

BioGaia®

Press Release, 11 February 2011 (15 pages)

BioGaia AB

Year-end report 2010

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

2010

- Net sales reached SEK 236.0 million (203.5), an increase of SEK 32.5 million (16%). Excluding foreign exchange effects, the increase in net sales was 27%¹⁾.
- Operating profit was SEK 56.3 million (47.7), an improvement of SEK 8.6 million (18%). Excluding foreign exchange effects, operating profit rose by 51%¹⁾.
- Profit before tax was SEK 69.7 million (53.1), an increase of SEK 16.6 million (31%).
- The year's profit after tax was SEK 47.2 million (36.0), an improvement of SEK 11.2 million (31%).
- Earnings per share amounted to SEK 2.74 (2.11).
- The year's cash flow from operating activities before changes in working capital was SEK 66.0 million (52.6). Total cash flow for the year was SEK 47.5 million (42.5). Dividends of SEK 25.8 million (6.9) were paid during the year at the same time that the company raised SEK 4.9 million from the new shares issued in connection with the redemption of warrants. Cash and cash equivalents at 31 December 2010 amounted to SEK 146.9 million (100.3). At the beginning of 2011 corporate tax of SEK 18.4 million attributable to 2010 was paid.
- The Board proposes that the upcoming AGM approve an ordinary dividend of SEK 0.92 and an extraordinary dividend of SEK 1.08, for a total dividend of SEK 2.00 per share.

Fourth quarter, 1 October – 31 December 2010

- Net sales amounted to SEK 62.8 million (52.3), an increase of SEK 10.5 million (20%). Excluding foreign exchange effects, the increase in net sales was 34%¹⁾.
- Operating profit was SEK 16.2 million (11.4), an improvement of SEK 4.8 million (42%). Excluding foreign exchange effects, operating profit rose by 88%¹⁾.
- Profit before tax was SEK 18.6 million (10.5), an increase of SEK 8.1 million (77%).
- Profit after tax for the period was SEK 12.9 million (6.8), an improvement of SEK 6.1 million (90%).

Key events in the fourth quarter of 2010

- Publication of study showing that *Lactobacillus reuteri* Protectis is effective in treatment of periodontitis.
- New study published: *Lactobacillus reuteri* Protectis reduced regurgitation and improved stomach emptying in infants.

Key events after the end of the financial year

- BioGaia signs agreement for its new Oral Rehydration Solution product for Greece
- BioGaia's 50%-owned company TwoPac invests in a new facility in Eslöv.

"On the whole, we thus had a very strong development during 2010 and are building value by investing further in clinical research, product development and the BioGaia brand," says Peter Rothschild, President of BioGaia.

1) Most of the company's sales are denominated in foreign currency, primarily EUR. With unchanged exchange rates, net sales would have been SEK 23.0 million higher and operating profit would have been SEK 15.7 million higher for the year.

BioGaia publishes this information in accordance with the Swedish Securities Markets Act. The information was published on February 11, 2011, at 08:00 AM CET.

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

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BioGaia®
Clinically Proven Probiotics

BioGaia AB (publ.)

Year-end report 2010

The figures in brackets refer to the same period of last year.

The Board of Directors and the President of BioGaia AB (publ.) hereby present the year-end report for 2010. A brief description of the company's operations is provided on page 15.

PRESIDENT'S COMMENTS

2010 was another year of strong growth when sales rose by 27% (after adjustment for foreign exchange movements) and operating profit increased by 51% (after adjustments for foreign exchange movements), but it was also a year of continued challenges in Japan.

This growth came mainly from our relatively well-established market in Europe. As usual, Finland, Spain and Italy contributed strong growth rates despite the fact that these countries are our largest markets, whilst Eastern European countries like Ukraine, Slovakia and Poland are also starting to reach significant volumes. Sales of both drops and tablets continue to grow. In 2010 we launched new products in a number of countries. Our new strawberry-flavoured tablets are selling well in Finland and South Africa and our new oral rehydration solution with Reuteri integrated in the same single-portion sachets has been successful in Sweden and was also launched in Italy. Several additional countries are now in line. We have also developed a version of our oil drops with Vitamin D and will launch this product during 2011.

An important share of our sales growth in 2010 is due to the partnership with Nestlé, to which we supply cultures that are used in their infant formula. The product is already on the market in 19 countries and both Nestlé and we are satisfied with how quickly and successfully the partnership has started. After only a short time, Nestlé is on its way to becoming one of our largest customers.

We are continuing to create value by focusing on the BioGaia brand. BioGaia-branded products now account for nearly 40% of our total finished products sales.

In Japan, sales of BioGaia's oral health products started to gain momentum in the fourth quarter. The products are sold mainly by dentists but also via our Japanese website and in a number of pharmacies. The dentists recommend our products to their patients and we can see that even relatively small clinics can generate substantial sales.

On the whole, we thus had a very strong development in 2010 and are building value by investing further in clinical research, product development and the BioGaia brand.

FINANCIAL PERFORMANCE IN 2010

Sales

Consolidated net sales reached SEK 236.0 million (203.5), an increase of 16% compared to the previous year. Most of the company's sales are denominated in EUR. The EUR rate was lower in 2010 than in 2009. If the EUR rate had been the

same, net sales would have been SEK 23.0 million higher. Excluding foreign exchange effects, net sales increased by 27%.

Exchange rate fluctuations have reduced both income and expenses. Operating profit would have been SEK 15.7 million higher in the event of unchanged exchange rates.

Sales of both component products and finished products in Europe accounted for most of the increase in sales compared to last year. This is partly due to large deliveries of cultures to Nestlé, and partly to sales of drops and tablets. However, end sales of Nestlé's products also take place outside Europe, see under launches below.

The contract with Nestlé gives them an option to produce the Reuteri cultures themselves in return for compensation in the form of royalties. Thanks to a change in the contract with Nestlé, it is unlikely that Nestlé will use this option.

Sales in Asia fell sharply compared to the previous year, among other things since earlier sales in Japan via the retail trade were discontinued following the decision to distribute the company's products through Nippon Access. Other factors behind the decrease in Asia were no straw deliveries to Yili in China during the year and that Friesland, Erina and Purmil (formerly Lotte) cut back their purchasing volumes. Nippon Access launched oral health products at the end of July and sales started to gain momentum in the fourth quarter

Negotiations are underway with Purmil and Yili regarding compensation for failure to meet the contracted volumes. Due to ongoing negotiations the compensation has not been recognised in revenue for 2010.

BioGaia has filed a lawsuit in the USA against one of the company's former licencees, Nature's Way. Although the agreement with Nature's Way expired in August 2007, the company has continued using Reuteri in its marketing and product packaging despite repeated requests to cease.

Of total finished consumer products, 38% (31) were sold under the BioGaia brand.

Gross profit

Gross profit amounted to SEK 158.9 million (135.3), an improvement of SEK 23.6 compared to the previous year.

Other operating expenses

Selling expenses rose by SEK 8.4 million over the previous year, which is mainly due to higher costs of SEK 5.2 million in Japan but also to higher personnel costs, partly non-recurring costs of SEK 2.0 million, as well as increased marketing activities. Total selling expenses in Japan amounted to SEK 17.0 million (11.8). About SEK 3 million of the expenses in Japan are of a non-recurring nature.

R&D expenses amounted to SEK 29.4 million (27.0), which is equal to 16% (17) of total operating expenses and 12% (13) of net sales. The amortisation component of R&D expenses was SEK 1.4 million (3.0). Investments in capitalised development expenses totalled SEK 0 million (0).

Operating profit

Operating profit was SEK 56.3 million (47.7), which is SEK 8.6 million (18%) better than in the previous year. Excluding foreign exchange effects (see above under "Sales") operating profit improved by 51%.

Financial items and profit before tax

Profit before tax was SEK 69.7 million (53.1), which is SEK 16.6 million better than in the previous year. Net financial items include an unrealised foreign exchange gain of SEK 6.3 million (4.5) on forward exchange contracts in EUR. At 31 December 2010 the company had entered into forward exchange contracts for EUR 13.9 million at an average exchange rate of SEK 9.58. Forward exchange contracts amounting to EUR 9.6 million will mature in 2011 and the remaining EUR 4.3 million in 2012. The actual foreign exchange gain/loss depends on the exchange rate on the maturity date of the contracts. If the EUR rate on the maturity date is lower/higher than that at 31 December 2010 (9.00), an exchange gain/loss will be recognised in the future.

Profit after tax

Profit after tax was SEK 47.2 million (36.0), which represents an increase of SEK 11.2 million over the previous year.

This figure includes a reported tax expense of SEK 4.1 million pertaining to a change in the deferred tax asset and an actual tax expense of SEK 18.4 million owing to the fact that the company's former cumulative loss carryforwards in the Swedish companies have now been expended.

Earnings per share

Earnings per share amounted to SEK 2.74 (2.11).

The redemption of warrants in 2010 led to an increase of 63,400 B shares, whereby the number of class B shares thereafter amounts to 16,530,294 with an unchanged number of class A shares, i.e. 740,668. The total number of shares is thus 17,270,962, which is equal to 23,936,974 votes.

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

Cash flow

The Group's cash and cash equivalents at 31 December 2010 totalled SEK 146.9 (100.3).

Cash flow for the year was SEK 47.5 million (42.5), an increase of SEK 5.0 million compared to the previous year.

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

At the beginning of 2011 corporate tax of SEK 18.4 million attributable to 2010 was paid.

Cash flow from operating activities before changes in working capital was SEK 66.0 million (52.6).

Equity

Consolidated equity amounted to SEK 187.3 million (161.1) and the equity/assets ratio was 82% (90).

Capital expenditure

Capital expenditure on property, plant and equipment totalled SEK 0.6 million (2.9).

Parent Company

The Parent Company's net sales are reported at SEK 234.0 million (198.6) and profit before tax was SEK 71.4 million (53.8). 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 has led to an impairment loss of SEK 16.9 million (13.4), which has had a negative impact on profit. Profit after tax was SEK 48.3 million (36.2). Cash flow in the Parent Company amounted to SEK 45.4 million (41.3). Cash flow from investing activities includes a loan of SEK 14.3 million (12.2) to the Japanese subsidiary.

FINANCIAL PERFORMANCE IN THE FOURTH QUARTER OF 2010

Fourth quarter sales

Net sales for the fourth quarter amounted to SEK 62.8 million (52.3), up by SEK 10.5 million (20%) over the same period of last year. Excluding foreign exchange (effects (see above under "Financial performance during 2010"), net sales rose by 34%.

Finished consumer products in Europe accounted for most of the increase in sales. For comments, see above under "Financial performance during 2010".

Compared to the third quarter, net sales rose by SEK 13.9 million (28%).

Fourth quarter gross profit

Gross profit amounted to SEK 43.3 million (35.8), an improvement of SEK 7.5 million over the same period of last year. Compared to the previous quarter, gross profit increased by SEK 11.2 million.

Other operating expenses for the fourth quarter

Selling expenses for the fourth quarter were SEK 1.5 million higher than in the same period of last year, mainly as a result of increased costs in Japan.

Operating profit for the fourth quarter

Operating profit for the fourth quarter was SEK 16.2 million (11.4), an increase of SEK 4.8 million (42%) over the same period of last year. Excluding foreign exchange effects (see above), fourth quarter operating profit was up by 88% compared to the same period of last year.

Compared to the third quarter, operating profit was SEK 7.6 million better.

Profit before tax for the fourth quarter

Profit before tax for the fourth quarter was SEK 18.6 million (10.5), an improvement of SEK 8.1 million.

Profit after tax for the fourth quarter

Profit after tax for the fourth quarter was SEK 12.9 million (6.8), which represents an increase of SEK 6.1 million over the same period of last year and SEK 4.9 million compared to the third quarter.

Cash flow for the fourth quarter

Cash flow for the fourth quarter was SEK 21.8 million (12.9).

KEY EVENTS IN THE FOURTH QUARTER OF 2010

Launches in the fourth quarter of 2010

| Distributor/licensee | Product | Country |
|----------------------|-----------------------|----------|
| Ewopharma | Tablets (new flavour) | Bulgaria |
| Ferring | Tablets | Brazil |
| Recalcine | Tablets and drops | Peru |

Study showing that *Lactobacillus reuteri* Prodentis is effective in treatment of periodontitis published

The study shows that *L. reuteri* Prodentis acts synergistically with standard treatment (scaling and root planing, SRP) to significantly reduce probing pocket depth and clinical attachment level, which are the two most important parameters to assess the severity of periodontitis. Furthermore, *L. reuteri* Prodentis reveals – as the first probiotic ever – significant reduction of three different pathogens in patients with chronic periodontitis. The study also confirms the anti-inflammatory effects of *L. reuteri* Prodentis on gum inflammation (gingivitis).

New study published: *Lactobacillus reuteri* Protectis reduced regurgitation and improved stomach emptying in infants

The study showed that infants supplemented with *L. reuteri* Protectis significantly reduced the frequency of regurgitation by 80%. Gastric emptying was also significantly accelerated compared to placebo.

“These results confirm those from our earlier study in preterm infants and therefore strengthen the evidence for positive effects of *L. reuteri* in infants with uncomplicated regurgitation,” says Doctor Flavia Indrio from the Department of Paediatrics at University of Bari, Bari, Italy.

KEY EVENTS AFTER THE END OF THE FINANCIAL YEAR

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 is planned for the summer 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 Life Top Cap, a bottle cap which contains sensitive ingredients, for BioGaia. Due to growing volumes and increasing quality demands from the authorities and customers, the current facilities are no longer suitable. TwoPac has therefore decided to build its own facility in Eslöv where the company presently rents premises.

The investment is estimated at approximately SEK 20 million and will be financed with TwoPac's own operating profit and through a loan from BioGaia.

Until 31 December 2010, TwoPac was reported as an associated company. As a result of the financing arrangement described above, BioGaia will gain a controlling influence over TwoPac, which will thus be 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 will arise.

The consolidation of TwoPac will affect the Group's operating profit but will have no impact on profit attributable to owners of the Parent Company. The balance sheet total will be marginally affected. Cash flow will be affected by TwoPac's cash flow. If TwoPac had been consolidated for the full financial year in 2010, the Group's net sales would have been unchanged at SEK 236.0 million and operating profit would have been SEK 57.6 million rather than SEK 56.3 million.

EARLIER EVENTS in 2010

Launches during January – September 2010

| Distributor/licensee | Product | Country |
|----------------------|-----------------------------|---|
| Delta Medical | Drops | Belarus, Armenia, Georgia and Azerbaijan |
| Eczacibasi | Tablets and drops | Turkey |
| Ewopharma | Tablets and drops | Serbia |
| Ferring | Drops | Israel |
| InfectoPharm | Drops | Germany |
| Nestlé | Infant formula with Reuteri | Australia, Baltic countries, Belgium, Chile, Costa Rica, Greece, Guatemala, Italy, Morocco Mexico, Panama, Peru, Poland, Portugal, Romania, Spain, South Africa and Germany |
| Nippon Access | Dental product (lozenges) | Japan |
| Noos and Italcimichi | ORS product with Reuteri | Italy |
| Pharma Nord | Tablets and drops | Denmark |
| Thebe | Tablets (new flavour) | South Africa |
| Verman | Tablets (new flavour) | Finland |
| Verman | Tablets and drops | Russia |

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

Agreement with Nippon Access Group

After a long period of trial sales through various distribution channels and discussions with a number of possible distributors in Japan, BioGaia has chosen to sign an agreement with one of Japan's largest wholesalers, Nippon Access Group, a subsidiary of the major trading house Itochu Corporation. Aside from distribution of food products through Nippon Access Group, Itochu also handles distribution of pharmaceuticals to pharmacies via two different subsidiaries. The agreement covers food products with Reuteri, infant formula with Reuteri and BioGaia's primary products such as drops, oral health lozenges and Life Top Straw. Sales will be handled through BioGaia's Japanese subsidiary, which will also support Nippon Access's marketing of the products through training of doctors, sales representatives and marketing staff and participation in negotiations with companies that are interested in selling products with Reuteri. Under the agreement, it is BioGaia's hope that the products will be launched on the Japanese market on a large scale via a number of distribution channels that were difficult to reach through the previous business model. The launch took place in the third quarter.

Agreement with Ferring Pharmaceuticals

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

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

Agreement with Interbat

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

Agreement with Asia United (China)

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

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

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

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

LGG is used in many of BioGaia's competitor products.

Study showing that Reuteri reduced crying time in infants with colic presented

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

Publication of study showing that Reuteri is effective in infants with chronic constipation

The study was published in *Journal of Pediatrics* and was conducted on 44 infants with confirmed chronic constipation. In the study, which ran for 8 weeks, three different parameters were measured and the Reuteri group performed better with regard to two of these parameters, of which one significantly better. The results of the study once again show the positive effect of Reuteri on infant gut function.

Redemption of warrants

The redemption warrants on 31 May and 31 August led to an increase in BioGaia's share capital by SEK 63,400 to SEK 17,270,962. The number of shares has increased by 63,400 class B shares to a total of 16,530,294, with an unchanged number of class A shares, i.e. 740,668. The total number of shares is thus equal to 23,936,974 votes.

The redemption price for the share was SEK 76.70, which means that the company increased its equity by SEK 4,862,780.

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

Agreement with SCA

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

EMPLOYEES

The number of employees in the Group at 31 December 2010 was 46 (45).

REPORTING OF CLINICAL STUDIES

Publication of clinical trial results is a key success factor for BioGaia. The International Committee of Medical Journal Editors has initiated a policy requiring clinical investigators to deposit information about trial design into an accepted clinical trials registry before the onset of patient enrolment, and

has now become a prerequisite for publication of trial outcomes in major medical journals. ClinicalTrials.gov is a registry of clinical trials provided by the U.S. National Institutes of Health and BioGaia encourages all clinicians working with BioGaia products to register their trials on this site. Many of the trials are registered at an early stage, which means that some of the registered trials will not be performed as planned. Consequently, BioGaia take no responsibility for ensuring that the registered trials reach completion or are successfully reported in the register or the scientific literature. When clinical trials results do become available, BioGaia will report these through press releases.

SIGNIFICANT RISKS AND UNCERTAINTIES: GROUP AND PARENT COMPANY

The business model previously used in Japan was found to be unsuccessful. Measures have now been taken to change the business model (see above). On the balance sheet date, assets in the Japanese subsidiary were reported at SEK 5.6 million. BioGaia's assessment is that there is no indication of impairment of these assets.

The shares in and receivables from the associated company (TwoPac AB) amount to SEK 15.0 million in the Group. TwoPac reported a profit of SEK 1.1 million for 2009 and SEK 2.4 million for 2010. TwoPac has previously reported a loss, but has shown a profit since 2009. BioGaia's assessment is therefore that there was no indication of impairment on the balance sheet date.

The shares in the subsidiary CapAble amount to a total of SEK 6.9 million. CapAble reported a loss SEK 2.3 million for the financial year 2009 and a loss before tax of SEK 2.1 million for 2010. CapAble, which is 90.1% owned by BioGaia AB, was started in November 2008 to manufacture and sell the patented LifeTop Cap. BioGaia made a conditional shareholder contribution of SEK 3 million to CapAble in 2009 and an additional contribution of SEK 3 million in 2010. BioGaia's assessment is that CapAble will generate good profitability, 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 in the annual report for 2009.

ACCOUNTING POLICIES

The consolidated financial statements are presented in compliance with the International Financial Reporting Standards (IFRS) established by the International Accounting Standards Board (IASB) and the interpretations published by the International Financial Reporting Interpretations Committee (IFRIC) that have been endorsed by the European Commission for application in the EU.

This interim report has been prepared for the Group in accordance with IAS 34, Interim Financial Reporting, and the Annual Accounts Act, and for the Parent Company in accordance with the Annual Accounts Act.

Unless otherwise stated below, the Group and the Parent Company have applied the same accounting and valuation standards as in the most recent annual report.

New accounting standards

Amendments to IAS 27 – Consolidated and Separate Financial Statements – and IFRS 3 Business Combinations – are effective for annual periods starting on or after 1 January 2010. For 2010 the amendments have only resulted in changes in terminology and have not had any impact on profit or financial position.

The other revised IFRS standards and interpretations from IFRIC have not had any significant impact on the Group'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 ambition is to pay a shareholder dividend equal to 30% of profit after paid tax.

Product launches are planned in a number of countries in the coming 18 months. In view of the Company's strong portfolio consisting of an increased number of innovative products partly under the company's own brand, together with successful clinical trials and a growing distribution network covering a large share of the key markets, BioGaia's future outlook is bright.

PROPOSED APPROPRIATION OF PROFITS

The following funds in the Parent Company are at the disposal of the Annual General Meeting (SEK 000s):

| | |
|------------------------|---------------|
| Retained profit: | 33,309 |
| Profit for the year: | <u>48,352</u> |
| Together amounting to: | 81,661 |

The Board of Directors and the President propose that the company pay an ordinary dividend of SEK 0.92 and, in view of the company's good liquidity and strong balance sheet, an extraordinary dividend of SEK 1.08, amounting to a total dividend of SEK 2.00 per share. This is equal to a total distribution of SEK 34.5 million. It is proposed that the remaining retained profits of SEK 47.2 million be carried forward to new account.

Consolidated statement of comprehensive income

(Amounts in SEK 000s)

| | Jan-Dec 2010 | Jan-Dec 2009 | Oct-Dec 2010 | Oct-Dec 2009 |
|---|-----------------|-----------------|-----------------|-----------------|
| Net sales | 236,033 | 203,461 | 62,757 | 52,298 |
| Cost of goods sold | -77,150 | -68,151 | -19,410 | -16,531 |
| <i>Gross profit</i> | <i>158,883</i> | <i>135,310</i> | <i>43,347</i> | <i>35,767</i> |
| Selling expenses | -61,336 | -52,906 | -16,386 | -14,861 |
| Administrative expenses | -9,849 | -8,996 | -3,008 | -2,672 |
| Research and development expenses | -29,386 | -27,000 | -7,315 | -7,048 |
| Other operating income | - | 750 | - | 116 |
| Other operating expenses | -3,242 | - | -546 | - |
| Share in profit/loss of associated company | 1,200 | 590 | 100 | 90 |
| <i>Operating profit</i> | <i>56,270</i> | <i>47,748</i> | <i>16,192</i> | <i>11,392</i> |
| Financial income | 13,517 | 5,428 | 2,456 | 102 |
| Financial expenses | -100 | -63 | -14 | -1,005 |
| <i>Profit before tax</i> | <i>69,687</i> | <i>53,113</i> | <i>18,634</i> | <i>10,489</i> |
| Tax expense | -22,519 | -17,068 | -5,747 | -3,728 |
| PROFIT FOR THE PERIOD | 47,168 | 36,045 | 12,887 | 6,761 |
| <u>Other comprehensive income</u> | | | | |
| Gains and losses arising on translation of the financial statements of foreign operations | -15 | -464 | 117 | 26 |
| Comprehensive income for the period | 47,153 | 35,581 | 13,004 | 6,787 |

Profit for the period attributable to:

| | | | | |
|------------------------------|---------------|---------------|---------------|--------------|
| Owners of the Parent Company | 47,250 | 36,310 | 12,823 | 7,026 |
| Non-controlling interests | -82 | -265 | 64 | -265 |
| | 47,168 | 36,045 | 12,887 | 6,761 |

Comprehensive income for the period attributable to:

| | | | | |
|------------------------------|---------------|---------------|---------------|--------------|
| Owners of the Parent Company | 47,235 | 35,846 | 12,940 | 7,052 |
| Non-controlling interests | -82 | -265 | 64 | -265 |
| | 47,153 | 35,581 | 13,004 | 6,787 |

Earnings per share

| | | | | |
|--|--------|--------|--------|--------|
| Basic earnings per share (average number of shares), SEK | 2.74 | 2.11 | 0.74 | 0.41 |
| Diluted earnings per share, SEK | 2.74 | 2.09 | 0.74 | 0.41 |
| Number of shares, thousands | 17,271 | 17,208 | 17,271 | 17,208 |
| Average number of shares, thousands | 17,230 | 17,208 | 17,271 | 17,208 |
| Number of outstanding warrants, thousands | - | 129 | - | 129 |
| Average number of outstanding warrants with a dilutive effect, thousands | - | 129 | - | 129 |
| Number of shares after dilution, thousands | 17,271 | 17,337 | 17,271 | 17,337 |

| CONSOLIDATED BALANCE SHEETS | 31 Dec | 31 Dec |
|---|----------------|---------|
| (Amounts in SEK 000s) | 2010 | 2009 |
| ASSETS | | |
| Intangible assets | 1,173 | 2,285 |
| Property, plant and equipment | 4,216 | 5,424 |
| Shares in associated company | 10,641 | 9,441 |
| Non-current receivables from associated company | 4,400 | 4,400 |
| Deferred tax asset | - | 4,100 |
| Other non-current receivables | 18 | 30 |
| <i>Total non-current assets</i> | 20,448 | 25,680 |
| Current assets excl. cash and cash equivalents | 60,471 | 53,807 |
| Cash and cash equivalents | 146,903 | 100,327 |
| <i>Total current assets</i> | 207,374 | 154,134 |
| TOTAL ASSETS | 227,822 | 179,814 |
| EQUITY AND LIABILITIES | | |
| Equity attributable to owners of the Parent Company | 187,225 | 161,284 |
| Non-controlling interests | 98 | -166 |
| Total equity | 187,323 | 161,118 |
| Interest-free current liabilities | 40,499 | 18,696 |
| TOTAL EQUITY AND LIABILITIES | 227,822 | 179,814 |

| CONSOLIDATED CASH FLOW STATEMENTS | Jan-Dec | Jan-Dec | Oct-Dec | Oct-Dec |
|---|----------------|---------|----------------|---------|
| (Amounts in SEK 000s) | 2010 | 2009 | 2010 | 2009 |
| Operating activities | | | | |
| Operating profit | 56,270 | 47,748 | 16,192 | 11,392 |
| Depreciation/amortisation | 2,836 | 4,144 | 785 | 949 |
| Share in profit/loss of associated company | -1,200 | -590 | -100 | -90 |
| Other non-cash items | 986 | 208 | 592 | -34 |
| | 58,892 | 51,510 | 17,469 | 12,217 |
| Realised forward exchange contracts | 6,144 | - | 6,144 | - |
| Interest received and paid | 995 | 1,126 | 512 | 385 |
| Cash flow from operating activities before changes in working capital | 66,031 | 52,636 | 24,125 | 12,602 |
| Changes in working capital | 2,934 | 654 | -2,156 | 676 |
| <i>Cash flow from operating activities</i> | 68,965 | 53,290 | 21,969 | 13,278 |
| <i>Cash flow from investing activities</i> | -522 | -3,881 | -208 | -402 |
| <i>Cash flow from financing activities</i> | -20,948 | -6,883 | 0 | - |
| Cash flow for the period | 47,495 | 42,526 | 21,761 | 12,876 |
| Cash and cash equivalents at beginning of period | 100,327 | 58,127 | 125,713 | 87,460 |
| Exchange difference in cash and cash equivalents | -919 | -326 | -571 | -9 |
| Cash and cash equivalents at end of period | 146,903 | 100,327 | 146,903 | 100,327 |

**CONSOLIDATED STATEMENT OF CHANGES
IN EQUITY**

| (Amounts in SEK 000s) | Jan-Dec | Jan-Dec |
|--|----------------|---------|
| | 2010 | 2009 |
| At beginning of year | 161,118 | 132,420 |
| New share issue in BioGaia (warrant programme) | 4,863 | - |
| Dividends | -25,811 | -6,883 |
| Comprehensive income for the period | 47,153 | 35,581 |
| At end of period | 187,323 | 161,118 |

Segment reporting – Group

The Group's operations are steered and evaluated based on the following segments:

- Finished consumer products: sales of tablets, drops and oral health products, etc.
- Component products: sales of cultures as an ingredient in licensee products, products (such as baby formula and dairy products), royalty income from the use of Reuteri and sales of LifeTop Straw and Life Top Cap.
- Other products: Animal Health, etc.

REPORTING BY SEGMENT – GROUP

(Amounts in SEK 000s)

| Revenue by segment | Jan-Dec | Jan-Dec | Oct-Dec | Oct-Dec |
|----------------------------|----------------|---------|---------------|---------|
| | 2010 | 2009 | 2010 | 2009 |
| Finished consumer products | 165,590 | 147,673 | 44,620 | 36,423 |
| Component products | 68,559 | 53,814 | 17,739 | 15,384 |
| Other products | 1,884 | 1,974 | 398 | 491 |
| | 236,033 | 203,461 | 62,757 | 52,298 |

| Gross profit by segment | Jan-Dec | Jan-Dec | Oct-Dec | Oct-Dec |
|--------------------------------|----------------|---------|---------------|---------|
| | 2010 | 2009 | 2010 | 2009 |
| Finished consumer products | 109,476 | 94,804 | 29,843 | 24,238 |
| Component products | 47,680 | 38,816 | 13,114 | 11,069 |
| Other products | 1,727 | 1,690 | 390 | 460 |
| | 158,883 | 135,310 | 43,347 | 35,767 |

| Trade receivables by segment | 31 Dec | 31 Dec |
|-------------------------------------|---------------|--------|
| | 2010 | 2009 |
| Finished consumer products | 21,040 | 23,448 |
| Component products | 12,323 | 4,929 |
| Other products | 211 | 344 |
| | 33,574 | 28,721 |

Revenue by geographical market

| Sales | Jan-Dec | Jan-Dec | Oct-Dec | Oct-Dec |
|----------------|----------------|---------|---------------|---------|
| | 2010 | 2009 | 2010 | 2009 |
| Europe | 183,858 | 138,430 | 52,776 | 35,729 |
| USA and Canada | 13,879 | 14,571 | 2,215 | 5,847 |
| Asia | 19,564 | 37,386 | 4,409 | 7,886 |
| Rest of world | 18,732 | 13,074 | 3,357 | 2,836 |
| | 236,033 | 203,461 | 62,757 | 52,298 |

PARENT COMPANY INCOME STATEMENTS

(Amounts in SEK 000s)

| | Jan-Dec 2010 | Jan-Dec 2009 |
|---|-----------------|-----------------|
| Net sales | 233,988 | 198,567 |
| Cost of goods sold | -76,698 | -63,793 |
| <i>Gross profit</i> | 157,290 | 134,774 |
| Selling expenses | -42,355 | -38,870 |
| Administrative expenses | -9,743 | -8,918 |
| Research and development expenses | -29,497 | -27,278 |
| Other operating income | - | 750 |
| Other operating expenses | -3,242 | - |
| <i>Operating profit</i> | 72,453 | 60,458 |
| Result from shares in associated company | 1,200 | 590 |
| Impairment loss on receivable from subsidiary | -16,928 | -13,446 |
| Net financial items | 14,665 | 6,204 |
| Profit before tax | 71,390 | 53,806 |
| Tax expense | -23,038 | -17,610 |
| PROFIT FOR THE PERIOD | 48,352 | 36,196 |

PARENT COMPANY BALANCE SHEETS

| | 31 Dec 2010 | 31 Dec 2009 |
|---|----------------|----------------|
| ASSETS | | |
| Intangible assets | 1,173 | 2,285 |
| Property, plant and equipment | 3,033 | 3,855 |
| Shares in subsidiaries | 10,469 | 7,469 |
| Shares in associated company | 10,641 | 9,441 |
| Non-current receivables from subsidiary | 1,022 | 1,022 |
| Non-current receivables from associated company | 4,400 | 4,400 |
| Deferred tax asset | - | 3,050 |
| <i>Total non-current assets</i> | 30,738 | 31,522 |
| Current assets excl. cash and cash equivalents | 56,431 | 50,912 |
| Cash and cash equivalents | 140,840 | 96,379 |
| <i>Total current assets</i> | 197,271 | 147,291 |
| TOTAL ASSETS | 228,009 | 178,813 |
| EQUITY AND LIABILITIES | | |
| Equity | 176,632 | 153,693 |
| Interest-free current liabilities | 51,377 | 25,120 |
| TOTAL EQUITY AND LIABILITIES | 228,009 | 178,813 |

Pledged assets and contingent liabilities for the Parent Company

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

PARENT COMPANY CASH FLOW STATEMENTS

| | Jan-Dec 2010 | Jan-Dec 2009 |
|---|-----------------|-----------------|
| <u>Operating activities</u> | | |
| Operating profit | 72,453 | 60,458 |
| Depreciation/amortisation | 2,369 | 3,792 |
| Other non-cash items | 968 | 208 |
| Realised foreign exchange contracts | 6,144 | - |
| Interest received and paid | 988 | 1,121 |
| Cash flow from operating activities before changes in working capital | 82,922 | 65,579 |
| Changes in working capital | 1,231 | 1,144 |
| <i>Cash flow from operating activities</i> | 84,153 | 66,723 |
| <i>Cash flow from investing activities</i> | -17,780 | -18,546 |
| <i>Cash flow from financing activities</i> | -20,948 | -6,883 |
| Cash flow for the period | 45,425 | 41,294 |
| Cash and cash equivalents at beginning of period | 96,379 | 55,293 |
| Exchange differences in cash and cash equivalents | -964 | -208 |
| Cash and cash equivalents at end of period | 140,840 | 96,379 |

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

(Amounts in SEK 000s)

| | Jan-Dec 2010 | Jan-Dec 2009 |
|-------------------------------------|-----------------|-----------------|
| At beginning of year | 153,693 | 124,380 |
| New share issue (warrant programme) | 4,863 | - |
| Dividends | -25,811 | -6,883 |
| Group contributions | -4,465 | - |
| Profit for the period | 48,352 | 36,196 |
| At end of period | 176,632 | 153,693 |

RELATED PARTY TRANSACTIONS, GROUP AND PARENT COMPANY

(Amounts in SEK 000s)

The Group has a 50% holding in TwoPac AB.

Until 31 December 2010, TwoPac was reported as an associated company. As a result of the financing arrangement described above, BioGaia will gain a controlling influence over TwoPac, which will then be 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 at the existing historical cost and no surplus values have been identified. This means that no revaluation effects will arise.

The consolidation of TwoPac will affect the Group's operating profit but will have no impact on profit attributable to owners of the Parent Company. The balance sheet total will be marginally affected. Cash flow will be affected by TwoPac's cash flow. If TwoPac had been consolidated for the full financial year in 2010, the Group's net sales would have been unchanged at SEK 236.0 million and operating profit would have been SEK 57.6 million rather than SEK 56.3 million.

The following transactions have taken place with TwoPac AB.

| | Group | | Parent Company | |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|
| | Jan-Dec 2010 | Jan-Dec 2009 | Jan-Dec 2010 | Jan-Dec 2009 |
| Interest income | 119 | 116 | 119 | 116 |
| Shareholder contributions paid | - | 1 000 | - | 1,000 |
| Purchase of goods | 15,974 | 13 052 | 15,959 | 12,976 |

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

Non-current receivables from TwoPac AB

| | Group | | Parent Company | |
|--|----------------|----------------|----------------|----------------|
| | 31 Dec 2010 | 31 Dec 2009 | 31 Dec 2010 | 31 Dec 2009 |
| Non-current receivables from TwoPac AB | 4,400 | 4,400 | 4,400 | 4,400 |

Current transactions with related parties

| | Group | | Parent Company | |
|------------------------------------|----------------|----------------|----------------|----------------|
| | 31 Dec 2010 | 31 Dec 2009 | 31 Dec 2010 | 31 Dec 2009 |
| Current receivables from TwoPac AB | 37 | 24 | 37 | 24 |
| Current liabilities to TwoPac AB | -1,066 | -704 | -1,066 | -688 |
| | -1,029 | -680 | -1,029 | -664 |

Annwall & Rothschild Investment AB holds 740,668 class A shares and 1,251,391 class B shares, corresponding to 11.6% of the share capital and 36.2% of the votes. Annwall & Rothschild Investment AB is owned by Peter Rothschild, President of BioGaia AB, and Jan Annwall, member of the Board of the Parent Company. The transaction that has taken place is a dividend of SEK 1.50 per share. No other transactions have taken place between BioGaia and Annwall & Rothschild Investment AB during the period.

RELATED PARTY TRANSACTIONS – PARENT COMPANY

(Amounts in SEK 000s)

The Parent Company holds 100% of the shares in BioGaia Biologics Inc, USA , BioGaia Japan Inc and in Tripac AB.

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

The Parent Company and Group own 50% of TwoPac AB, which is reported as an associated company.

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

The following transactions have taken place with BioGaia Japan

| | Jan-Dec 2010 | Jan-Dec 2009 |
|-----------------|-----------------|-----------------|
| Interest income | 1,224 | 818 |
| Loan provided | 14,339 | 12,223 |
| Sale of goods | 1,364 | 405 |
| Total | 16,927 | 13,446 |

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

No significant transactions have taken place with other related parties.

| CONSOLIDATED KEY RATIOS 1) | Jan-Dec | Jan-Dec |
|--|----------------|-------------|
| | 2010 | 2009 |
| Return on | | |
| - average equity | 27% | 25% |
| - average capital employed | 40% | 36% |
| Capital employed, SEK 000s | 187,323 | 161,118 |
| Number of shares, thousands | 17,271 | 17,208 |
| Average number of shares, thousands | 17,230 | 17,208 |
| Number of outstanding warrants, thousands | - | 129 |
| Average number of outstanding warrants with a dilutive effect, thousands | - | 129 |
| Number of shares after dilution, thousands | 17,271 | 17,337 |
| Basic earnings per share, SEK | 2.74 | 2.11 |
| Diluted earnings per share, SEK | 2.74 | 2.09 |
| Basic equity per share, SEK | 10.84 | 9.37 |
| Diluted equity per share, SEK | 10.84 | 9.30 |
| Equity/assets ratio | 82% | 90% |
| Operating margin | 24% | 23% |
| Profit margin | 30% | 26% |
| Average number of employees | 45 | 43 |

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

FINANCIAL CALENDAR

The annual report will be distributed to all shareholders during the last week of March 2011. At the same time the annual report will be available on BioGaia's website and can also be ordered by telephone +46 8-55529300 or by e-mail to mr@biogaia.se.

| | |
|-----------------|---|
| 10 May 2011 | Interim report 1 January – 31 March 2011 |
| 10 May 2011 | Annual General Meeting at 4:00 p.m. in Stockholm |
| | Shareholders who wish to have a matter dealt with at the AGM must submit a request by 1 March 2011 to the Board Chairman, BioGaia AB, Box 3242, SE-103 64 STOCKHOLM, Sweden, or by e-mail to mr@biogaia.se |
| 17 August 2011 | Interim report 1 January – 30 June 2011 |
| 25 October 2011 | Interim report 1 January – 30 September 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, 11 February 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

The information in this interim report was submitted for publication on 11 February 2011, 8:00 a.m. CET.

Review report

We have reviewed the interim report for BioGaia AB (publ), corporate identity number 556380-8723, at 31 December 2010 and for the financial year 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 Standard on Review Engagements SÖG 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by FAR. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing in Sweden (RS) and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion based on an audit.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not, in all material aspects, prepared in accordance with IAS 34 and the Swedish Annual Accounts Act for the Group and in accordance with the Swedish Annual Accounts Act for the Parent Company.

Stockholm, 11 February 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 46 employees, of whom 18 are based in Stockholm, 20 in Lund, 2 in Raleigh, USA, 5 in Hiroshima, Japan, and 1 in Shanghai, China.

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

Business model

BioGaia's net sales consist mainly of revenue from the sale of finished consumer products (tablets, drops and oral health products) to distributors, but also of revenue from the sale of component products such as Reuteri cultures, straws and caps.

BioGaia's products are sold through nutrition, food, natural health and pharmaceutical companies in some 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 cereal and infant formula with active culture and Probiomax gut health tablets in grocery stores.

BioGaia holds patents for the use of Reuteri and certain delivery systems in all major markets.

The BioGaia brand

BioGaia's licensees add Reuteri culture to their products and sell these under their own brand names. On these products, the BioGaia brand is shown on the package as the licensor/patent holder.

Some of BioGaia's distributors sell finished consumer products under their own brand names. For these products, the BioGaia brand is shown on the consumer package since BioGaia is both the manufacturer and licensor.

At the end of 2005 BioGaia launched its own consumer brand and today there are a number of distributors that sell BioGaia's finished products under the BioGaia brand in a large number of markets. One central part of BioGaia's strategy is to increase the share of sales consisting of BioGaia-branded products.

Research and clinical studies

BioGaia's research is focused on selection of different probiotics for gut health, the immune system and oral health. Extensive clinical studies have shown that BioGaia's various probiotic products:

- reduce infantile colic,
- reduce the risk of infection and improve gastrointestinal function in preterm newborns,
- reduce gum inflammation, plaque and the risk for dental caries,
- alleviate the side effects of antibiotic treatment,
- reduce the level of *H. pylori* infection,
- protect against GI tract and respiratory tract infections,
- stimulate the human immune system.

Latest press releases from BioGaia:

2011-01-14 BioGaia's 50%-owned company TwoPac invests in new facility in Eslöv

2011-01-11 BioGaia signs agreement for its new Oral Rehydration Solution product for Greece

2010-12-08 New study published: *Lactobacillus Reuteri* Protectis reduced regurgitation and improved stomach emptying in infants

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