

BioGaia AB Interim report 1 January – 30 June 2012 (15 pages)

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

1 January – 30 June 2012

- Net sales reached SEK 510.0 million (159.5). This figure includes licence revenue of SEK 356.0 million from Nestlé that is regarded as non-recurring revenue but is to a certain extent attributable to sales in 2012. Excluding license revenue from Nestlé, net sales amounted to SEK 154.0 million (159.5), a decrease of SEK 5.5 million (3%).
- Net sales of finished consumer products amounted to SEK 121.8 million (111.5), an increase of SEK 10.3 million (9%). Net sales of component products totalled SEK 387.3 million (47.3). Excluding license revenue from Nestlé, net sales of component products fell by 34%.
- Operating profit was SEK 401.5 million (57.3), an improvement of SEK 344.2 million. Excluding license revenue from Nestlé, operating profit was SEK 45.5 million (57.3), a decrease of SEK 11.8 million (21%).
- Profit after tax was SEK 299.9 million (42.2). Excluding license revenue, profit after tax was SEK 37.5 (42.2) million, a decrease of SEK 4.7 million (11%).
- Earnings per share totalled SEK 17.27 (SEK 2.38). Excluding license revenue, earnings per share amounted to SEK 2.08.
- The period's total cash flow was SEK 243.1 million (-20.2). Cash flow includes payments from Nestlé amounting to SEK 356.0 million, investments in TwoPac of SEK 16.8 million (6.4), tax payments of SEK 41.3 million (24.5) and dividends of SEK 103.6 million (34.5). Cash and cash equivalents at 30 June 2012 totalled SEK 414.5 million (126.6).

Second quarter 2012

- Net sales reached SEK 75.7 million (89.6), a decrease of SEK 13.9 million (16%).
- Net sales of finished consumer products amounted to SEK 67.1 million (57.9), an improvement of SEK 9.2 million (16%). Net sales of component products totalled SEK 8.3 million (31.4), a decrease of SEK 23.1 million (74%).
- Operating profit was SEK 19.4 million (33.9), a decrease of SEK 14.5 million (43%).
- Profit after tax was SEK 16.7 million (23.7), a decrease of SEK 7.0 million (30%).

Key events in the second quarter of 2012

- Agreement for the sale of drops and tablets in Taiwan.
- BioGaia initiates investigative study in type 2 diabetics.
- Agreement for oral health products in the Czech Republic, the Benelux and South Africa.
- Agreement with Nestlé's Gerber division for the sale of drops in the USA.

President's comments

"Earlier this year, as previously mentioned, we signed several agreements with Nestlé through which they have among other things obtained exclusive rights to use *Lactobacillus reuteri* in infant formula throughout the term of patent in order to guarantee their access to our component product in this area. One effect of this is that our reported sales of component products have decreased, although this has been offset by license revenue from Nestlé. Within the framework of these agreements, we have also initiated a distribution collaboration with Nestlé for some of our existing finished consumer products and a close partnership in development of new products related to Nestlé's business.

The extended partnership with Nestlé is of major strategic importance for BioGaia and will also create additional resources for development of our own consumer products under the BioGaia brand. This has resulted in the already announced launch of our drops in the fourth quarter through Gerber (100% owned by Nestlé), which is one of the absolutely strongest players in the infant nutrition area in the USA. The product will be sold with prominent exposure of BioGaia's brand. In view of Gerber's position in the US market and the size of its investment, we anticipate substantial growth in our US sales next year and a significant increase in awareness of the BioGaia brand.

Our finished product sales have been affected by our termination of certain existing distribution agreements and the change to new distributors. In spite of this, sales of BioGaia's finished consumer products rose by 9% in the first half of the year and 16% in the second quarter compared to the corresponding periods of 2011", says Peter Rothschild president, BioGaia.

You are welcome to take part in a teleconference on the interim report that will be held today at 10:00 a.m. by President Peter Rothschild and CFO Margareta Hagman. To participate in the conference, please see <http://www.biogaia.com/investor-relations> for telephone numbers.

BioGaia has published this information in accordance with the Swedish Securities Market Act. The information was issued for publication on 21 August 2012, 8:00 a.m. CET.

BioGaia AB (publ.)

INTERIM REPORT, 1 JANUARY – 30 JUNE 2012

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 2012. A brief description of the company's operations is provided on page 15.

PRESIDENT'S COMMENTS

Earlier this year, as previously mentioned, we signed several agreements with Nestlé through which they have among other things obtained exclusive rights to use *Lactobacillus reuteri* in infant formula throughout the term of patent in order to guarantee their access to our component product in this area. One effect of this is that our reported sales of component products have decreased, although this has been offset by license revenue from Nestlé. Within the framework of these agreements, we have also initiated a distribution collaboration with Nestlé for some of our existing finished consumer products and a close partnership in development of new products related to Nestlé's business.

The extended partnership with Nestlé is of major strategic importance for BioGaia and will also create additional resources for development of our own consumer products under the BioGaia brand. This has resulted in the already announced launch of our drops in the fourth quarter through Gerber (100% owned by Nestlé), which is one of the absolutely strongest players in the infant nutrition area in the USA. The product will be sold with prominent exposure of BioGaia's brand. In view of Gerber's position in the US market and the size of its investment, we anticipate substantial growth in our US sales next year and a significant increase in awareness of the BioGaia brand.

During the quarter we stepped up efforts to replace our distributors in the markets where we believe this will result in higher growth. Furthermore, we are working actively to start new distributors in the markets where we have already changed, such as Sweden and Spain. For our drops in the USA we have, as mentioned above, switched to absolutely the best distributor possible, namely Gerber. We are now trying to ensure that the transition from our current distributor to Gerber proceeds as smoothly as possible. We are planning additional distributor changes that will naturally cause certain disruptions during 2012 but will lead to increased future growth. In spite of this, sales of BioGaia's finished consumer products rose by 9% in the first half of the year and 16% in the second quarter compared to the corresponding periods of 2011.

Our refocus on oral health products is starting to pay off and in the second quarter we signed distribution agreements for South Africa and a number of smaller countries in Europe. We see good potential in the oral health area and are seeking new distributors with sales forces that work with dentists and oral hygienists, but would also consider other sales channels for this product.

In the past quarter we initiated a relatively complex clinical study in Gothenburg on patients with type 2 diabetes. The hope is that supplementation with our product will lead to a decrease in blood glucose in these patients. This is of course a highly interesting and expanding market, but we are well aware that a great deal of work is required to build up arguments strong enough to alter the treatments doctors recommend to

their patients. With this in mind, parallel to the clinical studies we are also conducting laboratory trials aimed at defining potential mechanistic explanations for the possible effects.

So far, the financial crisis in Europe has not had any major direct impact on our sales, but we will be indirectly affected by the weak euro in that around 70% of our sales are denominated in this currency. We are minimising the earnings impact by selling parts of our euro flow on forward contracts for 24 months forward. Our euro-dependency has decreased and we are taking steps to reduce it further.

FINANCIAL PERFORMANCE IN THE FIRST HALF OF 2012

Sales

Consolidated net sales reached SEK 510 million (159.5). This figure includes license revenue from Nestlé of SEK 356 million that is regarded as non-recurring revenue but is to a certain extent attributable to sales in 2012. In February 2012 BioGaia signed several new agreements with Nestlé including the acquisition of a perpetual license to use BioGaia's probiotic in infant formula during the remaining term of the patent. The purchase price was EUR 50.8 million, of which EUR 40 million (SEK 356 million) was received and recognised in the first quarter of 2012. The sale of the license will lead to a decrease in culture revenue from Nestlé during 2012, which will also result in lower sales of component products. BioGaia's assessment is that revenue (excluding license revenue) from Nestlé will be equal to approximately 50% of the value of sales during 2011, and will increase in 2013 to close to the 2011 level. From 2014 forward, sales are expected to exceed those in 2011.

Excluding license revenue from Nestlé, net sales amounted to SEK 154.0 million (159.5), a decrease of SEK 5.5 million (3%) compared to the same period of last year.

For the past 12-month period, sales were up by 14% (excluding license revenue from Nestlé) compared to the same period of last year.

A large share of sales take place in foreign currency, primarily EUR. Changes in exchange rates in the first half of 2012 compared to the first half of 2011 have not had any material foreign exchange effects on sales or profit.

Sales of finished consumer products rose by SEK 10.3 million (9%) to SEK 121.8 million. For the past 12-month period, sales of finished consumer products grew by 21% compared to the corresponding period of last year.

Sales of finished consumer products rose in Asia and the USA, but declined in Europe and other countries compared to the same period of last year. The increase in Asia is mainly attributable to higher sales in Japan. The increase in the USA is explained primarily by Fleet's launch of strawberry-flavoured tablets. Sales in Europe decreased as an effect of ongoing distributor changes.

Sales of component products improved by SEK 340.0 million. Excluding license revenue from Nestlé, sales fell by SEK 16.0 million (34%) compared to the same period of last year. Sales of component products decreased in Europe and Asia. The drop in Europe is a consequence of the agreement with Nestlé (see above).

The decrease in Asia is explained by the fact that the figures for the previous year include income from the agreement with Yili in China. For the past 12-month period, sales of

component products were down by 1% (excluding license revenue from Nestlé).

Sales in Europe improved by SEK 340.9 million. Excluding license revenue from Nestlé, sales declined by SEK 15.1 million (12%). For the past 12-month period, sales in Europe were up by 4% (excluding license revenue).

Sales in Asia decreased by SEK 2.0 million (10%). For the past 12-month period, sales in Asia grew by 16%.

Sales in the USA and Canada rose by SEK 12.3 million (280%) compared to the same period of last year. For the past 12-month period, sales in the USA and Canada increased by 219%.

Sales in the rest of the world fell by SEK 0.6 million (5%) compared to the same period of last year, which is due to temporary fluctuations in deliveries. For the past 12-month period, sales in the rest of the world increased by 22%.

Of total finished consumer products, 43% (38) were sold under the BioGaia brand. Including so-called co-branding, the percentage was 52% (47).

Gross profit

Gross profit amounted to SEK 465.7 million (111.2). Excluding license revenue from Nestlé, gross profit was SEK 109.7 million (111.2), which is SEK 1.5 million (1%) lower than in the same period of last year.

Gross margin (excluding license revenue) rose from 70% to 71%. This is partly attributable to increased sales in Japan, where the margins are higher.

Operating expenses

Selling expenses totalled SEK 38.5 (32.3) million, which is equal to 25% (20) of net sales (excluding license revenue). The increase of SEK 6.2 million (19%) is mainly attributable to higher personnel expenses and marketing activities (increased participation in conferences, new websites and product samples) as well as higher costs in Japan owing partly to exchange rate fluctuations. For the past 12-month period, selling expenses rose by 15%.

Administrative expenses amounted to SEK 6.8 million (6.2), which is equal to 4% (4) of net sales (excluding license revenue). The increase of SEK 0.6 million (10%) is mainly attributable to higher personnel expenses. Administrative expenses for the past 12-month period rose by 23%, mainly due to higher personnel expenses and to a certain extent also the consolidation of TwoPac as of 1 January 2011.

R&D expenses are reported at SEK 18.3 million (16.9), which is equal to 12% (11) of net sales (excluding license revenue). The increase of 8% refers mainly to increased personnel expenses. The amortisation component of R&D expenses was SEK 0.3 million (0.7). Investments in capitalised development expenses totalled SEK 0 million (0). For the past 12-month period, R&D expenses grew by 14%.

Other operating income/expenses refer to foreign exchange gains/losses on operating receivables and liabilities.

Operating profit

Operating profit was SEK 401.5 million (57.3), an increase of SEK 344.2 million. Excluding license revenue from Nestlé,

operating profit was SEK 45.5 million, which is SEK 11.8 million (21%) lower than in the same period of last year.

Financial items and profit before tax

Profit before tax was SEK 408.5 million (57.8), an improvement of SEK 350.7 million. Excluding license revenue from Nestlé, profit before tax was SEK 52.5 million, down by SEK 5.3 million (9%) compared to the same period of last year.

Net financial items include a foreign exchange gain of SEK 3.0 million (-0.7) on forward exchange contracts in EUR. At 30 June 2012 the company had outstanding forward exchange contracts for EUR 11.0 million at an average exchange rate of SEK 9.21. Forward exchange contracts amounting to EUR 4.0 million will mature for payment in 2012, EUR 5.9 million in 2013 and the remaining EUR 1.1 million in 2014. 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 2012 (8.76), an exchange gain/loss will be recognised in the future.

Profit after tax

Profit after tax was SEK 299.9 million (42.2), an increase of SEK 257.7 million. Excluding license revenue from Nestlé, profit after tax was SEK 37.5 million, which is a decrease of SEK 4.7 million (11%) compared to the same period of last year.

The tax rate for the Group (excluding license revenue) was 29% (27). The Group pays tax on profits in the Swedish companies. The loss in Japan is not deductible against the Swedish profits. Loss carryforwards in the Japanese subsidiary at 30 June 2012 amounted to SEK 65.7 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 17.27 (2.38). Excluding license revenue, earnings per share were SEK 2.08.

Cash flow

The Group's cash and cash equivalents at 30 June 2012 totalled SEK 414.5 million (126.6).

Cash flow amounted to SEK 243.1 million (-20.2). Cash flow includes a non-recurring payment from Nestlé amounting to SEK 356 million, investments in TwoPac of SEK 16.8 million (6.4), tax payments of SEK 41.3 million (24.5) and dividends of SEK 103.6 million (34.5).

Equity

Consolidated equity amounted to SEK 428.0 million (230.4) and the equity/assets ratio was 79% (81).

In June BioGaia carried out the warrant programme that was decided on by the Annual General Meeting on 8 May 2012. A total of 82,500 warrants were subscribed for, of which the management subscribed for 35,000. The warrants were issued at a market price of SEK 14.27 each following valuation according to the Black & Scholes formula, which provided the Parent Company with proceeds of SEK 1.2 million. Each warrant entitles the holder to subscribe for one class B share for SEK 241.90 on 1 June 2015. Volatility was estimated at 40%.

If all of the subscription warrants are exercised, the company's equity will be increased by SEK 20.0 million.

This represents a dilutive effect of approximately 0.4% on the share capital and 0.3% on the total number of votes.

In order to achieve a high level of participation, the AGM resolved to pay a subsidy of SEK 10 per warrant (after 1 June 2015) to the employees who have subscribed for subscription warrants but have not exercised the right to buy shares. No provisions for this obligation have yet been made, but will be continuously assessed.

Investments in property, plant and equipment

The period's investments in property, plant and equipment amounted to SEK 17.8 million (6.7), of which SEK 16.8 million (6.4) refers to TwoPac.

Subsidiary in Japan

Net sales in the Japanese subsidiary are reported at SEK 7.5 million (5.4). Operating profit amounted to SEK -2.6 million (-2.1).

Subsidiary TwoPac AB

TwoPac AB is owned 50% by BioGaia and 50% by TwoPac's management. Since 1 January 2011, TwoPac is consolidated in the BioGaia Group.

Net sales in TwoPac amounted to SEK 15.4 million (12.0). Operating profit was SEK 5.1 million (2.6). The company pays tax since 2012. Profit after tax was SEK 3.5 million (2.4). Construction of the new production facility is somewhat behind schedule. The facility is expected to be completed and commissioned in the third quarter.

Parent Company

Net sales in the Parent Company reached SEK 504.3 million (155.5) and profit before tax was SEK 404.4 million (55.3). Profit after tax was SEK 297.1 million (39.7). Cash flow in the Parent Company totalled SEK 246.4 million (-29.3).

A resolution was passed by the AGM in May to reduce the statutory reserve of SEK 77.8 million and transfer this amount to non-restricted reserves. The reduction was registered in August 2012.

FINANCIAL PERFORMANCE IN THE SECOND QUARTER OF 2012

Second quarter sales

Net sales for the second quarter reached SEK 75.7 million (89.6), down by SEK 13.9 million (16%) compared to the same period of last year. The decrease is attributable to component products and is explained above under sales in the first half of 2012.

Sales of finished consumer products amounted to SEK 67.1 million (57.9), an increase of SEK 9.2 million (16%). Compared to the first quarter, sales of finished consumer products rose by SEK 12.3 million.

Sales of component products totalled SEK 8.3 million (31.4), a decrease of SEK 23.1 million that is explained above under sales in the first half of 2012.

Sales growth vary between quarters. For a more accurate picture, a rolling 12-month income statement is presented on page 7.

Gross profit for the second quarter

Gross profit was SEK 54.1 million (62.7), down by SEK 8.6 million compared to the same period of last year.

Other operating expenses for the second quarter

Selling expenses for the second quarter were SEK 2.7 million (15%) higher than the same period of last year, which is due to increased personnel expenses and marketing activities and higher costs in Japan. Compared to the previous quarter, selling expenses rose by SEK 3.1 million as an effect of increased marketing activities and personnel expenses.

Administrative expenses rose by SEK 0.3 million (8%) compared to the same period of last year and SEK 0.5 compared to the previous quarter.

R&D expenses were up by SEK 0.9 million (10%) compared to the same period of last year, which is mainly explained by increased personnel expenses.

Operating profit for the second quarter

Operating profit for the second quarter was SEK 19.4 million (33.9), which is SEK 14.5 million lower than in the same period of last year.

Profit before tax for the second quarter

Profit before tax for the second quarter was SEK 23.6 million (32.3), a decrease of SEK 8.7 million compared to the same period of last year. Net financial items include a foreign exchange gain of SEK 1.6 million on forward exchange contracts in EUR (for more information – see above). The corresponding period of 2011 included a foreign exchange loss of SEK 2.4 million.

Profit after tax for the second quarter

Profit after tax was SEK 16.7 million (23.7), down by SEK 7.0 million compared to the same period of last year.

Cash flow for the second quarter

Cash flow for the second quarter was SEK -115.5 million (-22.1).

During the period, the Group paid dividends of SEK 103.6 million (34.5) and tax of SEK 24.0 million (6.1).

KEY EVENTS IN THE SECOND QUARTER OF 2012

Launches in the second quarter of 2012

Distributor/licensee	Product	Country
Ewopharma	Oral health tablets	Croatia, Slovenia, Serbia and Poland
Ewopharma	Digestive health tablets with strawberry flavour	Romania
Interbat	Drops	Indonesia
Nestlé	Infant formula with <i>Lactobacillus reuteri</i> Protectis	USA and Sri Lanka
Sunstar	Oral health tablets	Canada

Agreement for probiotic drops and tablets in Taiwan

In mid-April BioGaia signed an agreement with Unilab Group for exclusive rights to sell BioGaia's probiotic drops and tablets in Taiwan. The products will be sold under the BioGaia brand and the launch is planned for 2012.

New study on type 2 diabetics

BioGaia has initiated an investigative study on type 2 diabetics together with Gothia Forum for Clinical Research at Sahlgrenska University Hospital in Gothenburg in collaboration with Sahlgrenska Center for Cardiovascular and Metabolic Research.

Based on encouraging findings after supplementation with BioGaia's probiotic strain *Lactobacillus reuteri* Protectis in patients with type 2 diabetes in an earlier pilot study, this double-blind, placebo-controlled study will examine the effects of *Lactobacillus reuteri* Protectis supplementation on blood glucose control over a 12-week period. The study will address both clinical outcome parameters as well as attempting to define potential mechanistic explanations for the effects seen.

Agreements for oral health products in the Czech Republic, the Benelux countries and South Africa

In May BioGaia signed three different agreements, one with Next Force giving Next Force exclusive sales rights for BioGaia's oral health products in the Czech Republic, one with Ivodent giving Ivodent exclusive sales rights in South Africa, and one with Oral Company giving Oral Company exclusive sales rights in the Netherlands, Belgium and Luxembourg. In all countries, the products will be sold under the BioGaia brand and the launch is planned to take place during 2012.

Agreement with Nestlé's Gerber division for the sale of drops in the USA

In June, BioGaia and Gerber Products Company, a division of Nestlé S.A., signed an agreement giving Gerber exclusive sales rights for BioGaia's probiotic drops and oral rehydration solution in the USA. The products will be marketed and sold under the well known and highly regarded US Gerber brand. The probiotic drops are planned to launch in the second half of 2012 and will support Gerber's Maternal and Infant Nutrition strategy to offer mothers benefits regardless of whether they choose to breastfeed or supplement with formula.

This is the first contract with Nestlé since BioGaia's sale to Nestlé of perpetual license rights to use BioGaia's patented *Lactobacillus reuteri* Protectis in infant formula, as announced in February 2012 (see below), at which time the two companies entered into a number of development and option agreements. The agreement with Gerber is a major step forward for BioGaia in the large United States paediatric market.

KEY EVENTS EARLIER IN 2012

Launches in the first quarter of 2012

Distributor/licensee	Product	Country
Cube Pharmaceuticals	Oral rehydration solution (ORS)	Greece
Fleet Laboratories	Digestive health tablets with strawberry flavour	USA
Nestlé	Infant formula with <i>Lactobacillus reuteri</i> Protectis	Bangladesh, Burma, Cambodia, the Caribbean, Laos and Singapore
Recalcine	Digestive health tablets and drops	Bolivia

BioGaia extends collaboration with Nestlé

Since 2008, BioGaia and Nestlé have collaborated in the field of infant nutrition products. After the signing of several new agreements in mid-February 2012, the parties have further extended this collaboration.

The agreements include the entry by Nestlé into a perpetual licence to use BioGaia's patented *Lactobacillus reuteri* in infant nutrition products for EUR 50.8 million. The initial payment of EUR 40 million (SEK 356 million) was made and recognised in the first quarter of 2012. Additional payments of EUR 10.8 million will be paid and recognised over a five-year period on the achievement of certain milestones.

The agreements are of significant strategic value for BioGaia, since they not only involve an extended collaboration with Nestlé but also provide greater financial freedom for BioGaia to further invest in its own brand, develop its own new products, conduct research on new indications and increase the distribution of BioGaia-branded products. The additional finances also give the Board scope to propose a generous dividend policy.

In addition, Nestlé has signed an option agreement with BioGaia to extend the use of *Lactobacillus reuteri* to other product areas. Furthermore, Nestlé and BioGaia are working on several other projects, including the development of innovative products in the infant nutrition and other nutrition categories and the distribution of BioGaia-branded products in new markets. These further developments will be announced at an appropriate time closer to launch.

As a result of the up-front payments for the acquisition of the licence, BioGaia estimates that revenue from Nestlé during 2012, excluding the up-front payment, will be equal to around 50% of the value of sales during 2011, and will increase in 2013 to close to the 2011 level. From 2014 forward, sales are expected to exceed those in 2011.

Results of study show that *Lactobacillus reuteri* Protectis reduces diarrhoea in children

A double-blind, placebo-controlled study of 494 children showed that supplementation of *Lactobacillus reuteri* Protectis significantly reduced episodes of diarrhoea. *Lactobacillus reuteri* Protectis was particularly effective in children with lower nutritional status. Another probiotic strain, which was also tested, was without effect.

The study was conducted independently from BioGaia and the results were announced in a press release by NIZO food research on 21 February 2012. The study was published in Pediatrics.

EMPLOYEES

The number of employees in the Group at 30 June 2012 was 69 (61).

Incentive scheme for the employees

In June BioGaia carried out the subscription warrant programme for all employees in the BioGaia Group that was resolved on by the AGM on 8 May 2012. For more information, see above under "Equity" on page 3.

SIGNIFICANT RISKS AND UNCERTAINTIES; GROUP AND PARENT COMPANY

The business model previously used in Japan was found to be ineffective and the company has changed to the business model that is being used successfully in other markets. The Japanese subsidiary's sales have now picked up and are expected to increase continuously.

On the balance sheet date, assets in the Japanese subsidiary were reported at SEK 9.9 million in the Group. BioGaia's assessment is that there is no indication of impairment of these assets. In the Parent Company, all receivables and participations in the Japanese subsidiary have been written down to zero.

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 profitability in coming years, for which reason there was no indication of impairment on the balance sheet date.

For further information see the administration report and Notes 28 and 29 of the annual report for 2011.

ACCOUNTING POLICIES

The consolidated financial statements are presented in compliance with the International Financial Reporting Standards (IFRS) issued 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 applied accounting policies correspond to those described in the annual report for 2011, aside from a number of minor amendments to existing standards and new interpretations that are effective as of 1 January 2012. These are not assessed to have any significant impact on the Group's or the Parent Company's profit, financial position or disclosures.

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 dividend policy is to pay a shareholder dividend equal to 30% of profit after tax.

Product launches are planned in a number of countries during the year. 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 statements of comprehensive income

(Amounts in SEK 000s)

	Jan-Jun 2012	Jan-Jun 2011	Apr-Jun 2012	Apr-Jun 2011	Jan-Dec 2011	Jul 2011- Jun 2012	Jul 2010- Jun 2011
Net sales	154,031	159,489	75,742	89,634	314,992	309,534	271,102
License revenue	356,004	-	-	-	-	356,004	-
Cost of goods sold	-44,371	-48,281	-21,607	-26,943	-98,727	-94,817	-84,402
<i>Gross profit</i>	465,664	111,208	54,135	62,691	216,265	570,721	186,700
Selling expenses	-38,472	-32,259	-20,795	-18,119	-66,079	-72,292	-62,812
Administrative expenses	-6,835	-6,214	-3,682	-3,401	-13,014	-13,635	-11,041
Research and development expenses	-18,268	-16,946	-9,854	-8,978	-34,317	-35,639	-31,196
Other operating expenses	-614	1,505	-410	1,716	304	-1,815	144
Share in profit/loss of associated company	-	-	-	-	-	-	315
<i>Operating profit</i>	401,475	57,294	19,394	33,909	103,159	447,340	82,110
Financial income	7,111	1,304	4,256	755	5,792	11,599	8,081
Financial expenses	-39	-769	-17	-2,387	-84	646	-824
<i>Profit before tax</i>	408,547	57,829	23,633	32,277	108,867	459,585	89,367
Tax expense	-108,641	-15,650	-6,922	-8,579	-29,345	-122,336	-26,302
PROFIT FOR THE PERIOD	299,906	42,179	16,711	23,698	79,522	337,249	63,065
Other comprehensive income							
Gains/losses arising on translation of the financial statements of foreign operations	160	-315	856	163	712	1,187	-742
Comprehensive income for the period	300,066	41,864	17,567	23,861	80,234	338,436	62,323
Profit for the period attributable to:							
Owners of the Parent Company	298,266	41,110	15,458	23,196	76,369		
Non-controlling interests	1,640	1,069	1,253	502	3,153		
	299,906	42,179	16,711	23,698	79,522		
Comprehensive income for the period attributable to:							
Owners of the Parent Company	298,426	40,795	16,314	23,359	77,081		
Non-controlling interests	1,640	1,069	1,253	502	3,153		
	300,066	41,864	17,567	23,861	80,234		
Earnings per share							
Basic earnings per share (average number of shares), SEK	17.27	2.38	0.90	1.34	4.42		
Diluted earnings per share, SEK	17.27	2.38	0.90	1.34	4.42		
Number of shares, thousands	17,271	17,271	17,271	17,271	17,271		
Average number of shares, thousands	17,271	17,271	17,271	17,271	17,271		
Number of outstanding warrants, thousands	83	-	83	-	-		
Number of outstanding warrants with a dilutive effect, thousands	-	-	-	-	-		
Number of shares after dilution, thousands	17,271	17,271	17,271	17,271	17,271		

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	30 Jun	31 Dec	30 Jun
(Amounts in SEK 000s)	2012	2011	2011
ASSETS			
Intangible assets	90	264	693
Property, plant and equipment	39,506	24,158	16,484
Other non-current receivables	18	18	17
Total non-current assets	39,614	24,440	17,194
Current assets excl. cash and cash equivalents	88,466	83,858	92,416
Cash and cash equivalents	414,499	171,534	126,646
Total current assets	502,965	255,392	219,062
TOTAL ASSETS	542,579	279,832	236,256
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent Company	425,742	229,764	193,478
Non-controlling interests	2,230	591	-1,493
Total equity	427,972	230,355	191,985
Provision for deferred tax	185	185	-
Interest-free current liabilities	114,422	49,292	44,271
TOTAL EQUITY AND LIABILITIES	542,579	279,832	236,256
Pledged assets	2,375	5,874	9,091

CONSOLIDATED CASH FLOW STATEMENTS	Jan-Jun	Jan-Jun	Apr-Jun	Apr-Jun	Jan-Dec
(Amounts in SEK 000s)	2012	2011	2012	2011	2011
<u>Operating activities</u>					
Operating profit	401,475	57,294	19,394	33,909	103,159
Depreciation/amortisation	2,641	4,466	1,381	3,227	5,425
Other non-cash items	76	-71	-190	-208	1,398
Gains/losses on realised forward exchange contracts	404,192	61,689	20,585	36,928	109,982
Paid tax	667	310	382	-1,625	-164
Paid tax	-41,294	-24,472	-24,048	-6,097	-35,768
Interest received and paid	4,051	1,249	2,657	735	3,189
Cash flow from operating activities before changes in working capital	367,616	38,776	-424	29,941	77,239
Changes in working capital	-4,227	-20,387	-4,689	-11,985	-4,447
Cash flow from operating activities	363,389	18,389	-5,113	17,956	72,792
Cash flow from investing activities	-17,805	-4,051	-7,984	-5,539	-13,567
Cash flow from financing activities	-102,449	-34,542	-102,449	-34,542	-34,542
Cash flow for the period	243,135	-20,204	-115,546	-22,125	24,683
Cash and cash equivalents at beginning of period	171,534	146,903	529,923	148,514	146,903
Exchange difference in cash and cash equivalents	-170	-53	122	257	-52
Cash and cash equivalents at end of period	414,499	126,646	414,499	126,646	171,534

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in SEK 000s)	Jan-Jun	Jan-Jun	Jan-Dec
	2012	2011	2011
At beginning of period	230,355	187,323	187,323
Dividends	-103,626	-34,542	-34,542
Subscription warrants	1,177	-	-
Change in group structure	-	-2,660	-2,660
Comprehensive income for the period	300,066	41,864	80,234
At end of period	427,972	191,985	230,355

REPORTING BY SEGMENT – GROUP

(Amounts in SEK 000s)

Revenue by segment	Jan-Jun	Jan-Jun	Apr-Jun	Apr-Jun	Jan-Dec	Jul 2011-	Jul 2010-
	2012	2011	2012	2011	2011	Jun 2012	Jun 2011
Finished consumer products	121,821	111,460	67,050	57,895	215,431	225,792	187,175
Component products	31,342	47,312	8,335	31,388	97,731	81,761	82,397
License revenue (component products) 1)	356,004	-	-	-	-	356,004	-
Other products	868	717	357	351	1,830	1,981	1,530
	510,035	159,489	75,742	89,634	314,992	665,538	271,102

Gross profit by segment	Jan-Jun	Jan-Jun	Apr-Jun	Apr-Jun	Jan-Dec	Jul,2011-	Jul,2010-
	2012	2011	2012	2011	2011	Jun,2012	Jun,2011
Finished consumer products	87,855	77,713	48,391	41,032	154,015	164,157	127,168
Component products	21,103	32,790	5,426	21,316	60,523	48,836	58,050
License revenue (component products) 1)	356,004	-	0	-	-	356,004	-
Other products	702	705	318	343	1,727	1,724	1,482
	465,664	111,208	54,135	62,691	216,265	570,721	186,700

1) License revenue refers to revenue from Nestlé (see above in text). The license revenue is included in component products but is reported on a separate line in order to achieve better comparability between years.

Revenue by geographical market

	Jan-Jun	Jan-Jun	Apr-Jun	Apr-Jun	Jan-Dec	Jul 2011-	Jul 2010-
	2012	2011	2012	2011	2011	Jun 2012	Jun 2011
Net sales							
Europe	107,157	122,304	47,608	68,511	234,505	219,358	210,865
License revenue (Europe) 1)	356,004	-	-	-	-	356,004	-
USA and Canada	16,708	4,366	11,405	3,138	17,816	30,158	9,449
Asia	18,380	20,422	9,986	11,638	37,117	35,075	30,261
Rest of world	11,786	12,397	6,743	6,347	25,554	24,943	20,527
	510,035	159,489	75,742	89,634	314,992	665,538	271,102

1) License revenue refers to revenue from Nestlé (see above in text). The license revenue is included in Europe but is reported on a separate line in order to achieve better comparability between years.

PARENT COMPANY INCOME STATEMENTS

	Jan-Jun 2012	Jan-Jun 2011	Jan-Dec 2011
(Amounts in SEK 000s)			
Net sales	148,351	155,493	306,182
License revenue	356,004	-	-
Cost of goods sold	-49,519	-51,239	-106,868
<i>Gross profit</i>	454,836	104,254	199,314
Selling expenses	-29,129	-24,618	-49,406
Administrative expenses	-6,295	-5,455	-11,607
Research and development expenses	-18,239	-16,888	-34,283
Other operating income	-	-	304
Other operating expenses	-614	1,505	-
<i>Operating profit</i>	400,559	58,798	104,322
Impairment loss on receivable from subsidiary	-4,813	-5,262	-10,453
Net financial items	8,681	1,806	8,391
Profit before tax	404,427	55,342	102,260
Tax expense	-107,369	-15,650	-29,781
PROFIT FOR THE PERIOD	297,058	39,692	72,479

PARENT COMPANY BALANCE SHEETS

	30 Jun 2012	31 Dec 2011	30 Jun 2011
ASSETS			
Intangible assets	90	264	693
Property, plant and equipment	2,055	2,068	2,577
Shares in group companies	21,160	21,160	21,110
Non-current receivables from subsidiaries	21,513	16,513	16,513
<i>Total non-current assets</i>	44,818	40,005	40,893
Current assets excl. cash and cash equivalents	76,280	73,643	86,880
Cash and cash equivalents	408,054	161,865	111,601
<i>Total current assets</i>	484,334	235,508	198,481
TOTAL ASSETS	529,152	275,513	239,374
EQUITY AND LIABILITIES			
Equity	407,365	212,756	181,782
Interest-free current liabilities	121,787	62,757	57,592
TOTAL EQUITY AND LIABILITIES	529,152	275,513	239,374
Pledged assets	2,000	2,000	2,000

PARENT COMPANY CASH FLOW STATEMENTS

	Jan-Jun 2012	Jan-Jun 2011	Jan-Dec 2011
<u>Operating activities</u>			
Operating profit	400,559	58,798	104,322
Depreciation/amortisation	766	1,100	2,096
Other non-cash items	76	-73	51
Gain/losses on realised foreign exchange contracts	667	310	-164
Paid tax	-41,273	-24,472	-35,769
Interest received and paid	4,361	1,257	3,582
Cash flow from operating activities before changes in working capital	365,156	36,920	74,118
Changes in working capital	-9,092	-17,617	-2,686
<i>Cash flow from operating activities</i>	356,064	19,303	71,432
<i>Cash flow from investing activities</i>	-7,250	-14,073	-15,813
<i>Cash flow from financing activities</i>	-102,449	-34,542	-34,542
Cash flow for the period	246,365	-29,312	21,077
Cash and cash equivalents at beginning of period	161,865	140,840	140,840
Exchange difference in cash and cash equivalents	-176	73	-52
Cash and cash equivalents at end of period	408,054	111,601	161,865

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

(Amounts in SEK 000s)

	Jan-Jun 2012	Jan-Jun 2011	Jan-Dec 2011
At beginning of year	212,756	176,632	176,632
Dividends	-103,626	-34,542	-34,542
Group contributions	-	-	-1,813
Subscription warrant programme	1,177	-	-
Profit for the period	297,058	39,692	72,479
At end of period	407,365	181,782	212,756

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., Tripac AB and Infant Baby AB.

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

The Parent Company holds 50% of the shares in TwoPac AB, which is reported as a group company.

Annwall & Rothschild Investment AB holds 740,668 class A shares and 1,259,332 class B shares, which is equal 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, and Jan Annwall, a member of the Board of the Parent Company.

The following transactions have taken place with BioGaia Japan

	Jan-Jun 2012	Jan-Jun 2011	Jan-Dec 2011
Interest income	1,278	1,065	2,244
Loan provided	-1,670	-2,819	-4,451
Sale of goods	1,865	1,378	3,759

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.

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

	Jan-Jun 2012	Jan-Jun 2011	Jan-Dec 2011
Interest income	310	176	487
Loan provided	-5,000	-11,091	-11,091
Purchase of goods	-15,415	-11,979	-26,179

No significant transactions have taken place with other closely related companies.

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

	30 Jun 2012	30 Jun 2011	31 Dec 2011
Non-current receivables from TwoPac AB (incl. subsidiary)	20,491	15,491	15,491
Current transactions with related parties			
Current receivables from TwoPac AB	162	46	349
Current liabilities to TwoPac AB	-2,212	-3,810	-3,339
	-2,050	-3,764	-2,990

<u>CONSOLIDATED KEY RATIOS 1)</u>	Jan-Jun	Jan-Jun 2012	Jan-Jun
	2012	excl. non-recurring revenue 2)	2011
Return on			
- average equity	91%	18%	22%
- average capital employed	124%	27%	31%
Capital employed, SEK 000s	428,157	165,782	191,985
Number of shares, thousands	17,271	17,271	17,271
Average number of shares, thousands	17,271	17,271	17,271
Number of outstanding warrants, thousands	83	83	-
Average number of outstanding warrants with a dilutive effect, thousands	-	-	-
Number of shares after dilution, thousands	17,271	17,271	17,271
Basic earnings per share, SEK	17.27	2.08	2.38
Diluted earnings per share, SEK	17.27	2.08	2.38
Basic equity per share, SEK	24.65	9.46	11.20
Diluted per equity per share, SEK	24.65	9.46	11.20
Equity/assets ratio	79%	89%	81%
Operating margin	79%	30%	36%
Profit margin	80%	34%	36%
Average number of employees	67	67	60

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

2) Key ratios excluding non-recurring revenue from Nestlé (see above under "Financial performance in the first half of 2012)

FINANCIAL CALENDAR

21 August 2012	10:00 a.m. Teleconference with President Peter Rothschild and CFO Margareta Hagman. To participate in the conference please see http://www.biogaia.com/investor-relations for telephone numbers.
23 October 2012	Interim report 1 January – 30 September 2012
8 February 2012	Year-end report 2012

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, 21 August 2012

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 on interim financial information (interim report)

Introduction

We have reviewed the interim financial information (interim report) for BioGaia AB (publ), corporate identity number 556380-8723, at 30 June 2012 and the related statements of income, changes in shareholders' equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Board of Directors and President are responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion based on this interim financial information based on our review.

Scope of 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 of interim financial information 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does present fairly, in all material aspects, the financial position of the Group and the Parent Company at 30 June 2012 and their financial performance and cash flows for the six-month period then ended 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, 21 August 2012

Grant Thornton Sweden AB

Lena Möllerström Nording
Authorised Public Accountant

BioGaia AB

The Company

BioGaia is a healthcare 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) in combination with unique packaging solutions that make it possible to create probiotic products with a long shelf life.

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

BioGaia has 69 employees, of whom 23 are based in Stockholm, 23 in Lund, 13 in Eslöv, two in Raleigh, USA, six in Hiroshima, Japan, and two in Shanghai, China.

Business model

BioGaia's revenue comes mainly from the sale of finished consumer products (digestive health tablets, drops, Oral Rehydration solution (ORS) and oral health products) to distributors, but also of revenue from the sale of component products such as Reuteri cultures, straws and caps.

The products are sold through nutrition, food, natural health and pharmaceutical companies in some 70 countries worldwide.

BioGaia holds patents for the use of *Lactobacillus reuteri* and certain packaging solutions in all major markets.

The BioGaia brand

At the beginning of 2006 BioGaia launched its own consumer brand and today there are a number of distribution partners that sell 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.

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.

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.

Research and clinical studies

Lactobacillus reuteri is one of the world's most well researched probiotics, especially in young children. To date, 92 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on around 7,700 individuals of all ages. The results have been published in 55 articles in scientific journals.

Studies have been performed on:

- Infantile colic and digestive health in children
- Antibiotic-associated diarrhoea (AAD)
- Acute diarrhoea
- Gingivitis (inflammation of the gums)
- Periodontal disease
- 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:

2012-06-13 BioGaia signs exclusive agreement for its probiotic drops and oral rehydration solution with Nestlé's Gerber division in the United States
2012-05-15 BioGaia signs exclusive distribution agreements for its oral health products in the Czech Republic, the Benelux countries and South Africa
2012-05-14 BioGaia initiates investigative study in type 2 diabetics

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or Margareta Hagman, Executive Vice President, BioGaia AB, telephone +46 8-555 293 00**