

BioGaia®

Press Release, 22 October 2009 (13 pages)

BioGaia AB

Interim report 1 January – 30 September 2009

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

Interim report 1 January – 30 September 2009

- Net sales amounted to SEK 151.2 million (106.0), an increase of SEK 45.2 million (43%).
- Operating profit was SEK 36.4 million (18.4), an increase of SEK 18 million.
- Profit before tax was SEK 42.6 million (20.1), an increase of SEK 22.5 million.
- Due to the earlier cumulative loss carry forward, BioGaia pays no tax. Profit after reported tax was SEK 29.3 million (31.1), a decrease of SEK 1.8 million. The period's reported tax expense of SEK 13.3 million refers to a change in the deferred tax asset. Profit for the corresponding period of last year included a deferred tax benefit of SEK 11.0 million.
- Earnings per share after reported tax amounted to SEK 1.70 (1.81).
- The period's cash flow from operating activities before change in working capital was SEK 40.0 million (23.3). Total cash flow for the period was SEK 29.7 million (15.7). Cash and cash equivalents at 30 September 2009 amounted to SEK 87.5 million.

Third quarter 1 July – 30 September 2009

- Net sales for the third quarter amounted to SEK 38.7 million (33.6), an increase of SEK 5.1 million (15%) over the same period of last year. Including early deliveries from the second quarter, sales rose by 31%.
- Operating profit was SEK 6.4 million (5.8), an increase of SEK 0.6 million.
- Profit before tax was SEK 11.3 million (6.5), an increase of SEK 4.8 million.
- Due to the earlier cumulative loss carry forward, BioGaia pays no tax. Profit after reported tax was SEK 7.7 million (9.0), a decrease of SEK 1.3 million. The period's reported tax expense of SEK 3.6 million refers to a change in the deferred tax asset. Profit for the corresponding period of last year included a deferred tax benefit of SEK 2.5 million.

Key events in the third quarter of 2009

- Agreement with Laboratoires BIOETHIC for the sale of BioGaia's Probiotic tablets and drops in France.

Key events after the end of the reporting period

- Agreement with Pharma Nord for the sale of BioGaia's Probiotic tablets and drops in Denmark.

"...we are continuing to see very satisfactory growth with sustained gross margins and a strong cash flow. In the first three quarters of the year our sales rose by 43%, a trend that reflects the rising demand we are noting in various markets and the pace of our product launches. It is also satisfying that the BioGaia brand accounted for a full 32% of our sales of finished consumer products, which is the result of a deliberate focus on developing our own brand." says Managing Director Peter Rothschild.

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BioGaia AB (publ.)

Interim report

1 January – 30 September 2009

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 from 1 January to 30 September 2009. A brief description of the company's operations is provided on page 13.

MANAGING DIRECTOR'S COMMENTS

We are continuing to prepare and support launches under previously signed contracts for BioGaia's Probiotic drops and tablets. This work consists partly of compiling registration dossiers for the different countries and partly of direct sales support. The registration requirements vary from country to country, although the products are in most cases registered as dietary supplements. In Turkey, however, our products are now registered in a class of pharmaceuticals.

If we include early deliveries from the second quarter, sales were up by 31% during the third quarter and we are continuing to see very satisfactory growth with sustained gross margins and a strong cash flow. In the first three quarters of the year our sales rose by 43%, a trend that reflects the rising demand we are noting in various markets and the pace of our product launches. It is also satisfying that the BioGaia brand accounted for a full 32% of our sales of finished consumer products, which is the result of a deliberate focus on developing our own brand.

FINANCIAL PERFORMANCE IN JANUARY - SEPTEMBER 2009

Sales

Consolidated net sales reached SEK 151.2 million (106.0), up by 43% over the same period of last year. Of the increase, SEK 13.8 million was attributable to rising exchange rates for EUR and JPY compared to the year-earlier period. Excluding currency effects, net sales strengthened by SEK 30%. The period's exchange rate movements (mainly in EUR and JPY) increased both revenues and costs, resulting in a net gain of SEK 6.3 million.

BioGaia's finished consumer products in Europe accounted for most of the sales increase compared to the same period of last year. Of total finished consumer products, 32% (18) were sold under the BioGaia brand.

Gross profit

Gross profit amounted to SEK 99.5 million (71.2), an increase of SEK 28.3 million compared to the same period of last year.

Other operating expenses

Selling expenses rose by SEK 7.1 million over the same period of last year, which is partly due to an increase of SEK 2.2 million in costs for the Japanese venture owing largely to exchange rate movements in JPY, and partly to increased marketing and PR activities and somewhat higher personnel costs.

R&D expenses amounted to SEK 20.0 million (16.2), which is equal to 17% (18) of total operating expenses and 13% (15) of net sales. The rise in R&D expenses reflects a higher level of activity in clinical studies that began during the interim period, as well increased product development costs. The amortisation component of R&D expenses amounted to SEK 2.2 million (2.3). Investments in capitalised development expenses totalled SEK 0 million (0).

Operating profit

Operating profit was SEK 36.4 million (18.4), an increase of SEK 18 million compared to the same period of last year.

Profit before tax

Profit before tax was SEK 42.6 million (20.1), an increase of SEK 22.5 million over the same period of last year. Net financial items include an unrealised foreign exchange gain of SEK 5.5 million on forward exchange contracts in EUR. At 30 September 2009 the company had entered into forward exchange contracts for EUR 8.3 million at an average exchange rate of SEK 10.70. Forward exchange contracts amounting to EUR 1.7 million will mature in 2009 and the remaining EUR 6.6 million in 2010. The actual foreign exchange gain/loss depends on the exchange rate on the maturity date of the contracts. If the EUR rate on the maturity date is lower/higher than that at 30 September 2009 (10.22), a foreign exchange gain/loss will be recognised.

Profit after tax

Profit after reported tax was SEK 29.3 million (31.1), a decrease of SEK 1.8 million compared to the same period of last year. Profit for the period includes reported tax expense of SEK 13.3 million pertaining to a change in the deferred tax asset. Profit for the year-earlier period included a deferred tax benefit of SEK 11.0 million.

The Group pays no tax due to the existence of a cumulative loss carryforward. The Group's loss carryforwards at 30 September 2009 amounted to SEK 55.9 million, of which the Swedish companies accounted for SEK 29.5 million. The deferred tax asset amounts to SEK 7.8 million and is attributable to the Swedish companies. The reported tax expense is attributable to a change in the deferred tax asset.

Earnings per share

Earnings per share after tax amounted to SEK 1.70 (1.81). A total of 128,950 warrants have been subscribed for in BioGaia's ongoing incentive scheme. In view of share price development during the third quarter, the outstanding warrants now have a dilutive effect. After dilution, earnings per share after tax are SEK 1.69.

Cash flow

The Group's cash and cash equivalents at 30 September 2009 totalled SEK 87.5 million (58.8).

Cash flow for the period was SEK 29.7 million (15.7), an increase of SEK 14.0 million compared to the same period of last year.

Cash flow from operating activities before change in working capital was SEK 40.0 million (23.3), an increase of SEK 16.7 million over the same period of last year..

During the period, the Group paid dividends of SEK 6.9 million and a conditional shareholder contribution of SEK 1.0 million to the associated company TwoPac.

Equity

Consolidated equity amounted to SEK 154.3 million (126.4). The Group's equity/assets ratio was 90% (87).

Capital expenditure

Capital expenditure on property, plant and equipment totalled SEK 2.5 million (1.9).

Parent Company

The Parent Company's net sales are reported at SEK 146.3 million (105.8) and profit after net financial items was SEK 42.6 million (20.3).

FINANCIAL PERFORMANCE IN THE THIRD QUARTER

Third quarter sales

Net sales for the third quarter amounted to SEK 38.7 million (33.6), up by SEK 5.1 million (15%) over the same period of last year. Compared to the second quarter, net sales fell by SEK 21.5 million. The decrease compared to the previous quarter is mainly due to the summer holiday period in Europe, which takes place in the third quarter and leads to a lower level of activity among BioGaia's customers. The decrease is also explained by the fact that orders amounting to SEK 5.4 million that were scheduled for delivery in July were delivered already in June.

Sales vary between quarters. To create a more accurate picture, a rolling 12 month income statement is presented below.

Third quarter gross profit

Gross profit reached SEK 26.6 million, an improvement of SEK 3.2 million over the same period of last year. Compared to the second quarter, gross profit fell by SEK 10.9 million.

Third quarter operating profit

Operating profit for the third quarter was SEK 6.4 million (5.8), an improvement of SEK 0.6 million over the same period of last year. Compared to the second quarter, operating profit fell by SEK 10.2 million. Selling, administrative and R&D expenses decreased in the third quarter due to lower activity during the summer holiday period, which falls in the quarter. The increase in other operating expenses compared to the same period of last year is due to exchange rate movements attributable to operations.

Profit after tax for the third quarter

Profit after tax for the third quarter was SEK 7.7 million, a decrease of SEK 1.3 million compared to the same period of last year and SEK 3.5 million compared to the second quarter. Profit for the quarter includes a reported tax expense of SEK 3.6 million pertaining to a change in the deferred tax asset. Profit for the year-earlier quarter included a tax benefit of SEK 2.5 million.

The Group pays no tax due to the existence of a cumulative loss carryforward. The reported tax expense is attributable to a change in the deferred tax asset.

Third quarter cash flow

Third quarter cash flow was SEK 18.8 million (10.7). Working capital was down by SEK 11.4 million, mainly due to a decrease in trade receivables.

KEY EVENTS IN THE THIRD QUARTER

Launches in the third quarter

- Semper, oral rehydration solution with Reuteri in Sweden
- EwoPharma, BioGaia's Probiotic drops and tablets in Romania
- Delta Medical, BioGaia's Probiotic tablets in Ukraine
- Neocare, BioGaia's Probiotic drops and tablets in Belgium

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.

Agreement with Laboratoires BIOETHIC

In August BioGaia signed a distribution agreement with the French company Laboratoires BIOETHIC. The agreement gives Laboratoires BIOETHIC exclusive rights to sell BioGaia's Probiotic drops and tablets in France. The products will be sold under the BioGaia brand. The launch of BioGaia's Probiotic drops is planned for the fourth quarter of 2009, while tablet sales will begin in the spring of 2010.

Agreement with Pharma Nord

BioGaia has signed an agreement with the Danish company Pharma Nord Aps which gives Pharma Nord exclusive rights to sell BioGaia's Probiotic drops and tablets in Denmark. The launch is expected to take place in the first half of 2010.

Personnel changes in BioGaia

Jan Annwall, Deputy Managing Director, founder, Chief Financial Officer and Board member of BioGaia AB announced in September that he would leave his position in the company in connection with his 60th birthday in April 2010. In order to continue utilising Jan's experience after this date, Jan will be retained as a consultant and will be available to the company for a further period. Jan has declared that he also will continue to be available in his role as Board member at the 2010 Annual General Meeting.

BioGaia's current Controller Margareta Hagman will be appointed as both Chief Financial Officer and Controller as of 1 April 2010.

Extended agreements with Delta Medical and Ewopharma

During the quarter, BioGaia signed extended agreements with Delta Medical and Ewopharma. The agreement with Delta Medical grants them the right to sell BioGaia's Probiotic drops and tablets in Armenia, Azerbadzjan, Belarus, Georgia, Kirgizstan, Turkmenistan and Uzbekistan. The agreement with Ewopharma grants them the right to sell BioGaia's Probiotic drops and tablets in Moldova.

EARLIER EVENTS IN 2009

Agreement with Aqua Scandik

In January 2009 CapAble signed an agreement with the Mexican water company Aqua Scandik giving them the right to use LifeTop Cap with Reuteri. Aqua Scandik will launch water in three different flavours with Reuteri. The launch is expected to take place in early 2010.

Study shows that BioGaia's Probiotic chewable tablets are effective in decreasing diarrhoea caused by antibiotics

In a new double blind, placebo-controlled clinical study, supplementation with BioGaia's Probiotic chewable tablets containing L. reuteri was effective in reducing the incidence of diarrhoea in hospitalised patients who were treated with antibiotics. The study, which was performed at the University Hospitals Case Medical Center in Cleveland, Ohio, USA, was presented by Cimperman and colleagues at the Clinical Nutrition Week 2009 Conference on 1-4 February in New Orleans.

Pharmaceutical in India

BioGaia has signed an agreement with Tablets India Ltd. for the production and sale of products based on BioGaia's probiotics on the Indian market. The launch took place in April 2009.

The first product to be launched on the Indian market is a capsule under the brand name Apylori Probiotic Capsules. The product is manufactured by Tablets India and registered as a pharmaceutical that will be prescribed by physicians and distributed through pharmacies.

Agreement with Ewopharma for sales in Serbia and Croatia

In March BioGaia extended its collaboration with the Swiss pharmaceutical company Ewopharma AG, giving the company exclusive rights to sell BioGaia's Probiotic drops and tablets under the BioGaia brand in Serbia and Croatia.

Agreement with InfectoPharm

In June BioGaia signed an exclusive distribution agreement for BioGaia's Probiotic drops with the German pharmaceutical company InfectoPharm. The product will be sold under the BioGaia brand and the launch is scheduled for 2010.

Agreement with Semper

At the end of June BioGaia signed an agreement with Semper giving Semper exclusive rights to distribute a probiotic oral rehydration solution (ORS) containing Reuteri in Sweden and Norway. The probiotic ORS is pre-mixed in a 5.5 g single-portion sachet and was launched in Swedish pharmacies in August 2009.

Launches in the first half of 2009

- Ferring, BioGaia's Probiotic drops in Lebanon, Greece, Saudi Arabia and Ireland
- Ferring, BioGaia's Probiotic tablets in Canada
- BioLife, portion-packed bags containing colostrum and Reuteri in China
- Tablets India, capsule with Reuteri in India

BIOGAIA JAPAN

Efforts are underway to adapt the business model in Japan to the model that has been used successfully in other markets. The strategy is to shift the focus from Functional Foods products in grocery stores to sales of drops and straws in pharmacies and drugstores. Although it is still too early to determine whether these measures will be successful, the current outlook is positive. These changes will not affect the existing distributors in Japan, Erina and Chichiyasu.

EMPLOYEES

The number of employees in the Group at 30 September 2009 was 44 (39).

Ongoing employee incentive scheme

In June 2007 BioGaia carried out an employee incentive scheme in which a total of 128.950 warrants were subscribed for. Each warrant entitles the holder to subscribe for one class B share for a price of SEK 76.70 during the period from 15 May to 31 August 2010.

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 is now becoming 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 does not take any 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 if such results are of significant importance to its operations.

SIGNIFICANT RISKS AND UNCERTAINTIES: GROUP AND PARENT COMPANY

The previously chosen business model in Japan was associated with significant cost risk. 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 5.2 million. The company's assessment is that there is no indication of impairment of these assets.

The shares in the associated company (TwoPac AB) and the receivable from the associated company amount to a total of SEK 13.8 million in the Group and SEK 13.3 million in the Parent company. TwoPac's profit for the interim period amounted to SEK 1.0 million. TwoPac AB's primary operations are development of equipment and manufacturing of BioGaia's probiotic drops and straws and LifeTop Cap on behalf of BioGaia. BioGaia's assessment is that TwoPac will generate good profitability, for which reason no impairment loss was recognised on the balance sheet date. Should the investment in TwoPac fail in full or in part, BioGaia may be forced to recognise an impairment loss on all or parts of the holding in and receivables from the associated company.

For more detailed information, see pages 4 and 5 and Notes 29 and 30 of the annual report for 2008.

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 apply the same accounting and valuation standards as in the 2008 annual report.

New accounting standards:

The revised IAS 1, Presentation of Financial Statements, is applied with effect from 1 January

2009. Among other things, the revision means that income and expenses that were previously recognised directly in equity and are not attributable to owner transactions are now recognised in connection with the income statement.

IFRS 8, Operating Segments, is applied with effect from 1 January 2009. The standard requires adaptation of segment information to the reporting used internally by the company's management for monitoring of operations. The application of IFRS 8 has led to a change in the operating segments so that these now consist of the following:

- Finished consumer products: sales of tablets, drops, 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.

The application of IFRS 8 has not had any impact on the Group's profit, financial position, cash flow or changes in equity.

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 profit margin of at least 25%, 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 actual paid tax.

Product launches in a large number of countries are expected to take place during the remainder of 2009 and in 2010.

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 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-Sept 2009	Jan-Sept 2008	July-Sept 2009	July-Sept 2008	Jan-Dec 2008	Oct 08- Sept 09
Net sales	151,163	106,006	38,723	33,558	145,190	190,347
Cost of goods sold	-51,620	-34,794	-12,147	-10,131	-48,234	-65,060
<i>Gross profit</i>	99,543	71,212	26,576	23,427	96,956	125,287
Other operating income/expenses 1)	634	440	-921	202	4,059	4,253
Selling expenses	-38,045	-30,922	-11,245	-11,020	-43,617	-50,740
Administrative expenses	-6,324	-5,979	-1,718	-1,549	-8,193	-8,538
Research and development expenses	-19,952	-16,235	-6,334	-5,528	-23,030	-26,747
Share in profit/loss of associated company	500	-160	50	250	-334	326
<i>Operating profit</i>	36,356	18,356	6,408	5,782	25,841	43,841
Financial income and expenses	6,268	1,740	4,902	685	-1,811	2,717
<i>Profit before tax</i>	42,624	20,096	11,310	6,467	24,030	46,558
Tax expense for the period	-13,340	11,000	-3,640	2,500	12,091	-12,249
PROFIT FOR THE PERIOD	29,284	31,096	7,670	8,967	36,121	34,309
Other comprehensive income						
Gains and losses arising on translation of the financial statements of foreign operations	-490	347	-236	366	1,290	453
Comprehensive income for the period	28,794	31,443	7,434	9,333	37,411	34,762
Profit for the period attributable to:						
Equity holders of the Parent Company	29,284	31,096	7,670	8,967	36,121	34,309
Minority interests	-	-	-	-	-	-
Comprehensive income for the period attributable to:	29,284	31,096	7,670	8,967	36,121	34,309
attributable to:						
Equity holders of the Parent Company	28,794	31,443	7,434	9,333	37,411	34,762
Minority interests	-	-	-	-	-	-
	28,794	31,443	7,434	9,333	37,411	34,762

1) The full amount consists of foreign exchange gains and foreign exchange losses of an operating nature.

Earnings per share

Basic earnings per share (average number of shares), SEK)	1.70	1.81	0.45	0.52	2.10	1.99
Diluted earnings per share, SEK	1.69	1.81	0.44	0.52	2.10	1.98
Earnings per share before tax (average no. of shares), SEK	2.48	1.17	0.66	0.38	1.40	2.71
Diluted earnings per share before tax, SEK	2.46	1.17	0.65	0.38	1.40	2.69
Number of shares, thousands	17,208	17,208	17,208	17,208	17,208	17,208
Average number of shares, thousands	17,208	17,208	17,208	17,208	17,208	17,208
Number of outstanding warrants, thousands	129	129	129	129	129	129
Average number of outstanding warrants with a dilutive effect, thousands	129	-	129	-	-	129
Average number of shares after dilution, thousands	17,337	17,208	17,337	17,208	17,208	17,337

CONSOLIDATED BALANCE SHEETS	30 Sept	31 Dec	30 Sept
(Amounts in SEK 000s)	2009	2008	2008
ASSETS			
Intangible assets	2,802	5,050	5,863
Tangible assets	5,447	3,936	3,719
Shares in associated company	9,351	7,851	7,425
Non-current receivables from associated company	4,400	4,400	4,400
Deferred tax asset	7,760	21,100	20,000
Other non-current receivables	30	47	41
Current assets excl. cash and cash equivalents	55,072	53,795	44,757
Cash and cash equivalents	87,460	58,127	58,800
TOTAL ASSETS	172,322	154,306	145,005
EQUITY AND LIABILITIES			
Equity attributable to equity holders in the Parent Company	154,232	132,321	126,353
Minority interests	99	99	-
Total equity	154,331	132,420	126,353
Interest-free current liabilities	17,991	21,886	18,652
TOTAL EQUITY AND LIABILITIES	172,322	154,306	145,005

CONSOLIDATED CASH FLOW STATEMENTS	Jan-Sept	Jan-Sept	July- Sept	July- Sept	Jan-Dec
(Amounts in SEK 000s)	2009	2008	2009	2008	2008
Operating activities					
Operating profit	36,356	18,356	6,408	5,782	25,841
Depreciation/amortisation	3,195	3,122	1,132	1,043	4,260
Capital gains/losses on the sale of non-current assets	-	7	-	-	7
Share in profit/loss of associated company	-500	160	-50	-250	334
Other non-cash items	242	-83	231	-113	-407
Interest received and paid	741	1 740	263	685	2 381
Cash flow from operating activities before changes in working capital	40,034	23,302	7,984	7,147	32,416
Changes in working capital	-22	-3,762	11,390	3,834	-13,212
<i>Cash flow from operating activities</i>	40,012	19,540	19,374	10,981	19,204
<i>Cash flow from investing activities</i>	-3,479	-3,881	-607	-300	-4,966
<i>Cash flow from financing activities 1)</i>	-6,883	-	0	-	99
Cash flow for the period	29,650	15,659	18,767	10,681	14,337
Cash and cash equivalents at beginning of period	58,127	42,977	68,964	47,924	42,977
Exchange difference in cash and cash equivalents	-317	164	-271	195	813
Cash and cash equivalents at end of period	87,460	58,800	87,460	58,800	58,127

1) The full amount for 2009 refers to dividends.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in SEK 000s)

	Jan-Sept 2009	Jan-Sept 2008	Jan-Dec 2008
At beginning of year	132,420	94,910	94,910
New share issue in CapAble	-	-	99
Dividends	-6,883	-	-
Comprehensive income for the period	28,794	31,443	37,411
At end of period	154,331	126,353	132,420

Segment reporting – Group

Since 2003 the company has had only one operating segment, Animal & Human Health, which consists of the Human Health and Animal Health market units.

Starting on 1 January 2009, the Group has implemented IFRS 8 Operating Segments. The Group Management has analysed the Group's internal reporting and established that the Group's operations are managed 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

SEGMENT REPORTING – GROUP

(Amounts in SEK 000s)

Revenue by segment

	Jan-Sept 2009	Jan-Sept 2008	Jan-Dec 2008
Finished consumer products	111,250	79,298	106,325
Component products	38,430	25,218	36,931
Other products	1,483	1,490	1,934
	151,163	106,006	145,190

Gross profit by segment

	Jan-Sept 2009	Jan-Sept 2008	Jan-Dec 2008
Finished consumer products	70,566	51,477	68,728
Component products	27,747	18,423	26,631
Other products	1,230	1,312	1,597
	99,543	71,212	96,956

Trade receivables by segment

	30 Sept 2009	30 Sept 2008	31 Dec 2008
Finished consumer products	22,565	13,534	20,400
Component products	8,171	2,938	8,050
Other products	-	254	394
	30,736	16,726	28,844

Revenue by geographical market

	Jan-Sept 2009	Jan-Sept 2008	Jan-Dec 2008
<u>Sales</u>			
Europe	102,701	68,623	93,973
USA and Canada	8,724	7,184	8,851
Asia	29,500	19,999	30,618
Rest of world	10,238	10,200	11,748
	151,163	106,006	145,190

PARENT COMPANY INCOME STATEMENTS

	Jan-Sept 2009	Jan-Sept 2008	Jan-Dec 2008
(Amounts in SEK 000s)			
Net sales	146,333	105,755	143,586
Cost of goods sold	-48,212	-34,662	-47,211
<i>Gross profit</i>	98,121	71,093	96,375
Selling expenses	-26,899	-23,745 1)	-36,035
Administrative expenses	-6,265	-5,979	-8,167
Research and development expenses	-20,227	-16,286	-23,042
Other operating income	634	440	4,059
Other operating income	-	-	-
<i>Operating profit</i>	45,364	25,523	33,190
Result from shares in associated company	-	-	-334
Result from shares in subsidiary	-	-	-569
Write-down of receivable from subsidiary 1)	-9,650	-8,092 1)	-13,467
Net financial items	6,910	2,832	-1,008
Profit before tax	42,624	20,263	17,812
Tax expense for the period	-13,800	11,000	11,660
PROFIT FOR THE PERIOD	28,824	31,263	29,472

1) In the income statement for January – September 2008, the write-down of the receivable from the Japanese subsidiary was recognised in selling expenses. For the sake of comparability, the write-down has been reclassified.

PARENT COMPANY BALANCE SHEETS

	30 Sept 2009	30 Sept 2008	31 Dec 2008
<u>ASSETS</u>			
Intangible assets	2,802	5,863	5,050
Tangible assets	3,751	3,371	3,581
Shares in group companies	5,469	4,237	4,469
Shares in associated companies	8,851	7,585	7,851
Non-current receivables from subsidiary	1,022	1,930	-
Non-current receivables from associated company	4,400	4,400	4,400
Deferred tax asset	6,860	20,000	20,660
Current assets excl. cash and cash equivalents	51,500	41,994	51,017
Cash and cash equivalents	85,774	57,593	55,293
TOTAL ASSETS	170,429	146,973	152,321
<u>EQUITY AND LIABILITIES</u>			
Shareholders' equity	146,321	126,171	124,380
Interest-free current liabilities	24,108	20,802	27,941
TOTAL EQUITY AND LIABILITIES	170,429	146,973	152,321
Pledged assets and contingent liabilities for the Parent Company			
Floating charges	2,000	2,000	2,000
Contingent liabilities	None	None	None

PARENT COMPANY CASH FLOW STATEMENTS

	Jan-Sept	Jan-Sept	Jan-Dec
	2009	2008	2008
Operating activities			
Operating profit	45,364	25,523 1)	33,190
Depreciation/amortisation	2,977	3,048	4,141
Capital gains/losses on the sale of non-current assets	-	7	7
Other non-cash items	242	-84	-407
Interest received and paid	738	2,832	2,367
Cash flow from operating activities before changes in working capital	49,321	31,326	39,298
Changes in working capital	901	-3,320	-10,128
Cash flow from operating activities	50,222	28,006	29,170
Cash flow from investing activities	-12,616	-12,600 1)	-16,388
Cash flow from financing activities	-6,883	-	-
Cash flow for the period	30,723	15,406	12,782
Cash and cash equivalents at beginning of period	55,293	42,103	42,103
Exchange differences in cash and cash equivalents	-242	84	408
Cash and cash equivalents at end of year	85,774	57,593	55,293

1) In the income statement for January – September 2008, the write-down of the receivable from the Japanese subsidiary was recognised in selling expenses. For the sake of comparability, the write-down has been reclassified.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

(Amounts in SEK 000s)	Jan-Sept	Jan-Sept	Jan-Dec
	2009	2008	2008
At beginning of year	124,380	94,908	94,908
Dividends	-6,883	-	-
Profit for the period	28,824	31,263	29,472
At end of period	146,321	126,171	124,380

RELATED PARTY TRANSACTIONS, GROUP AND PARENT COMPANY

(Amounts in SEK 000s)

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

The following transactions have taken place with TwoPac AB.

	Jan-Sept	Jan-Sept	Jan-Dec
	2009	2008	2008
Interest income	92	220	285
Shareholder contributions paid	1,000	2,000	2,000
Advance payment converted to shareholder contribution	-	-	600
Purchase of goods	9,626	6,036	8,952
Purchase of machinery and equipment	-	-	221

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

Non-current receivables from TwoPac AB

	30 Sept	30 Sept	31 Dec
	2009	<u>2008</u>	<u>2008</u>
Non-current receivables from TwoPac AB	4,400	4,400	4,400
<i>Current transactions with related parties</i>			
Current receivables from TwoPac AB	26	76	65
Current liabilities to TwoPac AB	-620	<u>-1,520</u>	<u>-118</u>
	-594	-1,444	-53

Annwall & Rothschild Investment AB holds 740,668 class A shares and 1,251,391 class B shares, corresponding to 11.6% of the share capital and 36.3% of the votes. Annwall & Rothschild Investment AB is owned by Peter Rothschild and Jan Annwall, who are Managing Director and Deputy Managing Director of the Parent Company. The transaction that has taken place refers to a dividend of SEK 0.40 per share. No other transactions have taken place between BioGaia and Annwall & Rothschild Investment AB.

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 TriPac AB.

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

The Parent Company and the Group own 50% of TwoPac AB and report this holding as an associated company.

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

The following transactions have taken place with BioGaia Japan

	Jan-Sept	Jan-Sept	Jan-Dec
	2009	<u>2008</u>	<u>2008</u>
Interest income	625	1,099	818
Loan provided	8,695	6,997	10,595
Purchase of services	-	-	4,241
Sale of goods	330	601	730

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

No significant transactions have taken place with other related parties.

CONSOLIDATED KEY RATIOS	Jan-Sept	Jan-Sept	Jan-Dec
	2009	2008	2008
Return on			
- average shareholders' equity	20%	28%	32%
- average capital employed	30%	18%	25%
Capital employed, SEK 000s	154,331	126,353	132,420
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	129
Average number of outstanding warrants with a dilutive effect, thousands	129	-	-
Average number of shares after dilution, thousands	17,337	17,208	17,208
Earnings per share after reported tax, SEK	1.70	1.81	2.10
Diluted earnings per share after reported tax, SEK	1.69	1.81	2.10
Earnings per share before tax (average no. of shares), SEK 2)	2.48	1.17	1.40
Diluted earnings per share, SEK 2)	2.46	1.17	1.40
Equity per share, SEK	8.96	7.34	7.69
Diluted equity per share, SEK	8.90	7.34	7.69
Equity/assets ratio	90%	87%	86%
Operating margin	24%	17%	18%
Profit margin 1)	28%	19%	17%
Average number of employees	43	38	39

- 1) Profit margin: Profit before tax in relation to sales.
2) Profit after paid tax in relation to the number of shares

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

Nominating Committee

In accordance with the decision of the Annual General Meeting, the Nominating Committee has been appointed and consists of Per-Erik Andersson, representing Annwall & Rothschild Investment AB, the company's largest shareholder, Board Chairman David Dangoor, the third largest shareholder, and Sven Zetterqvist, representing Livförsäkringsaktiebolaget Skandia, the fourth largest shareholder. The Nominating Committee can be contacted at the following address: BioGaia AB, Box 3242, SE-103 64 Stockholm, Sweden, or by e-mail to mr@biogaia.se.

FINANCIAL CALENDAR

18 February 2010	Year-end report 2009
6 May 2010	Interim report 1 January – 31 March 2010
6 May 2010	Annual General Meeting at 4:00 p.m. in Stockholm
	Shareholders who wish to have a matter dealt with at the AGM must notify the Board Chairman no later than 1 March 2010 by letter to BioGaia AB, Box 3242, SE-103 64 Stockholm, Sweden, or by e-mail to mr@biogaia.se

This interim report provides a true and fair picture of the business activities, financial position and results of operations of the Parent Company and the Group, and describes the significant risks and uncertainties to which the Parent Company and the Group companies are exposed.

Stockholm, 22 October 2009

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
Managing Director

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

The information in this interim report was submitted for publication on 22 October 2009, 8:15 a.m. CET.

BioGaia AB

The company

BioGaia is a biotechnology company that develops, markets and sells probiotic products with documented health benefits. The products are primarily based on different strains of the lactic acid bacterium *Lactobacillus reuteri* (Reuteri) which has health-enhancing effects. BioGaia has also developed unique delivery systems, such as probiotic-containing straws and caps, that make it possible to create probiotic products with a long shelf life.

BioGaia has 44 employees, of whom 18 are based in Stockholm, 19 in Lund, 3 in Raleigh, USA, and 4 in Hiroshima, Japan.

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 40 countries worldwide.

In Sweden, BioGaia's products are sold under the brands Semper Magdroppar and Vätskeersättning and Gum PerioBalance lozenges in pharmacies, 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.

The majority of BioGaia's consumer products are sold to distributors, which then sell the 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. 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:

- 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,
- reduce the occurrence of infantile colic,
- reduce the risk of infection and improve gastrointestinal function in pre-term newborns,
- reduce gum inflammation, plaque and the risk for dental caries.

Latest press releases from BioGaia:

2009-10-08 BioGaia agreement for Denmark
2009-09-18 BioGaia signs agreement for France
2009-09-17 Personnel changes at BioGaia

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