271 | 17,209 | 17,230 |
| Number of outstanding warrants, thousands | - | 126 | - |
| Average number of outstanding warrants with a dilutive effect, thousands | - | 126 | - |
| Number of shares after dilution | 17,271 | 17,337 | 17,271 |
| Basic earnings per share, SEK | 2.38 | 1.53 | 2.74 |
| Diluted earnings per share, SEK | 2.38 | 1.52 | 2.74 |
| Basic equity per share, SEK | 11.03 | 9.44 | 10.84 |
| Dilute equity per share, SEK | 11.04 | 9.37 | 10.84 |
| Equity/asset ration | 81% | 83% | 82% |
| Operating margin, % | 36% | 25,0% | 24% |
| Profit margin, % | 36% | 31,0% | 30% |
| Average number of employees | 60 | 45 | 45 |

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

FINANCIAL CALENDAR

25 October 2011 Interim report 1 January – 30 September 2011
10 February 2012 Year-end report 2011

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 2011

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

Review report

We have reviewed the interim financial information (interim report) for BioGaia AB (publ), corporate identity number 556380-8723, at 30 June 2011 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 our 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 ISA (International Standards on Auditing) 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 and for the Parent Company in accordance with the Swedish Annual Accounts Act.

Stockholm, 17 August 2011

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 61 employees, of whom 20 are based in Stockholm, 20 in Lund, 12 in Eslöv, 2 in Raleigh, USA, 5 in Hiroshima, Japan and 2 in Shanghai, China.

The class B share of the Parent Company BioGaia AB is quoted on the Small Cap list of NASDAQ OMX Nordic Exchange Stockholm.

Business model

BioGaia's net sales consist mainly of revenue from the sale of finished consumer products (tablets, drops, Oral Rehydration solutions 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 60 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 infant 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 most often 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.

In 2006 BioGaia launched its own consumer brand and today there are 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

Lactobacillus reuteri is one of the world's most well researched probiotics, especially in young children. To date, 80 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on more than 5,000 individuals of all ages. The results have been published in 46 articles in scientific journals.

Studies have been performed on:

- Infantile colic
- Antibiotic-associated diarrhoea (AAD)
- Acute diarrhoea
- Oral health
- General health
- *Helicobacter pylori* (the gastric ulcer bacterium).

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 takes 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.

Latest press releases from BioGaia:

2011-08-04 BioGaia signs agreement with Moroccan pharmaceutical company Galenica SA for Morocco

2011-05-11 Annual General Meeting of BioGaia

2011-05-10 BioGaia – Interim report 1 January – 31 March 2011

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