

# BioGaia®

**Press Release, 22 April 2008 (10 pages)**

**BioGaia AB**

**Interim report 1 January – 31 March 2008**

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

- **Net sales amounted to SEK 36.1 million (26.4), an increase of SEK 9.7 million (37%) compared to the same period of last year.**
- **Operating profit was SEK 7.5 million (2.3), an improvement of SEK 5.2 million compared to the same period of last year.**
- **Profit after tax was SEK 8.0 million (2.6), an improvement of SEK 5.4 million compared to the same period of last year.**
- **Earnings per share were SEK 0.47 (0.15).**
- **Cash flow from operating activities before change in working capital was SEK 9.3 million (4.1). Total cash flow for the period was SEK 3.5 (-1.1). Cash and cash equivalents at 31 March 2008 totalled SEK 46.5 million.**

## **Key events in the first quarter of 2008**

- **Agreement with Sunstar for the sale of oral health products in more than 100 countries.**
- **BioGaia continues its Japanese venture.**
- **New and extended agreement with Ferring for the sale of BioGaia's Probiotic drops and tablets in a number of countries.**

## **Key events after the end of the first quarter**

- **Agreement with Neocare for the sale of BioGaia's Probiotic drops and tablets in Belgium and Luxembourg**

Latest press releases from BioGaia:

2008-04-21	BioGaia signs agreement for Belgium and Luxembourg
2008-03-19	Notice of Annual General Meeting of BioGaia AB
2008-02-20	BioGaia signs new agreement with Ferring Pharmaceuticals

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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 OMX Nordic Exchange Stockholm.***

***www.biogaia.com***

## **BioGaia AB (publ.)**

### **Interim report**

**1 January – 31 March 2008**

*Figures in brackets refer to the same period of last year.*

The Board of Directors and the Managing Director of BioGaia AB (publ) hereby present the interim report for the period 1 January – 31 March 2008.

### **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 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 37 employees, of whom 15 are based in Stockholm, 14 in Lund, 3 in Raleigh, USA, and 5 in Hiroshima, Japan.

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

#### ***Business model***

BioGaia's revenue is derived mainly from the sale of finished products, but also from license rights for the use of Reuteri cultures in customers' own products (such as baby formula and dairy products). The finished probiotic products consist of tablets, drops and oral health products (chewing gum and lozenges), as well as probiotic-containing straws and caps.

BioGaia's products are sold through nutrition, food, natural health, pharmaceutical and animal feed companies in 36 countries worldwide. In Sweden, BioGaia's products are sold under the brands Semper Magdroppar (drops) and GUM Periobalance (chewing gum) in the pharmacies and Semper Fullkornsvälling (baby formula with active culture, Prima Liv drinking yoghurt by Skånemejerier and Probiomax

Maghälsotabletter (tablets) in supermarkets.

BioGaia holds patents for the use of Reuteri in all major markets.

#### ***The BioGaia brand***

Earlier, many of BioGaia's products have been sold under the customer's own brands. BioGaia launched its own brand at the end of 2005 and today has several customers in a large number of countries that sell products partly or entirely under the BioGaia brand. Even in cases where customers use their own brands, the BioGaia brand is featured on the package. BioGaia's strategy is to increase the share of sales consisting of BioGaia-branded products.

#### ***Research***

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

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

### **KEY EVENTS IN THE FIRST QUARTER**

#### ***Launches during the quarter***

- Ferring, BioGaia Probiotic drops in Jordan
- Delta Medical, BioGaia Probiotic drops in Ukraine
- Ewopharma, BioGaia Probiotic drops and tablets in Hungary and Bulgaria
- Ewopharma, BioGaia Probiotic tablets in the Czech Republic

The length of time between contract and launch varies between countries due to differing amounts of time needed for the registration process. The products are normally registered as dietary

supplements and in certain cases as pharmaceuticals.

### ***Global agreement with Sunstar***

Sunstar Suisse SA already had an option for a distribution agreement covering a large number of countries. At the beginning of January 2008, Sunstar exercised this option and signed an additional agreement with BioGaia that gives Sunstar exclusive rights to distribute BioGaia's probiotic oral health products in more than 100 countries.

The products will be sold under Sunstar's GUM PerioBalance brand. The agreement also includes possibilities for joint development of new oral products. The launch will be carried out within a 2-year period. One of the first launches will take place in the USA during 2008.

Sunstar already distributes BioGaia's oral health products in Germany, France, Italy, Spain, Sweden and Norway.

### ***BioGaia continues its Japanese venture***

The sales of BioGaia Probiotic drops and soy drinks with BioGaia's Probiotic straw that were started in 2007 are continuing in 2008. Efforts to adapt the products and marketing to the Japanese market are in progress. This venture is part of BioGaia's long-term focus on its own brand.

### ***New agreement with Ferring***

In February BioGaia signed a new agreement with Ferring Pharmaceuticals in Switzerland, giving Ferring exclusive rights to sell BioGaia's Probiotic drops in Australia, New Zealand and Israel, and BioGaia's Probiotic tablets in Brazil, Egypt, Greece, Iran, Jordan, Canada, Lebanon, Mexico, Saudi Arabia and Syria.

The partnership began in the Spring of 2006 and has been so successful that Ferring decided, in connection with the extension of its earlier agreement, to begin marketing BioGaia's Probiotic drops in new markets and to add BioGaia's Probiotic tablets to its product portfolio.

The drops have been launched in Spain, Portugal, the Czech Republic, Canada and Jordan, and will be launched in Mexico in the second quarter of 2008. Ferring also

has exclusive rights to sell BioGaia's Probiotic drops in Brazil, Egypt, Greece, Iran, Lebanon, Saudi Arabia and Syria.

## **KEY EVENTS AFTER THE END OF THE QUARTER**

### ***Agreement with NeoCare***

In April BioGaia signed an agreement with the Belgium company NeoCare, giving NeoCare exclusive rights to sell BioGaia's Probiotic drops and tablets in Belgium and Luxembourg. The products will be sold under BioGaia's trademark.

## **FINANCIAL PERFORMANCE IN THE FIRST QUARTER OF 2008**

The Group's net sales amounted to SEK 36.1 million (26.4), an increase of 37% compared to the same period of last year. Compared to the previous quarter, net sales rose by SEK 4.1 million (13%).

BioGaia's Probiotic drops in Europe accounted for most of the period's sales growth.

Gross profit reached SEK 24.4 million, an improvement of SEK 6.8 compared to the same period of last year.

Selling expenses were up by SEK 0.7 million over the same period of last year, which is explained by higher personnel costs and increased costs for the registration of new products.

The period's R&D expenses amounted to SEK 5.3 million (4.3), which is equal to 18% (18%) of total operating expenses. The higher R&D expenses are due to an increased level of activity in clinical studies that began during the quarter. The amortisation component of research and development expenses amounted to SEK 0.8 million (0.9). Investments in capitalised development expenses totalled SEK 0 million (0).

Operating profit was SEK 7.5 million (2.3), an improvement of SEK 5.2 million compared to the same period of last year.

Profit after tax amounted to SEK 8,0 million (2,6), an increase of SEK 5,4 million compared to the same period of last year.

The Group pays no tax due to the existence of a cumulative loss carryforward. The total loss carryforward at 31 December 2007 was SEK 123.1 million.

The Group's cash and cash equivalents at 31 March 2008 totalled SEK 46.5 million (38.6).

Cash flow for the quarter was SEK 3.5 million (-1.1), an improvement of SEK 4.6 million compared to the same period of last year.

In the first quarter of 2008, the company paid a conditional shareholder contribution of SEK 1.0 million to the associated company TwoPac AB.

Cash flow from operating activities before change in working capital was SEK 9.3 million (4.1), an improvement of SEK 5.2 million compared to the same period of last year. The increase in working capital was SEK 3.4 million and is mainly attributable to inventories and accounts receivable.

Consolidated equity amounted to SEK 102.9 million (77.1). The Group's equity/assets ratio was 85% (84%).

Capital expenditure on tangible assets totalled SEK 1.4 million (1.2).

The Parent Company reported net sales of SEK 36.2 million (26.9) and a profit after net financial items of SEK 9.8 million (5.2).

### **EMPLOYEES**

The number of employees in the Group at 31 March 2008 was 37 (36).

### **SIGNIFICANT RISKS AND UNCERTAINTIES; GROUP AND PARENT COMPANY**

No major changes in significant risks and uncertainties have taken place during the period. See pages 4 and 5 and Note 29 of the annual report for 2007.

### **FUTURE OUTLOOK**

BioGaia's goal is to provide the shareholders with a good return through long-term profitability based on increased sales to both existing and new customers and limited growth in the cost level.

BioGaia expects the tablets, drops and oral health products to be launched in 2008 and 2009 in a large number of countries.

In view of the Company's strong portfolio of innovative products, successful clinical trials and growing distribution network covering a large share of the key markets, BioGaia's future outlook is bright.

**CONSOLIDATED INCOME STATEMENTS**

(Amounts in SEK 000s)

	<b>Jan-Mar 2008</b>	Jan-Mar 2007	Jan-Dec 2007
Net sales	<b>36,079</b>	26,437	106,580
Cost of goods sold	<b>-11,657</b>	-8,822	-35,122
<i>Gross profit</i>	<b>24,422</b>	17,615	71,458
Other operating income	<b>164</b>	26	1,691
Selling expenses	<b>-9,297</b>	-8,546	-37,739
Administrative expenses	<b>-2,210</b>	-1,960	-7,487
Research and development expenses	<b>-5,279</b>	-4,339	-17,938
Other operating expenses	<b>-</b>	-28	-
Share in profit/loss of associated company	<b>-260</b>	-467	-1,103
<i>Operating profit</i>	<b>7,540</b>	2,301	8,882
Financial income and expenses	<b>474</b>	323	1,807
<i>Profit before tax</i>	<b>8,014</b>	2,624	10,689
Tax expense for the period	<b>-</b>	-	8,970
<b>PROFIT FOR THE PERIOD</b>	<b>8,014</b>	2,624	19,659

**Earnings per share**

Earnings per share (average number of shares), SEK

	<b>0.47</b>	0.15	1.14
Earnings per share after dilution, SEK	<b>0.47</b>	0.15	1.14
Number of shares, thousands	<b>17,208</b>	17,208	17,208
Average number of shares, thousands	<b>17,208</b>	17,208	17,208
Average number of shares after dilution, thousands	<b>17,208</b>	17,208	17,208

**CONSOLIDATED BALANCE SHEETS**

(Amounts in SEK 000s)

	<b>31 Mar 2008</b>	31 Dec 2007	31 Mar 2007
<b><u>ASSETS</u></b>			
Intangible assets	<b>7,399</b>	8,199	10,545
Tangible assets	<b>3,781</b>	2,617	2,466
Participations in associated company	<b>6,325</b>	5,585	4,721
Long-term receivables	<b>4,400</b>	4,400	5,400
Deferred tax asset	<b>9,000</b>	9,000	-
Other long-term receivables	<b>25</b>	27	19
Current assets excl. cash and cash equivalents	<b>43,985</b>	37,968	30,062
Cash and cash equivalents	<b>46,487</b>	42,977	38,626
<b>TOTAL ASSETS</b>	<b>121,402</b>	110,773	91,839
<b><u>EQUITY AND LIABILITIES</u></b>			
Shareholders' equity	<b>102,924</b>	94,910	77,112
Interest-free current liabilities	<b>18,478</b>	15,863	14,727
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>121,402</b>	110,773	91,839

**CONSOLIDATED CASH FLOW STATEMENTS**

(Amounts in SEK 000s)	<b>Jan-Mar 2008</b>	Jan-Mar 2007	Jan-Dec 2007
<i>Operating activities</i>			
Operating profit	<b>7,540</b>	2,301	8,882
Depreciation/amortisation	<b>1,020</b>	1,023	3,979
Capital gains/losses on the sale of fixed assets	<b>7</b>	-	-
Share in profit/loss of associated company	<b>260</b>	467	1,103
Other non-cash items	<b>28</b>	-35	-12
Interest received and paid	<b>474</b>	323	1,807
Cash flow from operating activities before changes in working capital	<b>9,329</b>	4,079	15,759
Changes in working capital	<b>-3,411</b>	-4,002	-10,671
<i>Cash flow from operating activities</i>	<b>5,918</b>	77	5,088
<i>Cash flow from investing activities</i>	<b>-2,398</b>	-1,226	-2,516
<i>Cash flow from financing activities</i>	<b>-</b>	-	686
Cash flow for the period	<b>3,520</b>	-1,149	3,258
Cash and cash equivalents at beginning of period	<b>42,977</b>	39,719	39,719
Exchange differences in cash and cash equivalents	<b>-10</b>	56	-
<b>Cash and cash equivalents at end of period</b>	<b>46,487</b>	<b>38,626</b>	42,977

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(Amounts in SEK 000s)	<b>Jan-Mar 2008</b>	Jan-Mar 2007	Jan-Dec 2007
At beginning of period	<b>94,910</b>	74,530	74,530
The period's translation difference	-	-42	35
Warrants in BioGaia AB	-	-	686
Profit for the period	<b>8,014</b>	2,624	19,659
<b>At end of period</b>	<b>102,924</b>	77,112	94,910

**SEGMENT REPORTING – GROUP**

(Amounts in SEK 000s)	<b>Jan-Mar 2008</b>	Jan-Mar 2007	Jan-Dec 2007
<i>Sales</i>			
Europe	<b>28,154</b>	16,048	62,354
USA and Canada	<b>372</b>	1,377	7,736
Asia	<b>6,837</b>	7,048	25,895
Rest of world	<b>716</b>	1,964	10,595
	<b>36,079</b>	26,437	106,580

**PARENT COMPANY INCOME STATEMENTS**

	<b>Jan-Mar 2008</b>	Jan-Mar 2007	Jan-Dec 2007
Net sales	<b>36,176</b>	26,857	107,034
Cost of goods sold	<b>-11,651</b>	-9,029	-35,827
<i>Gross profit</i>	<b>24,525</b>	17,828	71,207
Selling expenses	<b>-8,203</b>	-6,731	-39,565
Administrative expenses	<b>-2,210</b>	-1,960	-7,488
Research and development expenses	<b>-5,287</b>	-4,298	-17,784
Other operating income	<b>164</b>	26	1,691
Other operating expenses	-	-28	-
<i>Operating profit</i>	<b>8,989</b>	4,837	8,061
Result from participations in associated company	-	-	-1,103
Net financial items	<b>766</b>	355	2,086
Profit before tax	<b>9,755</b>	5,192	9,044
Tax expense for the period	-	-	9,000
<b>PROFIT FOR THE PERIOD</b>	<b>9,755</b>	5,192	18,044

**PARENT COMPANY BALANCE SHEETS**

	<b>31 Mar 2007</b>	31 Mar 2007	31 Dec 2007
<b><u>ASSETS</u></b>			
Intangible assets	<b>7,399</b>	10,545	8,199
Tangible assets	<b>3,474</b>	2,227	2,287
Shares in group companies	<b>4,137</b>	4,137	4,137
Shares in associated company	<b>6,585</b>	5,188	5,585
Long-term receivables from subsidiaries	<b>2,840</b>	3,927	1,325
Long-term receivables from associated company	<b>4,400</b>	5,400	4,400
Deferred tax asset	<b>9,000</b>	-	9,000
Current assets excl. cash and cash equivalents	<b>42,017</b>	29,207	36,392
Cash and cash equivalents	<b>45,876</b>	37,832	42,103
<b>TOTAL ASSETS</b>	<b>125,728</b>	98,463	113,428
<b><u>EQUITY AND LIABILITIES</u></b>			
Shareholders' equity	<b>104,663</b>	81,370	94,908
Interest-free current liabilities	<b>21,065</b>	17,093	18,520
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>125,728</b>	98,463	113,428

**Pledged assets and contingent liabilities for the Parent Company**

Floating charges	2,000	2,000	2,000
Guarantees	None	None	None

<b><u>PARENT COMPANY CASH FLOW STATEMENTS</u></b>	<b>Jan-Mar 2008</b>	Jan-Mar 2007	Jan-Dec 2007
<u>Operating activities</u>			
Operating profit	<b>8,989</b>	4,837	8,061
Depreciation/amortisation	<b>1,005</b>	1,014	3,902
Capital gains/losses on the sale of fixed assets	<b>7</b>		
Other non-cash items	<b>28</b>	-39	-8
Interest received and paid	<b>766</b>	355	2,086
Cash flow from operating activities before changes in working capital	<b>10,795</b>	6,167	14,041
Changes in working capital	<b>-3,081</b>	-5,790	-9,373
<i>Cash flow from operating activities</i>	<b>7,714</b>	377	4,668
<i>Cash flow from investing activities</i>	<b>-3,913</b>	-1,224	-1,899
<i>Cash flow from financing activities</i>	<b>-</b>	-	686
Cash flow for the period	<b>3,801</b>	-847	3,455
Cash and cash equivalents at beginning of period	<b>42,103</b>	38,640	38,640
Exchange differences in cash and cash equivalents	<b>-28</b>	39	8
<b>Cash and cash equivalents at end of period</b>	<b>45,876</b>	37,832	42,103

#### **PARENT COMPANY STATEMENT OF CHANGES IN EQUITY**

(Amounts in SEK 000s)	<b>Jan-Mar 2008</b>	Jan-Mar 2007	Jan-Dec 2007
At beginning of period	<b>94,908</b>	76,178	76,178
New issue of warrants	<b>-</b>	-	686
Profit for the period	<b>9,755</b>	5,192	18,044
<b>At end of period</b>	<b>104,663</b>	81,370	94,908

#### **SEGMENT REPORTING – PARENT COMPANY**

(Amounts in SEK 000s)	<b>Jan-Mar 2008</b>	Jan-Mar 2007	Jan-Dec 2007
Europe	<b>28,004</b>	16,048	62,269
USA and Canada	<b>372</b>	1,322	7,544
Asia	<b>7,084</b>	7,523	26,626
Rest of world	<b>716</b>	1,964	10,595
	<b>36,176</b>	26,857	107,034



## **RELATED PARTY TRANSACTIONS GROUP AND PARENT COMPANY**

(Amounts in SEK 000s)

The Group has a 50% holding in TwoPac AB, which is reported as an associated company.

### **The following transactions have taken place with TwoPac AB:**

	<b>Jan-Mar 2008</b>	Jan-Mar 2007	Jan-Dec 2007
Interest income	70	70	304
Shareholder contributions paid	1,000	-	500
Loan converted to shareholder contribution	-	-	1,000
Purchase of goods	925	257	2,259
Advance payments for future deliveries	-	-	600
Purchase of machinery and equipment	-	1,195	1,195

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

#### ***Long-term receivables from TwoPac AB***

	<b>31 Mar 2008</b>	31 Mar 2007	31 Dec 2007
<i>Long-term receivables from TwoPac AB</i>	4,400	5,400	4,400
<i>Current transactions with related parties</i>			
Current receivables from TwoPac AB	70	70	85
Current liabilities to TwoPac AB	-155	-94	-
	<b>-85</b>	-24	85

#### **KEY RATIOS <sup>1)</sup>**

	<b>Jan-Mar 2008</b>	Jan-Mar 2007	Jan-Dec 2007
Return on			
- average shareholders' equity	8.1%	3.5%	23.2%
- average capital employed	8.1%	3.4%	12.7%
Capital employed, SEK 000s	102,924	77,112	94,910
Number of shares, thousands	17,208	17,208	17,208
Average number of shares, thousands	17,208	17,208	17,208
Number of outstanding warrants, thousands	129	-	129
Average number of outstanding warrants with a dilutive effect, thousands	-	-	-
Average number of shares after dilution, thousands	17,208	17,208	17,208
Earnings per share, SEK	0.47	0.15	1.14
Earnings per share after dilution, SEK	0.47	0.15	1.14
Equity per share, SEK	5.98	4.48	5.52
Equity per share after dilution, SEK	5.98	4.48	5.52
Equity/assets ratio	85%	84%	86%
Average number of employees	37	36	37

<sup>1)</sup> The definitions of key ratios correspond to those in the annual report.

## **ACCOUNTING POLICIES**

The consolidated financial statements have been prepared 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.

The Group and the Parent Company apply the same accounting and valuation principles as in the 2007 annual report.

## **CALENDAR**

20 August 2008    Interim report 1 January – 30 June 2008  
23 October 2008    Interim report 1 January – 30 September 2008

**Stockholm, 22 April 2008**

## **The Board of Directors and Managing Director**

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

The information in this interim report was submitted for publication on 22 April, 8.30 a.m.

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