

**RESEARCH:** Probiotics' good effect on gastric ulcer bacterium page 8

**PRODUCTS:** Semper + BioGaia = success page 20



**MARKET:** Millions of reasons to smile page 22



# BioGaia®

● Information from BioGaia about the past year



# Sales up by 33 per cent!

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## ANNUAL GENERAL MEETING

The 2012 Annual General Meeting will be held at 4:00 p.m. on 8 May, at Citykonferensen Ingenjörshuset, Malmkillnadsgatan 46, in Stockholm.

Shareholders who wish to have a matter dealt with at the AGM must submit a request by 26 March 2012 to the Board Chairman, BioGaia AB, Box 3242, SE-103 64 STOCKHOLM, Sweden, or by e-mail to [mr@biogaia.se](mailto:mr@biogaia.se).



## Financial information and notes



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## PRODUCTION

**Project management:** Eva Nelson, Product Manager and Project Manager at BioGaia and Cattis Grant, writer and Project Manager at Grant Information. **Graphic design:** Helena Åberg, Tidning & Form, [www.tidningochform.se](http://www.tidningochform.se), and Chatarina Andersson, Marketing Assistant, BioGaia (financial section) **Photos:** Anette Andersson, Eva Lie and Scandinavian Children's Mission in the Philippines **Illustrations:** Lasse Widlund **Translation:** GH Language Solutions **Print:** Danagård Litho 2012

## FINANCIALS

**NET SALES** amounted to SEK 315.0 million (236.0), an increase of SEK 79.0 million (33 per cent).

**OPERATING PROFIT** was SEK 103.2 million (56.3), up by SEK 46.9 million (83 per cent).

**PROFIT AFTER TAX** reached SEK 79.5 million (47.2), an improvement of SEK 32.3 million (68 per cent).

## CLINICAL STUDIES

Results from two studies on *Helicobacter pylori* infection

## NEW AGREEMENTS WITH

- Cube Pharmaceuticals – Oral rehydration solution (ORS) in Greece
- Fleet Laboratories – Digestive health tablets in the USA
- Galenica – Drops and digestive health tablets in Morocco
- United Laboratories – Digestive health tablets in the Philippines
- Victus – Drops and digestive health tablets in Venezuela and Puerto Rico

## LAUNCH OF

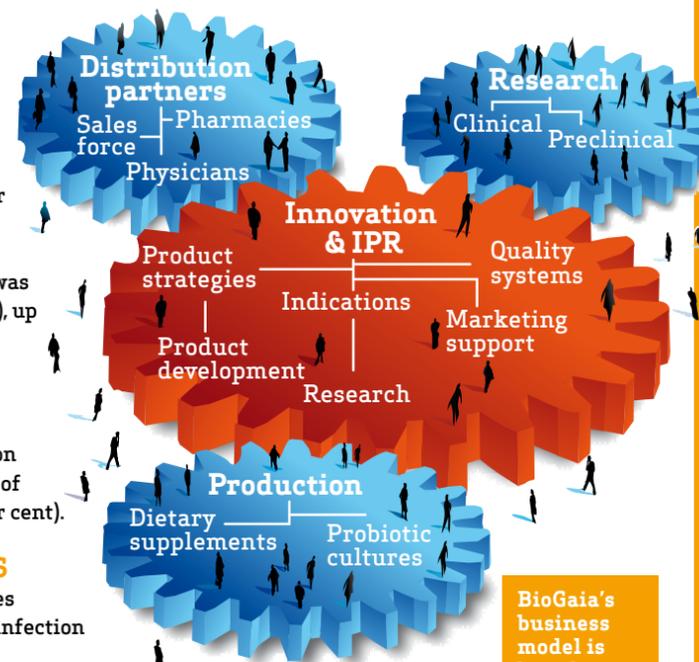
**DROPS** in the Dominican Republic, Guatemala, Latvia, Lithuania and Hungary. Drops with Vitamin D in Finland, Italy and Sweden

**DIGESTIVE HEALTH TABLETS** in the Dominican Republic and Guatemala

**DIGESTIVE HEALTH TABLETS WITH A NEW FLAVOUR** in Greece, Spain and Sweden

## KEY RATIOS

Key ratios	2011	2010	2009	2008	2007
Net sales, SEK M	315.0	236.0	203.5	145.2	106.6
Profit before tax, SEK M	108.9	69.7	53.1	24.0	10.7
Profit after tax, SEK M	79.5	47.2	36.0	36.1	19.7
Sales growth, %	33	16	40	36	23
Profit margin, %	33	24	23	18	8
Equity/assets ratio, %	82	82	90	86	86
Average number of employees	61	45	43	39	37



BioGaia's business model is based on cooperation with three networks. Read more on page 5.

## ORAL HEALTH

**LOZENGES** in Bulgaria and Slovakia

**ORAL REHYDRATION SOLUTION** in Finland and Ukraine

**INFANT FORMULA** with *Lactobacillus reuteri* Protectis in Algeria, Bahrain, the Philippines, the United Arab Emirates, Iran, Indonesia, Jordan, Kuwait, Lebanon, Malaysia, Pakistan, Qatar, Saudi Arabia and Vietnam.

## OTHER EVENTS

**DECISION TO INVEST** in a new production facility in BioGaia's 50 per cent-owned subsidiary TwoPac.

## KEY EVENTS AFTER THE END OF THE FINANCIAL YEAR

BioGaia extends collaboration with Nestlé.

## BIOGAIA IN 30 SECONDS

**1990** Peter Rothschild and Jan Annwall acquire the rights for the probiotic use of *Lactobacillus reuteri* and found the company BioGaia Biologics. The duo also acquires the laboratory operations in Raleigh, USA. The focus is on reducing the need for antibiotics in animal feed. An interest is awakened in human health and so-called functional foods. The first brand for BioGaia's products is BRA milk and fermented milk.

**1994** ICA acquires the BRA trademark and concept.

**1996** Introduction on IM, Innovationsmarknaden.

**1997** The fermentation facility Multi Ferm in Lund is acquired and becomes BioGaia Fermentation AB. The aim is to gain greater knowledge about the fermentation process and how to extend the shelf life of the bacterial cultures.

**1998** Introduction on the O list, which is today OMX NASDAQ.

**2001** Price pressure and daunting regulatory hurdles lead to a decision to abandon activities in the animal health area. The main focus is now on probiotic dietary supplements for humans.

**2002** BioGaia Fermentation AB is sold at a profit. The Parent Company has acquired the necessary knowledge and can retain parts of the staff in a production and development unit that becomes the current BioGaia Lund. TwoPac (50 per cent-owned) in Eslöv is formed together with a couple of entrepreneurs to develop a concept for reuteri-containing straws.

**2006** The first year that the company makes a profit.

**2008** CapAble is founded and is responsible for development of caps with probiotics.

**2009** Net sales exceed SEK 200 million.

**2010** BioGaia celebrates 20 years as a successful probiotics company.

**2011** Net sales of over SEK 300 million. BioGaia's 50 per cent-owned subsidiary TwoPac builds a new production facility in Eslöv to meet demand for increased volumes.

# Great success for our business model

In 2011 we achieved sales growth of over 30 per cent, which also roughly corresponds to our average for the past five years. We have seen strong growth for all of the finished products and for our sales of probiotic cultures to Nestlé. Two particular highlights are that sales in Japan have risen by a full 270 per cent and that the sales trend in the USA has turned upward following our distribution partner Everdis' launch of the drops in America's largest pharmacy chain. Everdis started a marketing campaign in connection with this and we are also providing the company with PR support, where one result is that our products have been featured on a large number of morning TV shows. In 2012 we will continue focusing on the US market.

**THE IMPORTANCE OF** the BioGaia brand is growing and surveys confirm the recognition of our brand among paediatricians. Brand building is a critical component of BioGaia's strategy – perhaps even more so than our already strong patent protection – and gives us distinct advantages in marketing of new products. In 2011, over 40 per cent of our finished consumer products were sold under the BioGaia brand. And if we include co-branded products, the BioGaia brand now accounts for more than 50 per cent of sales.

Nestlé, our largest customer, sells infant formulas with Reuteri in more than 30 countries and has plans for launches in additional markets. The partnership has been highly satisfying and rewarding for BioGaia, which is manifested in the agreement we signed with Nestlé on 15 February 2012. Under the agreement, Nestlé has acquired a perpetual licence for infant nutrition products and will further extend its collaboration with BioGaia in other areas.

In the past year we started efforts to relaunch our oral health products. The agreement with Sunstar, which originally granted them virtually global rights, has been renegotiated and now only covers the countries where they have been successful. In a few Eastern European countries we have instead given the marketing rights for the oral health products



## THIS IS BIOGAIA

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

Photo: Anette Andersson

to our partner Ewopharma. Our Japanese partner Nippon Access has started to sell the oral health lozenges through dental clinics in Japan and in spite of the turmoil caused by the earthquake in March, sales have essentially developed according to plan. I am convinced that the oral health products have major potential and we are taking continued steps to establish our primary business model also in this area.

Countries outside Europe often require registration of the products, and this is one of the factors that is inhibiting an even faster expansion. In response to this, we have further enlarged our Quality Assurance & Regulatory Affairs department.

The effective date for implementation of the new EFSA regulations has been pushed forward one year, until June 2012, but we still don't expect these to have any impact on our sales since our marketing is primarily directed to healthcare professionals and not consumers. Most of the health claims on our packages were removed more than a year ago.

**LAST AUTUMN** we received the results of the first studies performed on our new product BioGaia Gastrus, in patients with *Helicobacter pylori* infection. One of the studies was very positive while the other showed no significant effects. It was of course disappointing that we didn't see successful results in both studies, but in light of the earlier studies conducted in this area and our discussions with partners and physicians, we have decided to launch Gastrus during 2012. Given the high rate of *Helicobacter pylori* infection in Asia, Latin America and Eastern Europe and the resistance problems resulting from existing therapies, we have high expectations for this product.

As shown by the income statement, operating profit rose dramatically and outpaced growth in sales despite higher investments in marketing, research and development. The explanation is found in BioGaia's business model which is based

We have decided to launch BioGaia Gastrus during 2012 and have high expectations for this product.

on three networks – a network of researchers that work in collaboration with us, a network of producers that manufacture and package our products and a network of partners that market and sell these.

You might be led to believe that BioGaia is a virtual company, but this is not the case. BioGaia oversees the networks and controls a

few vital areas that we will never hand over to an outside party. BioGaia's core expertise lies among other things in choosing which clinical studies to pursue and ensuring that these are performed according to our high quality standards.

**WHAT'S MORE,** BioGaia develops products and packaging solutions, often in cooperation with the suppliers, and the products are protected by patents that we control. We also support our partners in their marketing, primarily to physicians but also via the Internet and through targeted PR activities. By focusing on these core areas and using the three networks, we are able to continuously develop and sell creative new products on the global market. The business model explains why we have succeeded in growing by around 30 per cent in the past few years at the same time that our fixed costs have risen by only 10 to 15 per cent over the same period.

The top priorities in 2012, as earlier, will be the USA, Japan and our oral health segment, but the registration process in China will also be central. With regard to new products, we will introduce BioGaia Gastrus in a few key markets. In addition, we will continue working determinedly to create new packaging solutions that can be launched during the year.

Against this background, I look forward to the year ahead with confidence.

## FACTS ABOUT US

### Financial targets

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 per cent with continued strong growth and increased investments in research, product development and brand building. BioGaia's policy is to pay a shareholder dividend equal to 30 per cent of profit after tax.

### Vision

BioGaia's vision is to improve the health of people around the world by offering first class probiotic products.

### Business concept

BioGaia's concept is to develop, market and sell well documented probiotic products worldwide in the form of innovative and appealing dietary supplements and food products.

### Strategy

BioGaia's strategy is based on three main pillars:

- performance of clinical studies
- development of innovative new products and packaging solutions
- powerful marketing support for the company's partners

The company's products should be sold under the BioGaia brand to the greatest possible extent.

### Business model

In BioGaia's business model, the company sells its products through a network of distribution partners around the world. These companies have sales representatives that visit physicians and other healthcare professionals. By informing them about the published results of high quality clinical studies, the sales reps create interest and confidence among the physicians, which then recommend the products to their patients. The products are sold mainly in pharmacies and similar retail outlets.

*Lactobacillus reuteri* is one of the world's most well researched probiotics, especially in young children. To date, 92 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on more than 7,700 individuals of all ages. The results have been published in 55 articles in scientific journals (February 2012).

# 92 clinical studies

The majority of clinical studies carried out with BioGaia's products are randomised, double blind and placebo-controlled, and are thus fully comparable to pharmaceutical studies in terms of research quality. Furthermore, all studies must be approved by a local ethics review board before starting.

Research on BioGaia's products should generate publication of well-controlled

and scientifically sound articles. As a result, BioGaia actively supports publication of the results in peer reviewed scientific journals.

**A QUARTER** of all studies are initiated by BioGaia itself, to investigate product safety and health benefits in a specific area, and are monitored by BioGaia's research supervisors.

However, there is a widespread inte-

rest in research on *Lactobacillus reuteri* and another fourth of the studies are initiated and conducted by independent researchers. Aside from requesting the researcher's resumé and study protocol and requiring ethical approval (these criteria apply to all studies), BioGaia has no insight into or influence over these studies.

Around half of all studies are initiated and conducted by BioGaia's partners.

## STUDIES HAVE BEEN PERFORMED ON

- Infantile colic and digestive health in children
- Antibiotic-associated diarrhoea (AAD)
- Acute diarrhoea
- Gingivitis (inflammation of the gums)
- Periodontal disease
- General health
- *Helicobacter pylori* (the gastric ulcer bacterium).



As a research-driven probiotics company, BioGaia is a forerunner with regard to scientifically-based research studies. The company's *Lactobacillus reuteri* DSM 17938 is one of the world's most well researched probiotics. Here, Magdalena Delikat Kulinski is working at the laboratory in Lund.

Photo: Eva Lie

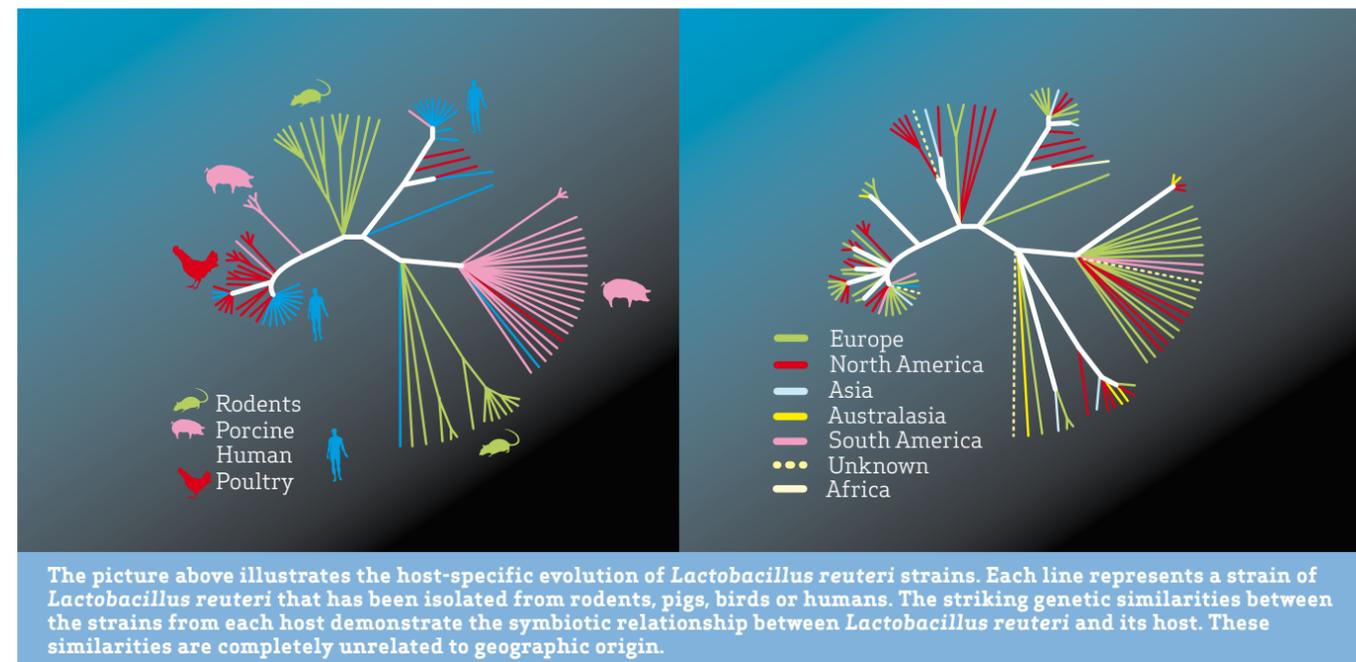


Illustration: Lasse Widlund

## A journey through evolution with *Lactobacillus reuteri*

A group of researchers headed by Jens Walter has studied *Lactobacillus reuteri* from an evolutionary perspective and found unique symbioses. Here, he gives a brief description of his research.

**TO CONTRIBUTE TO** the understanding of the co-evolution between vertebrate gut symbionts and their hosts, we have published several articles. These present phylogenetic analyses (the study of evolutionary relatedness between groups of organisms, such as species) of *Lactobacillus reuteri* and the results of experimental studies.

By using a combination of gnotobiotic mouse (born free from all microbial organisms) experiments with population genetics and evolutionary genomics, we could characterize the evolutionary and ecological strategies of *Lactobacillus reuteri*. We were thus able to show that *Lactobacillus reuteri* has established a

highly specialized symbiosis with its vertebrate hosts.

Population genetics revealed that *Lactobacillus reuteri* strains can be divided into phylogenetic clusters (species-specific "groups") that correlate with host origin (Oh *et al.*, 2010).

This evolutionary pattern indicates a long-term association of *Lactobacillus reuteri* lineages with confined groups of vertebrate species. Further experiments in gnotobiotic mice have shown that strains of *Lactobacillus reuteri* are host specific (Frese *et al.*, 2011), which is further evidence of a shared evolutionary history.

These findings are significant as they establish *Lactobacillus reuteri* as the very first example of host specificity for a non-pathogenic member of the vertebrate gut microbiota. The work of our group has also revealed phylogenetic patterns and phenotypic characteristics of *Lactobacillus reuteri* that indicate a stable evolutionary relationship with the host.

Theoretically, such a relationship has a higher potential for the development of

mutually beneficial interactions between microbe and host than more temporal relationships (Walter *et al.*, 2011).

**Jens Walter**  
Assistant Professor, Food Science and Technology Department, University of Nebraska, Lincoln

A complete reference list can be found at [www.biogaia.se](http://www.biogaia.se)

## WHAT ARE PROBIOTICS?

Probiotic means "for life", in contrast to antibiotic which means "against life". WHO/FAO (2001) defines probiotics as "live microorganisms which when administered in adequate amounts confer a health benefit on the host". This means that only the live lactobacilli with proven health effects in clinical trials may be called probiotics. Furthermore, the product in question must contain the same bacterial strain and the same dose that was used in the clinical trials.

RESEARCH  
NEWS

## Probiotic effective in treating rotavirus

**A DOCTORAL DISSERTATION** completed at Baylor College of Medicine in Houston, Texas, presented the results of studies on neonatal mice, an animal model of acute gastroenteritis caused by rotavirus. The studies showed that both of the tested *Lactobacillus reuteri* strains (of which one was *Lactobacillus reuteri* Protectis) reduced the duration of diarrhoea. The mechanism of action is related to an increase in specific antibodies as well as stimulation of gut mucosal cell growth.

Treatment with probiotics also contributed to enhanced microbial diversity despite infection with diarrhoea.

The study can explain the already documented effect of *Lactobacillus reuteri* DSM 17938 on rotavirus-related diarrhoea.

## Diarrhoea affects all children

**ROTA VIRUS IS ONE OF THE** most prevalent causes of acute diarrhoea in small children worldwide. By the age of five, it is estimated that all children, regardless of their homeland, have had one rotavirus infection.

In the USA rotavirus is behind 45 per cent of all cases of acute diarrhoea in children. Antibiotic-associated diarrhoea (AAD), i.e. diarrhoea as a side-effect of antibiotic therapy, affects up to 25 per cent of all patients treated with antibiotics. The risk of AAD is increased by factors such as the intake of several different types of antibiotics over a long period of time, gastrointestinal surgery and long-term hospital stays.

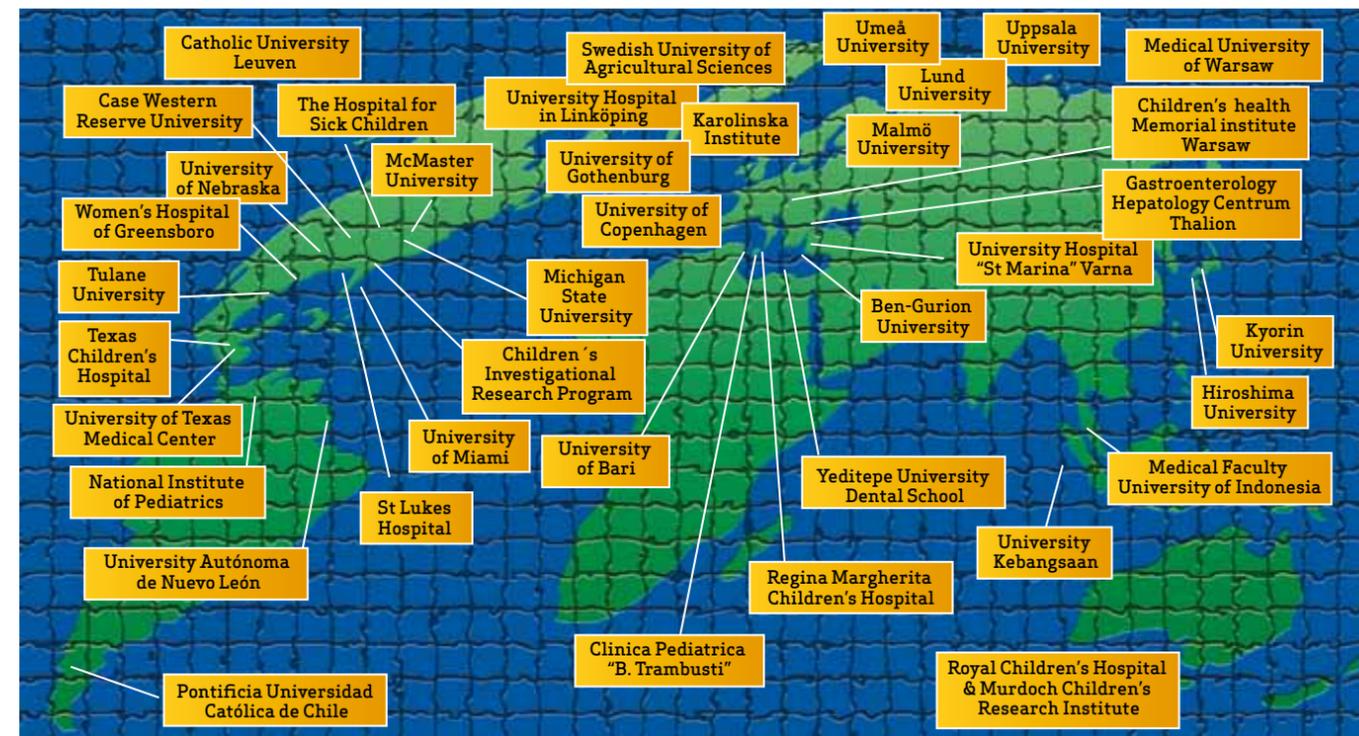


Illustration: Lasse Widlund

## Positive results for *Lactobacillus reuteri* Gastrus

**TWO INDEPENDENT,** randomised, double-blind, placebo-controlled clinical studies have been performed to determine the effects of BioGaia Gastrus on the control of *Helicobacter pylori* infections in patients with mild symptoms. The first trial was performed in Italy and the second in Mexico. Both trials included 100 patients, of which 50 were given *Lactobacillus reuteri* Gastrus before, during and after standard therapy and 50 were given a placebo. The Italian study demonstrated a significant reduction in *Helicobacter pylori* load and symptoms during treatment with *Lactobacillus reuteri* Gastrus

before standard therapy. Moreover, during this period three of 50 subjects in the *Lactobacillus reuteri* Gastrus group compared to one of 50 in the placebo group lost their infection completely during this period. Also during the period when the patients received standard therapy, the symptoms improved significantly in the group that was given Gastrus compared to the placebo group.

In the Mexican study, no significant reduction in *Helicobacter pylori* load and symptoms were observed during treatment with probiotics before standard therapy. However, as in the Italian study, three of 50 subjects in the *Lactobacillus reu-*

*teri* Gastrus group lost their infection completely when given Gastrus alone, compared to none in the placebo group.

### *Helicobacter pylori* infection – one of the world's most widespread

At least half of the earth's population is infected, but its incidence varies from over 80 per cent of all adults in developing regions such as Asia and Latin America to between 20 per cent and 50 per cent in the industrialised world. However, the majority of infected individuals are unaware of this fact and only around 20 per cent have symptoms.

## LATEST NEWS!!!

The results of a double-blind, placebo-controlled study of 494 children performed in Indonesia were published on 21 February 2012. The study showed that supplementation with *Lactobacillus reuteri* Protectis significantly reduced the incidence of all diarrhoea. The effects were particularly good in children with lower nutritional status. *Lactobacillus casei* 431, which was also tested in the study, showed no effect.

## Reduced side-effects from antibiotics

**ANTIBIOTIC-ASSOCIATED DIARRHOEA** (AAD), i.e. diarrhoea as a side-effect of antibiotic therapy, affects up to 25 per cent of all patients treated with antibiotics. In the hospital environment, this can lead to prolonged hospital stay, increased costs and higher mortality rates. At University Hospitals Case Medical Center in Cleveland, USA, a study was performed to investigate whether *Lactobacillus reuteri* Protectis could prevent this type of diarrhoea in hospitalised adult patients. Earlier studies have shown that *Lactobacillus reuteri* Protectis

can reduce acute diarrhoea in children.

This randomised, double-blind and placebo-controlled pilot study included 31 hospitalised patients receiving antibiotics. For a period of four weeks, half of the patients were given chewable tablets *Lactobacillus reuteri* Protectis twice a day, while the other half were given an identical placebo. The results showed that the incidence of diarrhoea was significantly lower in the patients given probiotic tablets than in the placebo group, 7.7 per cent compared to 50 per cent. The study was presented in 2009 and published in 2011.

## Hope for preterm newborns

**DEATH OF INTESTINAL TISSUE,** necrotising enterocolitis, NEC, is the leading gastrointestinal cause of death and illness in premature infants.

The explanation for this is that the gastrointestinal flora in these infants is not fully developed, which means that there is a major risk for colonisation with potentially pathogenic organisms.

Because *Lactobacillus reuteri* is known to inhibit intestinal infections and modulate the immune system, a group of researchers at the University of Texas in Houston, USA, wanted to study its effects

on NEC. The study was performed on newborn rats and showed positive effects on several parameters for both *Lactobacillus reuteri* Protectis and an additional strain of *Lactobacillus reuteri*.

The results thus support the theory that *Lactobacillus reuteri* may represent a valuable treatment alternative to prevent NEC. The results of the world's largest probiotics study on preterm newborns to date, including more than 700 infants, are awaited during 2012. Furthermore, additional studies on preterm newborns are underway.

### Collaborations around the world

BioGaia collaborates with specialists in some 40 research institutions and clinics in a unique global network.

## Research bank with 50 strains

**BIOGAIA'S** research bank contains around 50 strains of *Lactobacillus reuteri* that can be divided into two groups. The first includes strains with anti-pathogen attributes, such as *Lactobacillus reuteri* DSM 17938 (*Lactobacillus reuteri* Protectis), for digestive health and immune health connected to the GI tract. The second includes strains with anti-inflammatory traits, such as *Lactobacillus reuteri* ATCC PTA 5289, which in combination with *Lactobacillus reuteri* DSM 17938 is called *Lactobacillus reuteri* Prodentis and is used for oral health, and *Lactobacillus reuteri* ATCC PTA 6475, which in combination with *Lactobacillus reuteri* DSM 17938 is called *Lactobacillus reuteri* Gastrus (for control of *Helicobacter pylori* infection).

## Colicky babies

**UP TO 26 PER CENT** of all infants in the West suffer from infant colic, which is defined as recurrent crying, mainly in the evening, for at least three hours per day, at least three days per week and for at least three weeks in an otherwise healthy infant.

Research on colic is a top priority for BioGaia.



Photo: Anette Andersson

## RESEARCH NEWS

### Good news for bad breath

**HALITOSIS** (bad breath) is estimated to be the third most frequent reason for seeking dental aid, following tooth decay and periodontal disease. In a randomised, double-blind and placebo-controlled study, 27 adults with self-reported bad breath chewed a gum containing either *Lactobacillus reuteri* Prodentis or a placebo in the morning and evening for 14 days. After the treatment period, halitosis was significantly reduced in the patients who were given active treatment compared to the placebo group.

The study was performed at the University of Copenhagen's Institute of Odontology and is the first to evaluate the effect of *Lactobacillus reuteri* Prodentis on bad breath. Some ten other studies have shown beneficial effects in reduction of caries and periodontal disease, such as gingivitis and periodontitis.

### Small children and constipation

**THE INCIDENCE OF** constipation among children varies between 7 and 30 per cent depending on the country. A full 40 per cent develop symptoms already during the first year of life and these often persist for a long time. Many children with constipation have continued problems as teens and adults.

### 4 international medical conferences

In 2011 BioGaia held scientific symposia at

- Consensus in Pediatrics and Child Health (CIP), Paris, France
- European Society for Paediatric Gastroenterology, Hepatology and Nutrition (ESPGHAN), Sorrento, Italy
- Ibero-American Society of Neonatology (SIBEN), Santiago, Chile
- Latin American Society of Paediatric Gastroenterology, Hepatology and Nutrition (LASPGHAN), Dominican Republic



The digestive health of children, including constipation and diarrhoea, is a prioritised area for BioGaia.

Photo: Anette Andersson

### DIFFERENT WAYS TO GROW

**PACKAGING SOLUTIONS** – ways to administer probiotics to consumers, such as drops, tablets and straws.

**LINEEXTENSIONS OF OWN-BRANDED PRODUCTS** – new flavours

for the digestive health tablets, drops with Vitamin D, oral health drops, oral rehydration solution.

**WHOLE NEW PRODUCTS** – new strains and combinations of strains, new areas of use.



# BioGaia – a global brand

The focus in 2011 was on boosting sales in the USA and restructuring the partner network for the oral health products.



## True and false about probiotics

"All lactobacilli are equally healthy!"  
**All lactobacilli do not have proven health benefits. In order to be called probiotic, a bacteria's positive health effects must be proven in correctly performed studies on humans.**

model, the marketing is directed mainly to physicians and other healthcare professionals, and Delta Medical is very highly regarded by this group. However, many competitors use advertising campaigns targeting the public and Delta Medical therefore plans to expand its marketing in order to reach consumers directly.

Total sales of BioGaia's products in Ukraine increased by 38 per cent in 2011 compared to 2010. The digestive health tablets accounted for the largest increase, 48 per cent, while sales of the drops rose by 28 per cent over the previous year. Next year Delta Medical will launch BioGaia ProDentis and digestive health tablets with strawberry flavour.

**THROUGH ITS SUBSIDIARIES**, the partner Ewopharma has successfully established BioGaia's products under the BioGaia brand in a number of Eastern European countries. In the span of just three years,

they have become the market-leader among probiotic dietary supplements in Bulgaria.

The recipe for success has been to combine marketing to healthcare professionals with consumer advertising campaigns and other information for the public. They have also built up a close collaboration with opinion leaders within the medical profession and other physicians, and two clinical studies with BioGaia's products are currently in progress in Varna. The main challenge is the many new competitors that have started to spread messages similar to those used in Ewopharma's marketing. Another challenge is to establish BioGaia ProDentis in the oral health market (see page 23). One interesting fact is that Ewopharma Bulgaria has succeeded well in establishing the digestive health tablets, for which sales are roughly equal to those for the drops, which is not the case in most other countries.

Despite aggressive competition among the 20 or so probiotic dietary supplements on the Slovakian market, Ewopharma has captured the market-leading position with BioGaia's drops and digestive health tablets.

In contrast to Bulgaria, the marketing here is only directed to physicians, other healthcare professionals and now

also dentists, with which they have built up close contacts. In Bratislava, a study is currently underway with BioGaia's new product for treatment of *Helicobacter pylori* infection and in 2012 Slovakia plans to be one of the first countries to test launch BioGaia Gastrus.

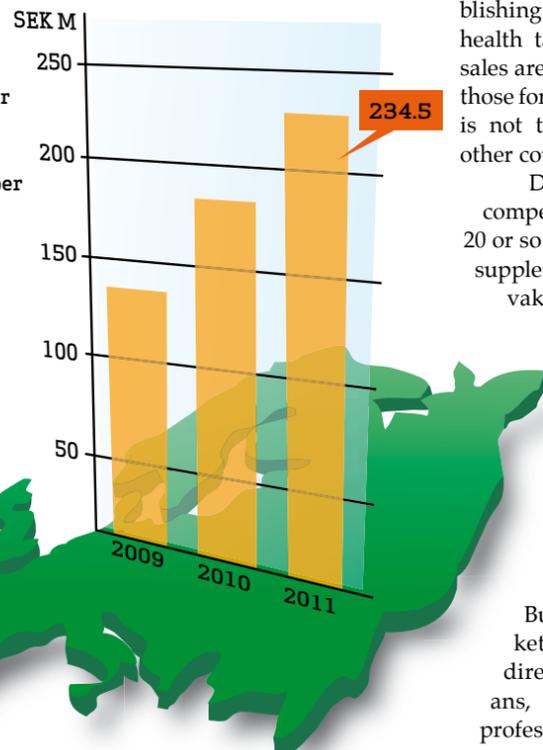
In Poland, Ewopharma has sold drops and tablets since 2007. There are close to 200 probiotic products on the Polish market, but by focusing on marketing of scientific documentation to the medical profession the company has established a position as the twelfth largest probiotic brand. In 2012 they plan to launch drops with Vitamin D, oral rehydration solution and oral health lozenges.

**IN PORTUGAL**, Ferring launched the drops under BioGaia's brand five years ago. Today they are in second place among a total of some ten competing products and despite a shrinking economy in the country, the product has shown some growth. Furthermore, Ferring's sales in Portugal make this one of BioGaia's ten leading markets measured in sales per capita. In 2012 Ferring plans to launch the digestive health tablets. So far, Ferring's marketing has been directed only to physicians and other healthcare professionals, but last autumn they also started a consumer campaign using radio and TV advertisements and activity in social media.

**FIVE OF THE MORE** than 40 competing products in France are registered as pharmaceuticals, but not BioGaia's drops and tablets. These are sold under the BioGaia brand by Laboratoires Bioethic, and since the launch at the end of 2009 they have grown to become one of the top ten probiotic products. Sales are rising steadily, by 79 per cent in 2011 compared to the prior year, and there is still considerable untapped potential in France. The best-selling product is the drops, which accounted for around 74 per cent of sales in 2011. As in many other countries, Bioethic's marketing targets physicians and pharmacists and a large share of sales are made on their recommendation.

### Sales in Europe

Sales in Europe account for 74 per cent of BioGaia's total sales, and increased by 28 per cent in 2011.



## Rapid growth in Eastern Europe

**IN UKRAINE** there are around 80 different probiotic preparations on the market. Delta Medical launched BioGaia's drops in 2008, the digestive health tablets in 2009 and the oral rehydration solution in 2011. In October 2011 Delta Medical had a market share of 6.5 per cent, placing the company as number five in the market. Unlike BioGaia's products, the four top-selling products are registered as pharmaceuticals. According to BioGaia's business

COUNTRIES WHERE EWOPHARMA SELLS	Digestive health		Oral health
	tablets	Drops	lozenges
Poland	X	X	
Bulgaria	X	X	X
Slovakia	X	X	X
Rumania	X	X	
Croatia	X	X	
Slovenia	X	X	
Serbia	X	X	
Moldavia		X	
Lithuania		X	
Latvia		X	

## Hello there, Doctor Friederike Skott

Manager International Product Management at Ewopharma's head office in Switzerland



Friederike Skott represents Ewopharma, one of BioGaia's most important partners in Eastern Europe.

### Why are probiotics generally better known in Eastern than Western Europe?

"To a certain extent I really think that it's because Ewopharma has done a good job. Bulgaria also has a long tradition of yoghurt and probiotics. *Lactobacillus bulgaricus* was discovered in the 1960s and this lactobacillus is still widely known and something that the Bulgarians are proud of. During the communist era, for example, whole aircraft full of this probiotic were flown to Japan. As far as I know, none of the other countries have any similar tradition. Our strategy differs from market to market, but one thing is certain – that we have a strong focus on BioGaia's products and invest offensively, which produces results."

### What are the success factors for BioGaia's products in Ewopharma's markets?

"The key factors are that we have clearly identified the extensive documentation on the core products and a willingness by BioGaia to continue investing

in clinical studies. BioGaia's continuous presence at international conferences has also been of major importance in giving the products a good reputation among opinion leaders."

### Tell us about the future!

"The plans for 2012 are very optimistic and ambitious. In a few existing markets, such as Poland, we are planning large-scale consumer advertising campaigns at the same time that we are expanding the sales force that markets the products to healthcare professionals. At the end of 2011 we launched the tablets and drops in Latvia and Lithuania and hope that sales will gain momentum in the year ahead. In our established markets, we have several launches scheduled for next year. In Poland, for example, we will launch drops with Vitamin D, oral rehydration solution and oral health lozenges. The oral health lozenges will also be launched in Serbia, Slovenia and Croatia."

**INTERVIEW: Eva Nelson**  
 Product Manager and Project Manager at BioGaia



**BIOGAIA'S GOAL** is to be one of the three leading providers of probiotic dietary supplements in every market where the company's products are available. Of the 26 European countries where BioGaia's finished products are sold, this goal has been met in over a third, of which the top positions are held in Bulgaria, Slovakia and Finland.

## Big things happening in Asia

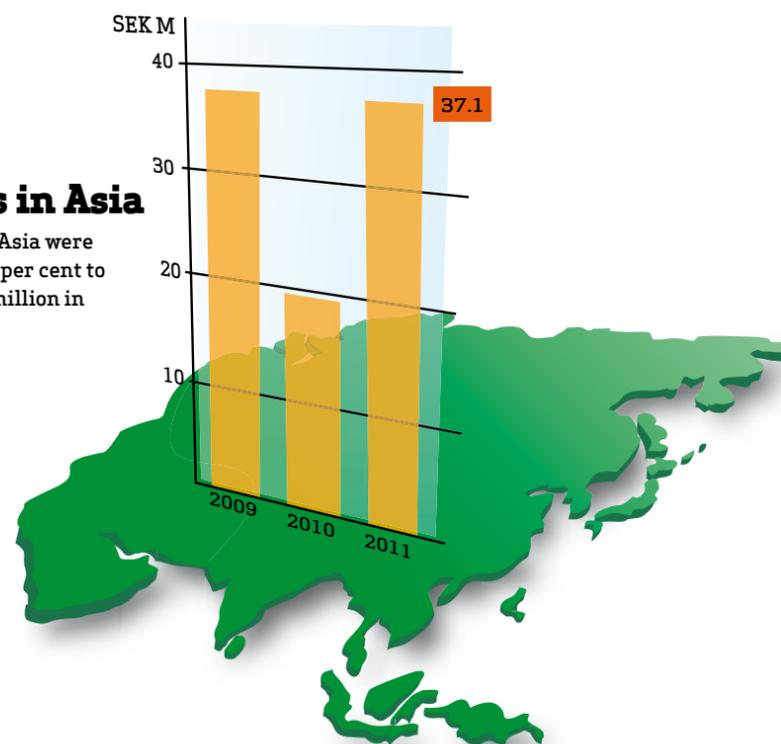
**THE CHINESE MARKET** for probiotic dietary supplements alone is worth around SEK 750 million annually, and the potential for BioGaia's products is vast. In mid-2010 BioGaia signed an agreement with Asia United (China) Medical Co, Ltd, for sales of the drops. Since then, the two have worked together to find local distribution partners and prepare for the test launch.

For the first few years the drops will be sold only in pharmacies, but other distribution channels may eventually be considered. The drops will be marketed as food products and sold under the BioGaia brand in the same manner as in most of BioGaia's other markets, by targeting physicians and healthcare professionals. Asia United's portfolio consists mainly of cholera vaccines and growth hormones, which means that the company has already established contacts with paediatricians and other healthcare professionals.

Sales in Singapore have surged by over 120 per cent in the past three years (albeit

### Sales in Asia

Sales in Asia were up by 90 per cent to SEK 20 million in 2011.



from a low level) and the drops, which are sold under BioGaia's brand, are now counted among the top three probiotic products. So far, nearly all sales have been made directly via physicians. The partner Age D'Or has access to virtually all paediatricians in the country and estimates that around 85 per cent of them recommend the drops. Today, one bottle is sold for every second newborn child and the potential for growth is deemed excellent.

Despite a low average income among Indonesia's population of 230 million, there is a relatively good knowledge of probiotics and the potential is therefore considered favourable. Kalbe currently sells the digestive health tablets under the Rillus brand, which is the country's fourth best selling probiotic dietary supplement. The marketing is directed primarily to specialised physicians and the tablets

### True and false about probiotics

"One cure of probiotics is enough for the beneficial bacteria to become established in my digestive tract"  
 No. Even though *Lactobacillus reuteri* is found naturally in the human digestive tract, studies have shown that they are normally depleted within one to two weeks after discontinuing use.

# 14 billion

Based on figures from IMS Health and BioGaia's own estimates, the global market for probiotic dietary supplements is worth between SEK 13 billion and SEK 14 billion in consumer sales.



◀ Fatima Barakat from the product development department in Lund and Louise Gydmer from the quality assurance department in Stockholm.

▶ Elin af Klinteberg works with registration and quality assurance at the office in Stockholm.

▼ Salme Portinsson and Karin Diderot work with clinical trials at the research department in Lund.

With only 50 employees (plus an additional 14 in the 50 per cent-owned TwoPac) and sales in more than 60 countries, the employees have many international contacts.

▶ Christoffer Lundqvist, product developer, Lund

▼ Cristian Contreras R-T, Regional Manager for Latin America, based in Stockholm.

## People ...



## A few words from Jennifer Cherry,

President of Everidis Health Sciences, USA, which markets BioGaia's products on the US market

**Historically, attitudes toward probiotics both among physicians and the public have been very negative in the USA. Are you starting to see a break in this trend?**

"Everidis has made major strides in the US market. When we started out, the level of knowledge and acceptance among paediatricians was very low. Many doctors were completely opposed to the idea of using bacteria to promote health. Today the number of doctors that recommend probiotics has risen, partly due to the number of clinical studies that have been published in American medical journals and partly thanks to increased educational contributions from both the academic sphere and the industrial sector, including Everidis."

**What do you envision for the future?**

"The launch of the drops that can be stored at room temperature is a major investment for Everidis. We believe that the synergies created by increased marketing activities together with the greater convenience and availability of the new drops will generate significant sales growth in the USA."

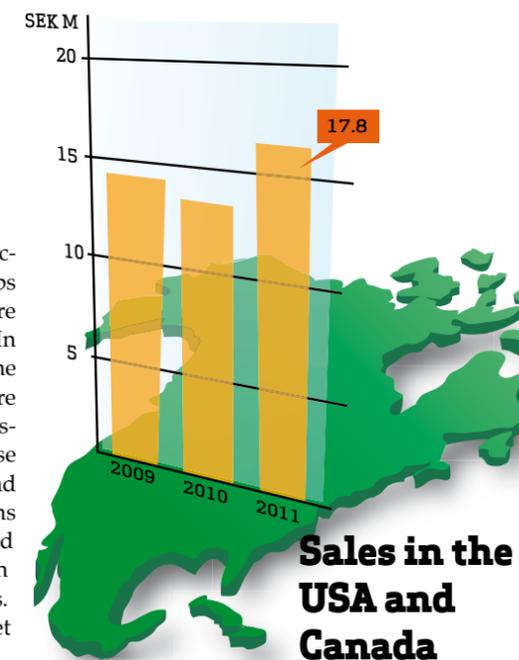
**INTERVIEW: Eva Nelson**  
Product Manager and Project Manager  
at BioGaia



## Ambitious ventures in the USA

**DURING THE YEAR EVERIDIS** was successful in selling BioGaia's new drops that can be stored at room temperature to USA's pharmacy chain, Walgreens. In August 2011, Walgreens was first in the world to launch the new drops that are now displayed on the pharmacy shelf, instead of as earlier and as is still the case in most countries, in a refrigerator behind the counter. Last autumn both Walgreens and Everidis carried out information and advertising campaigns directed to both healthcare professionals and consumers. So far, their expectations have been met and sales are rising steadily.

In addition to this venture, in the past year BioGaia signed an exclusive distribution agreement with Fleet Laboratories, one of the USA's largest providers of over-the-counter (OTC) drugs. Fleet will sell the digestive health tablets with strawberry flavour under its own Pedia-Lax



Sales in North America grew by 28 per cent during 2011.

brand (with the product name Probiotic Yums) and therefore does not compete with the product sold through Everidis.

## Australia aiming for the top

**BIOGAIA'S PARTNER BLACKMORES** is by far Australia's largest and best known brand in the nutraceutical and dietary supplements segment with a market share of 20 per cent, while the segment for probiotic dietary supplements is dominated by a competitor and Blackmores is number two, with around 8 per cent of the market. When they launched the digestive health tablet at the end of 2010, the long-term goal was to be number one also in this segment. The market-leader's product is sold only in pharmacies and sales of probiotic dietary supplements have therefore been virtually limited to this channel. In the past year, however, Blackmores succeeded in its strategy to boost sales via grocery stores (70 per cent growth), among other things by starting distribution through Australia's largest

## 195 GRANTED PATENTS

Issues related to patents and trademarks are of central importance for BioGaia. This is an area known as IPR (intellectual property rights), which includes patents, brands and trademarks, copyrights and other rights. An approved patent is normally valid for around 20 years. In BioGaia's business model, the company functions as a hub in the network of researchers and licensees that together contribute to developing knowledge about and use of the company's probiotic strains and technologies. The advantages of working with independent researchers is that this leads to a more creative research climate and enables BioGaia to form ties with the top experts in each area. The one possible drawback is the time-consuming and continuous work surrounding administration of patents and contracts with different researchers.

There are no global patents. BioGaia applies for and holds patents in the countries where it is commercially relevant to do so and where there are functioning

patent systems. Applying for patents is a cumbersome process that requires extensive documentation. BioGaia handles the fundamental aspects of the process and then uses representatives in each country where a patent is being sought for contacts with the country's patent authorities. Thanks to BioGaia's forefront position when it comes of new knowledge in the field of probiotics, it has been possible to patent specific new strains and indications/areas of use.

BioGaia also protects its packaging solutions, which are developed to make the products more user-friendly.

**IN 2011 A DECISION WAS MADE** to add product names to the various products. In pace with growing number of products being launched, there is a need to more effectively differentiate between them while at the same time strengthening the BioGaia brand. Previously, all of the products were called BioGaia in combination with the packaging solution, such as BioGaia probiotic chewable tablets. In the new system, all products based on the *Lactobacillus reuteri* Protectis strain have been given the product name ProTectis. As a result, the digestive health tablets are now called BioGaia ProTectis followed by "tablets" to clarify that this refers to tablets and not drops, which instead have the addition "drops". Products based on *Lactobacillus reuteri* Prodentis are called BioGaia ProDentis, followed by "tablets" or "drops".

Trademarks in  
**47** countries and  
the EU  
(both © and TM)

**46** Internet  
domains

**195** granted patents in  
27 patent families



grocery retail chain Woolworths. They have also turned the negative trend for pharmacy sales into growth of over 18 per cent. The main underlying factors have been successful marketing campaigns targeting the public, which has resulted in greater awareness and knowledge of probiotics, as well as web-based educational programmes for pharmacists.

In 2012 the drops will be launched in Australia under BioGaia's own brand, with marketing primarily to paediatricians.

## New markets in Latin America

**IN LATIN AMERICA**, BioGaia has gone from sales in two markets two years ago to five markets today – Mexico, Guatemala, Brazil, Peru and Chile. The expansion is continuing with launches planned for another four countries during 2012.

BioGaia's highest sales in Latin America are found in Chile, where the partner Recalcine has succeeded in advancing

## And let's not forget...

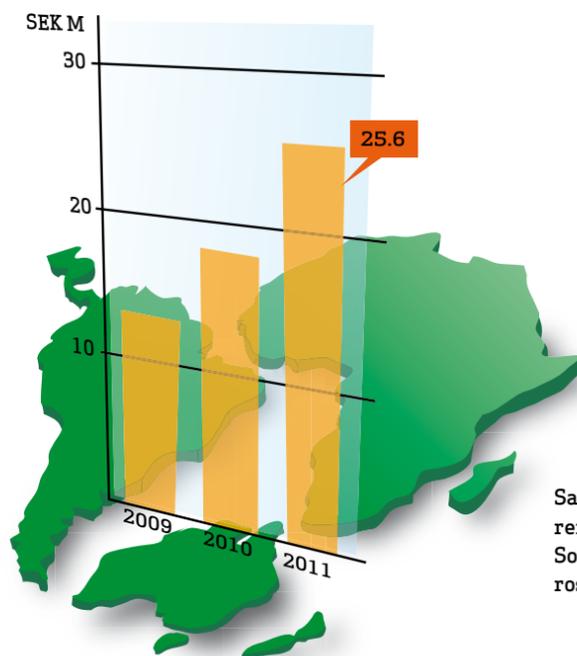
### ...THE COMPETITORS

**BIOGAIA'S COMPETITORS** include research-driven probiotic companies with products in the dietary supplements segment. One such company is Finnish Valio, which licenses its well documented *Lactobacillus rhamnosus* GG worldwide. As a result, the major food manufacturers that add probiotics primarily to yoghurt and other milk-based products do not compete directly with BioGaia.

Another way to look at the compe-

titition is by comparison to the most well documented probiotic bacterial strains in published literature. Of the ten foremost strains, BioGaia's *Lactobacillus reuteri* Protectis is one of the top three.

This complexity makes it difficult to determine who is the world-leader in probiotics. However, it is clear that however you define the market, BioGaia is one of the world's leading probiotic companies.



## Sales in South America, Africa and Australia

Sales in the "rest of the world" refer mainly to South Africa, South America and Australia and rose by 37 per cent in 2011.

from a market share of 10 per cent last year to a full 20 per cent this year despite a growing number of competitors. Above all, they have gained shares from the market-leader. In the child health segment, BioGaia's drops took the leading position in August 2011 with a market share of 36 per cent.

In total, BioGaia's products account for the second highest sales among the ten probiotic products available in the country. The partnership with Recalcine is effective and dynamic. Together with BioGaia, Recalcine among other things held a well-attended symposium at the Ibero-

American Society of Neonatology (SIBEN) conference in October 2011.

In just one year, Recalcine (whose subsidiary here is called Farminindustria) has secured a number three position in Peru measured in unit sales of probiotic products and a market share of 9 per cent. In spite of more than a dozen competitors, sales of both drops and tablets have continued to grow. In both Peru and Chile the marketing is directed exclusively to physicians and other healthcare professionals, among whom Recalcine has built up a high level of confidence in BioGaia's products.

## Mentioned in the press



Dagens Industri,  
12 January 2012

## The BioGaia brand is growing

**BIOGAIA HAS HAD** its own consumer brand since 2006 and its strategy is to successfully raise the share of sales under this brand, which today accounts for 43 per cent of finished product sales (or 50 per cent including co-branded products). This is an increase of 30 per cent compared to two years ago. The target for 2014 is to achieve 60 per cent of sales under the BioGaia brand.

The most significant sales growth for finished products comes from markets where the BioGaia brand is used. This is

BioGaia.

because growth is normally highest in the second and third year after launch, and most of the markets with the BioGaia brand are currently at this stage. In countries where BioGaia's partners sell the products under other brands, these brands have been on the market longer and therefore have a flatter growth curve. One exception to this rule is

Italy – BioGaia's largest market – where sales growth remained strong during the year despite eight years in the market and fierce competition from some 400 other probiotic products.

True and false about probiotics

"The bacteria in BioGaia's probiotic products are dead!"

**On the contrary. The *Lactobacillus reuteri* bacteria in the drops and tablets have been freeze-dried and put into a dormant state. When they come into contact with moisture and nutrients, both of which are abundant in saliva and the GI tract, they are reactivated and begin to consume the nutrients, multiply and exert their probiotic effects. The bacteria used in dairy products are alive and active already when added to the product. As a result, these products have a significantly shorter shelf life than probiotics in other forms, such as tablets.**



## Directly to consumers

**A FEW OF BIOGAIA'S PARTNERS**, such as Verman in Finland, Akacia in South Africa och Ewopharma in Bulgaria, have succeeded in communicating the probiotic message directly to consumers. A few additional partners now feel that their markets are mature for this type of communication and are planning consumer advertising campaigns in the coming year. Although the majority of partners are continuing according to BioGaia's

primary business model, based on marketing to physicians and other healthcare professionals, these experiences provide valuable lessons for future marketing of BioGaia's products. Regardless of the target group, however, BioGaia's products are always positioned as high quality and well documented probiotic dietary supplements. In light of the relatively widespread unfamiliarity with probiotics among both healthcare professionals and the public, the challenge is to increase knowledge about probiotics, such as the fact that different probiotic strains have varying attributes and therefore also different health-enhancing effects.

### FOCUS ON FINISHED PRODUCTS

Finished products currently account for close to 70 per cent of BioGaia's operations, and this is also where the company's focus lies. The main market is therefore defined as "probiotic dietary supplements that are sold in pharmacies and similar retail outlets". The finished products are sold in more than 50 countries and BioGaia is represented in a total of over 60 countries.

For several years Semper and BioGaia have been collaborating successfully. This year the product portfolio was expanded from probiotic digestive health drops and infant formula products to include digestive health tablets and drops with Vitamin D. Here, Semper's CEO Witte van Cappellen talks about positive trends and future ventures.

# BioGaia+ Semper = a Swedish success story

**Semper Magdroppar digestive health drops have been on the Swedish market since 2007 and today an average of one bottle is sold for every newborn in Sweden. What are the success factors?**

"These include our focus on the target group and the fact that it's a good product that fills a need in the market. The main target group has always been nurses in the Swedish child health centres. When the drops were launched, these nurses gained access to an effective and well-documented product that could solve their child

patients' problems with colic. Nothing of its kind had been available before. In combination with Semper's strong brand, this meant that the drops were well received. We also have close contacts with paediatricians and since the past year or so we provide information to pharmacy staff. In addition, we have broadened our message about the drops to explain that they are also effective in treating conditions like diarrhoea. Against this background, I think the drops have potential to grow further in the future."

**How have you tried to avoid competition with the regular drops since the drops with Vitamin D were launched in September 2011?**

"The regular digestive health drops are still seen mainly as a short-term problem solver, whereas the Vitamin D drops are positioned as a practical daily solution for those who need the regular drops in addition to the recommended dose of Vitamin D that is given to all infants in Sweden.

However, we should be even clearer in communicating the differences between the products."

**How did sales of the two drop products develop in the past autumn?**

"It's still too early to say. We are at the sell-ing stage with the pharmacy chains and so far the drops with Vitamin D are only available in a couple of chains. But the interest is considerable."

**Semper is a very strong brand in the baby food segment. Now you are further widening your range of dietary supplements through the launch of Semper Magtabletter, a digestive health tablet. What is the strategy behind this decision?**

"All of our probiotic products are part of the Nutrition business area. Expanding this with BioGaia's digestive health tablets is a natural step in an already suc-

cessful segment. The drops can be given from birth and when a child reaches the age of three these can be replaced with tablets that have the same content. The tablets also strengthen and broaden Semper's profile in the healthcare sector."

**How has Semper Magtabletter been received by the market and what are your expectations for the product?**

"The product has just been launched and is so far only available in a couple of pharmacy chains. The reception by the pharmacies has been generally positive, but we are also noticing that the health advantages of the tablets are somewhat more complicated to explain than for the probiotic drops and oral rehydration solution. In our marketing to the healthcare sector, the tablets allow Semper to turn to doctors at paediatric clinics since these treat children from the age of three, which is the lower age limit for the tablets. Nurses at the child health centres, who were previously our main target group, mostly see newborns and children up to the age of three."

**And finally, why has Semper chosen to collaborate with BioGaia<sup>1</sup>? How has the relationship between the companies evolved and how do you envision your continued partnership?**

"In 2006 BioGaia was seeking a strong partner for its probiotic drops in the Swedish market and saw Semper as an excellent candidate. Through BioGaia's digestive health drops, Semper in turn had the chance to establish itself with a new and innovative product in a channel that was new to us, namely pharmacies. Furthermore, the healthcare sector's confidence in us was reinforced by the clinical documentation that BioGaia contributed with. Over the years, our partnership has both grown deeper and expanded with additional products. And because Semper sees the pharmacy channel as beneficial and confidence-building for the entire portfolio, I feel very optimistic about the future. Together with BioGaia our goal is to develop more products in the probiotic segment and become established in more markets."

**INTERVIEW:** Eva Nelson,  
Product Manager and Project Manager at  
BioGaia

<sup>1</sup> Semper and BioGaia started a collaboration for the nutritional drink Addera, with a straw containing *Lactobacillus reuteri* Protectis, already in 2002. The product was sold on the Swedish market between 2002 and 2005.



"All of our probiotic products are part of the Nutrition business area. Expanding this with BioGaia's digestive health tablets is a natural step in an already successful segment," says Semper's CEO Witte van Cappellen.

Photo: Anette Andersson



Photo: Anette Andersson

All in all, the future looks bright for BioGaia's oral health products and there are millions of reasons for patients, dentists and BioGaia's shareholders to smile even more," says Robert Lindström, Manager Business Development, Oral Health.

# MILLIONS of reasons to smile

## when BioGaia refocuses on oral health

With new opportunities for distribution, more scientific documentation and additional products, BioGaia sees exciting growth potential in the oral health business area.

**B**ioGaia's focus in probiotics for oral health started in 2006 through the signing of an exclusive, global distribution agreement with Sunstar, a world-leading oral health company with brands like GUM and Butler. In the years thereafter BioGaia's oral health products were launched under the GUM PerioBalance brand in Sweden, Germany, France, Italy and Spain. The launches did not live up to expectations and it became clear that much more than a good product was needed to reach dentists and consumers. However, recent years have seen a

paradigm shift in attitudes towards periodontal disease. From having previously focused primarily on the symptoms, more and more dentists are now recognizing the essential role of preventative treatment. A similar shift took place in the treatment of caries when fluoride was introduced.

The market is currently dominated by antimicrobial products, such as mouthwash and antibiotics, but with a growing awareness of the importance of maintaining balance in the oral microflora and the problems associated with widespread use of antibiotics, the future looks promising for BioGaia's natural oral health products.

**A RESTRUCTURING OF** distribution rights for the oral health products in 2011 created the conditions for BioGaia to sell products under its own brand in a large number of countries. Efforts are now underway to find partners that already have oral health products in their port-

folio and want to expand their range to include BioGaia's products, or partners seeking to establish themselves in this area. Sunstar has continued to distribute the oral health products in Sweden, Denmark, Italy, Spain, Portugal and the USA, and in the coming year will also launch them in Canada. In the USA, Sunstar launched GUM PerioBalance during 2011 in two of the country's three largest pharmacy chains.

**THE BUSINESS MODEL FOR** sales of the oral health products is based on professional recommendations and is thus identical to that used for the company's other products. Scientific studies, carried out in close cooperation with schools of dentistry where researchers and opinion-leaders are active, are an important success factor. On the other hand, there is virtually no marketing to consumers. For example, Sunstar Spain took action at an early stage to establish BioGaia's oral health lozenges among dentists by holding symposia and performing scientific studies, which has resulted in strong support from the dental profession and favourable sales figures.

**IN 2011 EWOPHARMA** launched the oral health lozenges with BioGaia's ProDentis brand in Bulgaria and Slovakia. In Slovakia the marketing is targeted primarily toward dentists and the reception has been enthusiastic. BioGaia ProDentis is first on the market, which means that it will take both time and resources to establish the product.

Ewopharma in Bulgaria launched BioGaia ProDentis last spring and chose a

### WHY USE PROBIOTICS FOR ORAL HEALTH?

Inflammation of the gums (gingivitis) is very common and is found in more than half of the adult population. Gingivitis is caused by dental plaque and the first signs of the illness are irritated, swollen and bleeding gums. In one third of all adults the inflammation has advanced to periodontitis, which is often chronic and can in many cases lead to loss of teeth.

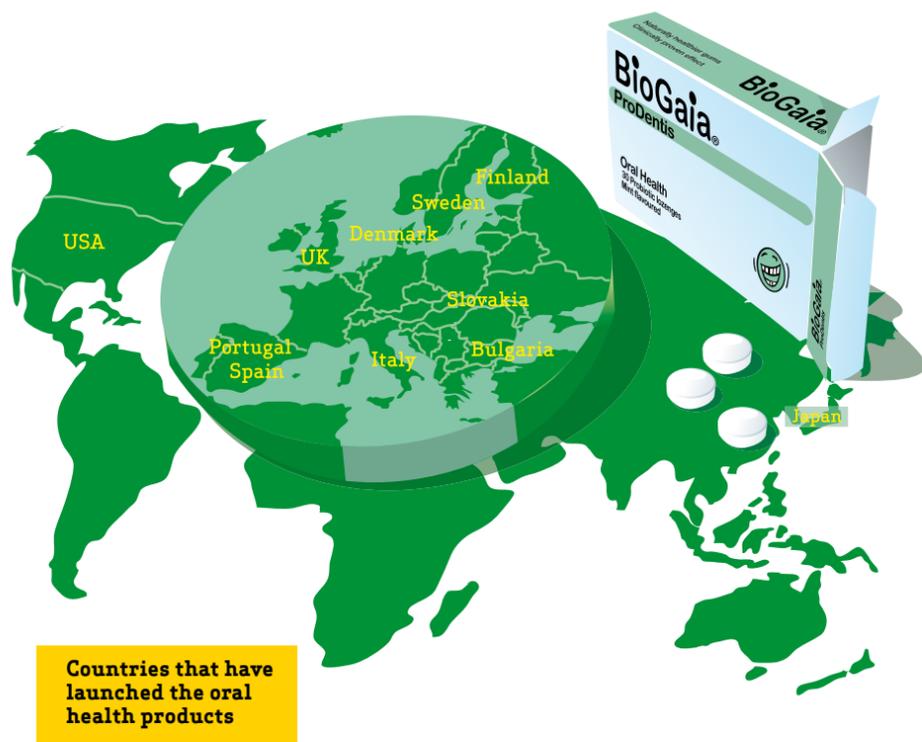
In a number of randomised, double-blind and placebo-controlled clinical studies, *Lactobacillus reuteri* ProDentis has been shown to reduce bleeding and inflammation of the gums, reduce plaque and pathogenic bacteria in the oral cavity and restore a healthy bacterial flora in the mouth. There is also clinical evidence for a reduction in probing pocket depth and clinical attachment level, two of the key parameters in assessing the severity of periodontitis. No side-effects or negative effects have been discovered.



» wider marketing strategy that is directed to dentists, general practitioners, paediatricians, pharmacists and consumers. The reception among dentists, who make up the primary target group, has been very positive. Among consumers, knowledge about oral health remains limited and not even dentists have an established strategy for preventative oral health. Since the price of BioGaia ProDentis is relatively high, this has resulted in a fairly sluggish launch. However, Ewopharma Bulgaria has good hope for increased sales in pace with the product's establishment on the market. So far there are no probiotic competitors, but there are two products marketed for the same oral health problems as ProDentis.

**IN MOST COUNTRIES** BioGaia ProDentis oral health lozenges are sold mainly in pharmacies and similar outlets, and the product is intended for daily oral health. BioGaia ProDentis drops are a new professional product that is used by dentists in a clinical setting, where the drops are given as a complement to traditional, mechanical tooth cleaning.

At the beginning of the year, BioGaia Japan was first in the world to launch the oral health drops through its distribution



Countries that have launched the oral health products

partner Nippon Access. The drops are being marketed to dentists throughout Japan and are showing good sales growth.

**IN 2012 EWOPHARMA IS EXPECTED** to launch ProDentis in several Eastern European countries. In addition to expansion with its existing partners, BioGaia hopes to sign agreements for a number of new markets and work on establishing the BioGaia ProDentis brand among dentists by participating in international dental congresses – a strategy that has been highly successful for the digestive health products. The premiere will take place at Europerio 7, an international periodontology conference that will be held in Vienna in June 2012.

Illustration: Lasse Widlund



**BIOGAIA PRODENTIS** lozenges consist of two probiotic strains, *Lactobacillus reuteri* DSM 17938 and *Lactobacillus reuteri* ATCC PTA 5289. One lozenge contains 200 million Colony Forming Units (CFU) of live bacteria. The recommended daily dose is one to two lozenges. The lozenges are mint-flavoured. BioGaia ProDentis was launched in 2005 as the world's first probiotic for oral health.

**BIOGAIA PRODENTIS** drops have exactly the same contents as the lozenges. The daily dose is five to ten mint-flavoured drops.

# Products

**TABLETS.** BioGaia ProTectis tablets for digestive health (children and adults) and BioGaia ProDentis lozenges for oral health.

**DROPS.** BioGaia ProTectis drops and BioGaia ProTectis drops with Vitamin D, both of which have been developed specifically for infants and small children, and BioGaia ProDentis oral health drops.

**ORAL REHYDRATION SOLUTION (ORS).** BioGaia ProTectis oral rehydration solution with zinc.

**COMPONENT PRODUCTS.** Bacteria culture of *Lactobacillus reuteri* Protectis is used as ingredient in infant formula and infant cereal products, yoghurt and other dairy products.

**CAP.** LifeTop Cap is a bottle cap in which sensitive ingredients such as *Lactobacillus reuteri* Protectis can be stored in a foil blister until the beverage is consumed.

**STRAW.** LifeTop Straw is a probiotic-containing drinking straw that is attached to the side of a beverage package. The ingredient, such as *Lactobacillus reuteri* Protectis, is released during consumption of the beverage.

## True and false about probiotics

"Adults need a higher dose of *Lactobacillus reuteri* products than children to have any effect!"  
**No, *Lactobacillus reuteri* is a living organism that makes use of the available space. A larger digestive tract offers more nutrients and more room for the bacteria to colonise and grow.**

Illustration: Lasse Widlund

## BIOGAIA A WORLD-LEADER WITH UNIQUE PRODUCTS

**2000** Launch of the world's first chewable probiotic tablet

**2001** Introduction of the first probiotic infant formula

**2002** Launch of the world's first probiotic straw

**2004** The world's first probiotic drops for infants are launched

**2005** Launch of the first probiotic oral health products for adults

**2008** More than 50 studies carried out on over 4,000 individuals. Global agreement with Nestlé Nutrition for infant formula. BioGaia's products sold in more than 40 countries

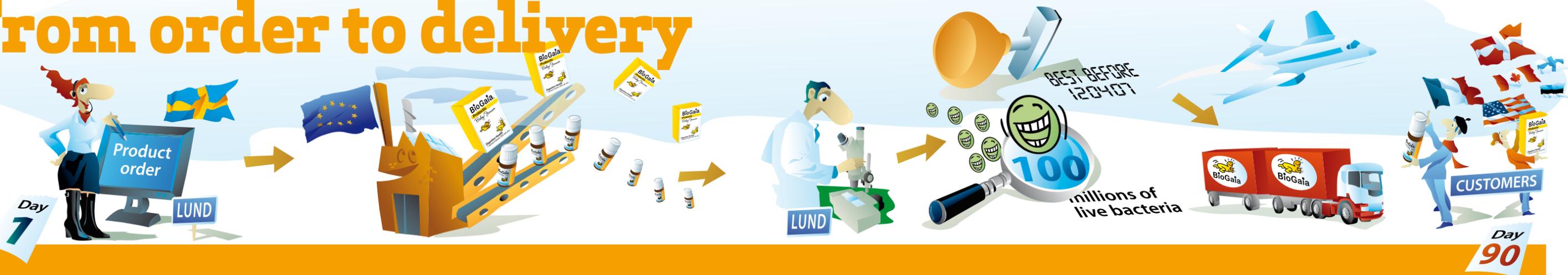
**2009** Launch of the first probiotic oral rehydration solution (ORS) with zinc

**2010** Three billion doses sold globally. 80 studies carried out on over 5,000 individuals. BioGaia's products sold in more than 60 countries

**2011** Launch of oral health drops, drops with Vitamin D and digestive health tablet with strawberry flavour. Drops that can be stored at room temperature are also launched. 92 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* performed on more than 7,700 individuals of all ages. Results published in 55 articles in scientific journals.

# From order to delivery

Illustration: Lasse Widlund



► Incoming product orders are received by BioGaia in Lund ► and are then forwarded to the subcontractors in Sweden and other European countries that manufacture the actual products and to the suppliers that make the packages based on customer specifications, among other things with product texts in their respective languages. ► When the products are ready, a sample is sent to Lund for analysis. Before the goods are sent to the customer, the sample is examined to test its quality and ensure that a dose contains

the right number of live bacteria, as a guarantee that there are at least 100 million live bacteria left on the final date of use.

- Reference samples are also saved in temperature-regulated cabinets under recommended conditions for a period equal to the shelf life of the product.
- The period from order to delivery takes a maximum of 90 days.



Eva Åkerblom, Biomedical Analyst, Lund

Photo: Eva Lie



Magdalena Delikat Kulinski at the laboratory in Lund is labelling agar prepared petri plates in which *Lactobacillus reuteri* can grow.

Photo: Eva Lie

## Risk Exposure

### BioGaia's partners



BioGaia does not sell directly to end-users but instead sells its products to companies (partners) which then sell the products to consumers. This means that BioGaia is dependent on these partners to invest the resources necessary for marketing and sales. In order to influence this to a greater extent on its own, BioGaia launched its own brand in 2006. Today a number of BioGaia's partners sell products wholly or partly under the BioGaia brand and BioGaia-branded products are currently sold in 38 countries. BioGaia also provides its partners with strong support in the form of education, information about new clinical studies and speakers at symposia, as well as marketing and PR support.

### Research and development



BioGaia invests considerable sums in research, clinical studies and product development with the aim of developing products with proven health benefits. Even after thorough pilot studies, there is always a risk that a project will be wholly or partly unsuccessful or that the finished products will not be attractive to potential customers. There is also a certain risk that the studies that lie outside BioGaia's control are not performed in accordance with BioGaia's strict requirements. On the other hand, these studies are regarded as more objective and also contribute to reducing the company's research expenses.

### Intellectual property

BioGaia's business activities are based on a large number of intellectual property rights, such as patents, trademarks, names of strains and Internet domains. The company works continuously to strengthen its intellectual property rights by protecting the use of the company's products. There is always a risk for infringement of intellectual property. In 2010 BioGaia filed a lawsuit in the USA against one of the company's former licensees, Nature's Way. Although the agreement with Nature's Way expired in August 2007, the company continued to use *Lactobacillus reuteri* in its marketing and products despite repeated requests to cease. In the autumn of 2011 a settlement was reached with Nature's Way, which was required to pay damages to BioGaia.

These rights are enforced on an ongoing basis, but there are no guarantees that future infringements will not cause the company damage. BioGaia works continuously with market intelligence.



### Employees



BioGaia's operations are wholly dependent on the employees' expertise, and they therefore make up the company's most valuable resource. In order to attract and retain skilled and motivated employees, BioGaia strives to create a culture in which all employees are given the opportunity to develop, influence their own work situation and maintain a good balance between work and leisure in order to avoid stress. In addition, there is an incentive scheme that is open to all employees in the parent company and the wholly owned subsidiaries.

## Risk Exposure

### Regulatory situation

BioGaia's products are currently sold in some 60 countries around the world. Due to their differing regulatory systems, the length of time between contract and product launch varies between countries. In most countries the products are registered as dietary supplements but in certain markets, like Turkey, Canada, Hong Kong and Peru, they are registered as a category of pharmaceuticals.

There is always a risk that the rules will be changed in the different markets with a resulting negative impact on sales, at least for a limited period of time.

In the EU, the use of nutrition and health claims is regulated by the European Food Safety Authority (EFSA). The EFSA rules apply to food products that are marketed to consumers with various claims about preventative health effects, for example that a lower intake of cholesterol reduces the risk for cardiovascular disease or a food product's ability to improve the immune defence. In the case of BioGaia's products, these are often recommended to patients by doctors or other healthcare professionals because the patient in question is in more or less urgent need of the product's probiotic effect. As a result, the EFSA rules are not applicable to the majority of BioGaia's products. Furthermore, because the products are recommended by healthcare professionals, in most countries there is no need to make general health claims in the marketing materials as would be the case if the company was marketing a yoghurt or beverage directly to consumers.

If it becomes necessary to use another type of marketing for future products, BioGaia will apply for approval of its health claims from the EFSA. Together with partners BioGaia is assessing the opportunities to register its products under the existing regulations as Food for Special Medical Purposes (in Sweden called "SärNär"), natural remedies or other registration categories depending on the type of product and the country involved.

### Product liability insurance



BioGaia's partners require the company to have product liability insurance as protection against liability claims for third party damage. BioGaia has product liability insurance that provides coverage up to SEK 60 million per claim up to a maximum of SEK 120 million per year. The insurance is valid worldwide.

For financial risks, see Administration Report.

## Do you do anything fun in your free time?

All employees are given the opportunity to influence their work situation in order to maintain a good balance between work and leisure, and thereby avoid stress. So we asked a few employees:

1. Do you find time for leisure activities?
2. What are your hobbies and interests?



**Chatarina Andersson, Marketing Assistant, Stockholm**

1. Yes!
2. Spending time and discovering new things with my family, such as music festivals and previously unknown oases around Stockholm. Having fun with friends and keeping up the "sewing circle" that was started in 1979. I try to exercise regularly and go for long walks.

### BIOGAIA BELIEVES THAT

- an equal opportunity company is a better company
- an equal opportunity company is a more fun company to work for
- an equal opportunity company is a more profitable company

Do you do anything fun in your free time?

1. Do you find time for leisure activities?
2. What are your hobbies and interests?



**Linda Hedlund, Controller, Stockholm**

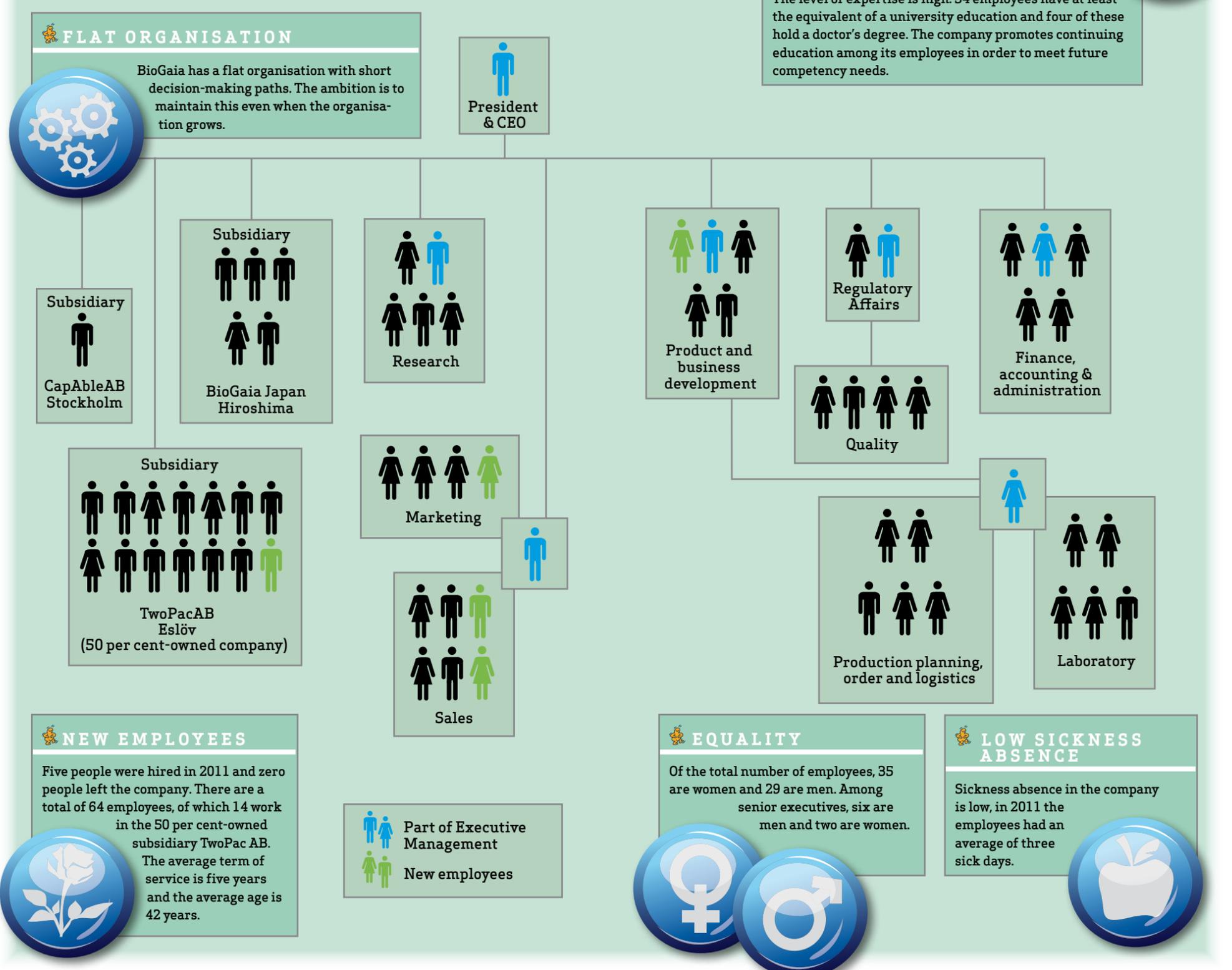
1. Absolutely. It's important to use your free time to create a balance in life!
2. I enjoy cross-country skiing in the winter and picking berries and mushrooms together with my family in the summer. I have preschool children and spend a lot of time with them. I also like to play golf.



**Christoffer Lundqvist, Product Developer, Lund**

1. Yes, I make sure that I have some free time.
2. When I'm not working I prefer to spend time with my family and my three daughters. Unfortunately, I don't get as much exercise as I would like, but I do go running regularly every week. And I always have a book that I'm reading.

# How we work



**Anders Dahlqvist, IT Manager, Lund**

1. I find time for some leisure activities.
2. I read a lot of books, play some computer and TV games and like to spend time outdoors fishing or picking mushrooms when I get the chance. I always have a bunch of small projects lying around that I fiddle with now and then, like building and programming small robots, learning to play the guitar or learning a new programming language.



**Eva Åkerblom, Biomedical Analyst, Lund**

1. Yes, I do. Sometimes I have a few too many projects at once!
2. I have a special interest that I devote some of my free time to: Traditional Chinese Medicine (TCM) and different treatment methods, like acupuncture and herbal medicine. The thing I like about TCM is its basic philosophy, to see both the whole and the uniqueness in each individual, and to offer individualised treatment based on this. It feels good to combine my work at BioGaia with this, since both are focused on improving human health in a natural way.

# What is the nature of your commitment, President Peter Rothschild?

**In your annual reports it usually says that BioGaia contributes to positive development through its commitment to sustainability and biology. What is the nature of this commitment?**

"For me, one strong driver is to contribute to reducing the use of antibiotics. Already 20 years ago we could see that the rate of antibiotic usage was alarmingly high. Today we are facing widespread global problems with antibiotic resistance."

**In what ways do BioGaia's probiotic products offer an alternative to antibiotics?**

"For us, it is especially important to help prevent children from becoming sick and needing to use so much antibiotics. An earlier study showed that children who received *Lactobacillus reuteri* Protectis as a supplement in infant formula had significantly fewer absences from daycare, fewer doctor's visits and reduced use of antibiotics. Another study on preterm newborns showed lower use of antibiotics when our probiotic was given. In other words, we provide a gentle but effective alternative that has no negative effects on humans or the environment."

**Are there any other positive aspects?**

"Without a doubt, our products beneficial effects on infants with colic and preterm newborns. It's an added bonus for all of us who work here to receive so many letters from grateful parents who can finally sleep at night and feel secure for their children's sake."

**You also sell your probiotic cultures as ingredients in other manufacturer's products. How can you be sure that your product is not used together with other, unhealthy ingredients?**

"That question does come up occasionally. For example, it can be related to a certain type of fat that we don't approve of. Ultimately, the decision is mine and I always object if things have gone so far that we have any doubts. Our probiotics may never be associated with unhealthy products or negative effects."

Photo: Anette Andersson



**You have done a life cycle analysis of your packages as part of your environmental commitment. Yet you have global sales and employees who travel around the world to meet customers and take part in medical conventions. How do you compensate for your product and employee transports?**

"For example, I think you need to do something more than just routinely checking the carbon compensation box for air travel. We are currently discussing whether we should purchase and plant forest somewhere where it is needed in order to do something more tangible."

**Since 2007 BioGaia donates money to the Scandinavian Children's Mission in the Philippines, in 2011 a total of SEK 250,000. Why have you chosen this charity in particular?**

"An employee told me about the work of the Children's Mission before one of my business trips to the Philippines. I visited them and was deeply impressed by their activities. Here I can see that our donations are really making a difference for the children, teens and young adults that the Mission takes care of and educates. I regularly visit the mission in the Philippines to monitor how our money is being used. For me, it is above all important that BioGaia supports an initiative that benefits children. Most of our income comes from our children's products, and we should give some of that back."

**In different contexts you describe your ambition to be an equal opportunity company. How do you plan to correct the imbalance in the executive**

"I think you need to do something more than just routinely checking the carbon compensation box for air travel."

**management, which consists of six men and only two women?**

"The members of the executive management team have been with the company for a long time and reflect a historical core group of individuals. At the moment we are working actively with regrowth. For example, now that we are appointing a new Marketing Director, the goal is that this position goes to a woman. We are taking deliberate steps to even out past gender imbalances."

**And lastly, do you see any ethical dilemma in being the largest shareholder and the President in your contacts with the Board?**

"First of all, I would like to point out that an earlier study showed that owner-managed businesses have traditionally shown higher profitability. And then I think it is critical to respect the work and decisions of the board. If you want a board that is good for the company, it has to be able to maintain a high level of integrity."

**INTERVIEW: Cattis Grant**  
writer and Project Manager at Grant Information

True and false about probiotics

"The more different probiotic bacteria a product contains, the better!"  
No, not necessarily. Although different bacteria have varying effects and live in different parts of the GI tract, the end result can be that they actually compete with each other. Only clinical studies on the exact composition of different bacteria contained in the product can show whether they work effectively together.

## BIOGAIA'S ENVIRONMENTAL ANALYSIS

In 2009 BioGaia asked the Swedish Environmental Research Institute (IVL) to calculate and compare the environmental effects of the company's different packages. The environmental aspects covered in the study were climate change, acidification, eutrophication and formation of ground-level ozone. Primary energy consumption was also calculated.

### Tablets

In a comparison between the two packaging types, plastic containers and aluminium blister packs, and between different package sizes (10 or 30 tablets) the results were as follows:

- The plastic containers consume more primary energy and have a greater climate impact than the blister pack with 30 tablets.
- In all environmental respects, it is better to use the blister pack with 30 tablets than that with 10 tablets.
- The blister pack with 30 tablets is significantly better than the corresponding number of tablets in a plastic container.

### Drops

The drops have an equal effect on the environment per dose as the tablets in terms of eutrophication and ground-level ozone. In other environmental categories the drops are better than the tablets, for example with a climate impact that is 20 per cent lower per dose. If the outer package and information leaflet are removed, the climate impact is naturally further reduced. The largest differences are seen in the categories of eutrophication and primary energy consumption, where the lack of an outer package and information leaflet decreases the environmental impact by 30–40 per cent.



# Greetings from the Philippines



▶ Little Andrea was seriously ill and her mother Elena worried when they came seeking help in February 2011.  
◀ Now Andrea is smiling again. In December 2011 she, her mother Elena and her little brother attended the Christmas party.  
▲ Already by October, Andrea had recovered. Here she is pictured with Nurse Carol from the Children's Mission.

Every year, BioGaia makes a donation to the Scandinavian Children's Mission in the Philippines, which takes care of malnourished children, runs a preschool and provides skills training for teens and young adults. Here is a greeting from the Philippines where Birgitta Dahl, Director of the Mission together with Thore Dahl, tells the story of four-year-old Andrea.



### Andrea in February 2011

“Andrea is four years old. When I see her lying there weak and emaciated in her mother’s lap, I find it hard to believe that she could be so old except for the fact of her height. In other respects, she is a mere shadow of a four-year-old. Her eyes are empty, her arms and legs hang lifelessly, she has a fever and she cries at regular intervals. How can a child end up in a situation like this? I ask her mother Elena and receive a long answer in the Philippine language Tagalog that one of the Mission’s employees translates for me.

In November of 2010 Andrea fell ill with diarrhoea and fever, a persistent cough and weakness. A visit to the government clinic didn’t bring any relief despite a prescription for antibiotics. Time passed and little Andrea grew sicker and sicker. But there was no money to seek further care, not even enough to travel to the enormous state-run hospital in Manila where the poor can receive help free of charge.

Her mother Elena is 25 years old and lives with her partner in a shanty near a

river in Rodriguez, just outside Manila. They have four children of the ages of six, four and two years old and a baby of seven months. The smallest is chubby and appears to be thriving. I ask Elena if she is breastfeeding and she answers yes, which explains the baby’s good health. Elena and her husband work as rubbish sorters, or “scavengers”. When I ask how much they can earn in a day she mentions different amounts, equal to between 14 and 25 Swedish kronor. The shanty they live in is quite far from the Children’s Mission’s clinic in Erap City, but our energetic Nurse Riza has been to Elena’s area on house calls and is well known there. When little Andrea didn’t recover and just kept getting worse by the day, her mother Elena brought her to our Mother and Child Healthcare Clinic. It is a long way to walk, but they didn’t give up. Immediately on arrival, Andrea was admitted to our malnutrition clinic.

When I check the isolation room, where all new patients are placed, I find out that Andrea most likely has child tuberculosis.

Her mother is also complaining of a cough and we suspect that she herself has fully developed tuberculosis, which is an obvious threat to the entire family.

### Andrea in December 2011

Andrea has now been home with her family for some time after rehabilitation and treatment at the malnutrition clinic, and is glowing with health. Her mother Elena is still being treated for tuberculosis but looks healthier than she has in a long time.

Andrea’s story is just one of many examples of how we can help people through our work. Those of us at the Children’s Mission are tremendously happy and grateful to be part of this effort to bring a ray of light and hope into the darkness.

I would therefore like to thank BioGaia warmly for supporting our activities.

TEXT & PHOTOS: Birgitta Dahl  
Scandinavian Children’s Mission  
in the Philippines



## CHILDREN’S MISSION’S SKILLS TRAINING CENTER

The Children’s Mission’s Skills Training Center (STC) near the large Quezon City dump site in Manila has trained 741 students since the start in 2007. Of these, more than a third have found employment. The courses that lead to the most jobs are cosmetology and welding, but cell phone repair has also been successful. The Philippines have one of the world’s highest numbers of cell phones per capita. With the population of the Philippines spread across 7,100 islands, cell phones have become the primary means of communication. After successfully completing their training, students at the Skills Training Center, which offers short-term courses lasting between three and five months, receive a certificate from the government’s Technical Education and Skills Development Agency, TESDA, since the STC has been approved by them. This gives them better opportunities to win the jobs they need to support their families.



The vocational school near the Smokey Valley dump site outside Manila offers courses in areas like dressmaking, small appliance troubleshooting and repair and cell phone repair and welding.

## 3 FOCUS AREAS

The Children’s Mission has three focus areas in and around Manila

- **EDUCATION**  
preschools, school sponsorship programme and vocational training
- **CHILD WELFARE**  
malnutrition clinic, mother and child health-care clinic, dental care
- **CHRISTIAN CHILDREN’S ACTIVITIES**



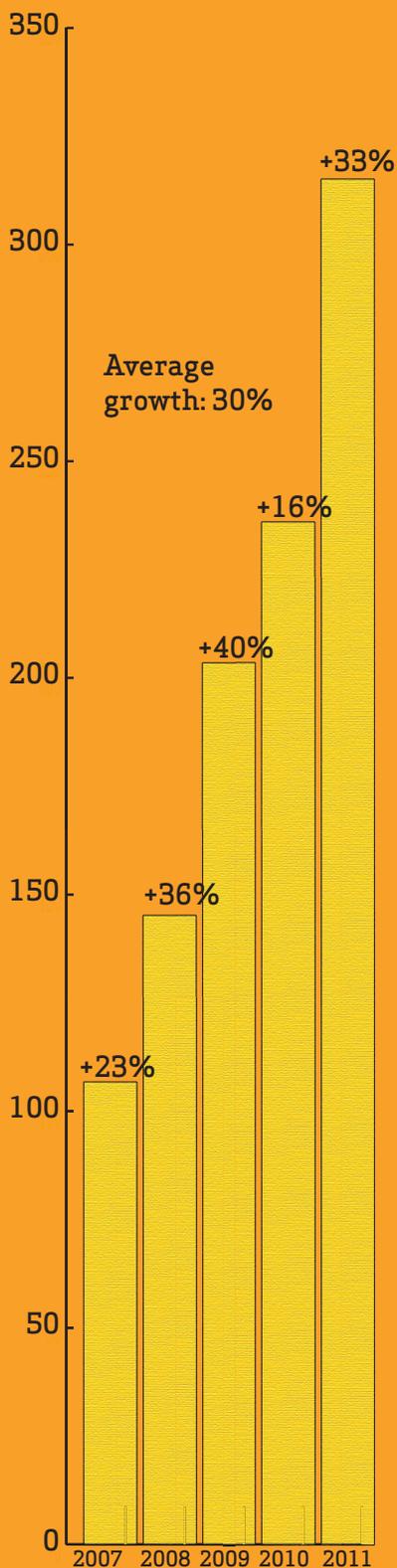
# Financial information and notes

What a journey we are on – and we have probably just begun!

Margareta Hagman,  
Executive Vice President  
Accounting, Finance and  
Investor Relations



 SALES DEVELOPMENT  
2007-2011 (SEK M)



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# Administration report

Figures in brackets refer to the previous year

The Board of Directors and Managing Director of BioGaia AB (publ), corporate identification number 556380-8723, hereby submit their annual report and consolidated accounts for the financial year 2011.

The financial statements were approved for publication by the Board of the Parent Company on 21 February 2012.

## BioGaia

### The company

BioGaia is a healthcare company that develops, markets and sells probiotic products with documented health benefits. The products are primarily based on different strains of the lactic acid bacterium *Lactobacillus reuteri* in combination with unique packaging solutions that make it possible to create probiotic products with a long shelf life.

The class B share of the Parent Company BioGaia AB is quoted on the Mid Cap list of NASDAQ OMX Nordic Exchange Stockholm. The share was moved from the Small Cap list to the Mid Cap list on 1 January 2012.

BioGaia has 64 employees, of whom 20 are based in Stockholm, 21 in Lund, 14 in Eslöv, 2 in Raleigh, USA, 5 in Hiroshima, Japan, and 2 in Shanghai, China.

### Business model

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

The products are sold through nutrition, food, natural health and pharmaceutical companies in some 60 countries worldwide.

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

### The BioGaia brand

At the beginning of 2006 BioGaia launched its own consumer brand and today there are a number of distribution partners that sell finished products under the BioGaia brand in a large number of markets. One central part of BioGaia's strategy is to increase the share of sales under the BioGaia brand.

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

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

### Research and clinical studies

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

Studies have been performed on:

- Infantile colic and digestive health in children
- Antibiotic-associated diarrhoea (AAD)
- Acute diarrhoea
- Gingivitis (inflammation of the gums)
- Periodontal disease
- General health
- *Helicobacter pylori* (the gastric ulcer bacterium).

## Key events in 2011

### Agreement with Cube Pharmaceuticals

At the beginning of 2011 BioGaia signed an agreement with Cube Pharmaceuticals for exclusive rights to distribute BioGaia's new Oral Rehydration Solution (ORS) in Greece. The launch has been postponed and is now planned for the first quarter of 2012.

### Agreement for Morocco

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

### Agreement for the sale of tablets in the USA

In August BioGaia signed an agreement with Fleet Laboratories for the exclusive right to sell BioGaia's digestive health tablets with strawberry flavour in the USA and its territories (excluding Puerto Rico). Fleet will sell the digestive health tablets under its Pedia-Lax brand. The launch is planned for the first quarter of 2012. Certain sales to Fleet took place already during 2011.

## Sales agreements

### Launches in 2011

Distributor/licensee	Product	Country
Blackmores	Re-launch of digestive health tablets	Australia and New Zealand
BG Distribution	Drops	Hungary
Delta Medical	Oral Rehydration Solution (ORS)	Ukraine
Ewopharma	Oral health tablets	Slovakia and Bulgaria
Ewopharma	Drops	Latvia and Lithuania
Ferring	Digestive health tablets and drops	Guatemala
Ferring	Digestive health tablets (new flavour)	Greece
Laboratorios Casen-Fleet	Digestive health tablets (new flavour)	Spain
Nestlé	Infant formula with <i>Lactobacillus reuteri</i> Protectis	Algeria, Bahrain, Iran, Indonesia, Jordan, Kuwait, Lebanon, Malaysia, Pakistan, Philippines, Qatar, Saudi Arabia, United Arab Emirates and Vietnam
Noos and Italcimici	Drops with Vitamin D	Italy
Semper	Digestive health tablets with strawberry flavour and drops with Vitamin D	Sweden
Sued	Drops and digestive health tablets	Dominican Republic
Verman	Oral Rehydration Solution (ORS) and drops with Vitamin D	Finland

### Agreement with United Laboratories

In September BioGaia signed a distribution agreement with United Laboratories Incorporated, the largest pharmaceutical company in the Philippines, for its digestive health tablets. The tablets will be sold under the BioGaia brand and the launch is scheduled for the first half of 2012.

### New agreement with Victus

In October BioGaia signed a new agreement with Victus for the sale of BioGaia's digestive health tablets and drops in Venezuela and Puerto Rico. The launches are expected to take place in 2012. Since 2001 Victus has purchased *Lactobacillus reuteri* Protectis for use in its product Glutapak-R.

## Clinical studies

### Results from studies on *Helicobacter pylori* infection

Two independent, randomised, double-blind, placebo-controlled clinical studies have been performed to determine the effects of BioGaia Gastrus on the control of *Helicobacter pylori* infections in patients with mild symptoms. The first trial was performed in Italy and the second in Mexico. Both trials included 100 patients, of which 50 were given *Lactobacillus reuteri* Gastrus before, during and after standard therapy and 50 were given a placebo.

The Italian study demonstrated a significant reduction in *Helicobacter pylori* load and symptoms during treatment with *Lactobacillus reuteri* Gastrus before standard therapy. Also during the period when the patients received standard therapy, the symptoms improved significantly in the group that was given Gastrus compared to the placebo group. In the Mexican study, no significant effects of probiotic supplementation were observed.

Based on earlier documentation and the new, encouraging data from Italy, BioGaia has decided to launch BioGaia Gastrus. Some of BioGaia's distribution partners will launch BioGaia Gastrus already during 2012.

BioGaia announced these results in the beginning of November since they would then become available to a wider circle for pre-launch and registration procedures. The researchers are currently working on manuscripts of the studies, which will be submitted for publication in reputable scientific journals later this year.

## Other events in 2011

### Decision to invest in new production facility and reporting of TwoPac as a group company

TwoPac, which is owned 50 per cent by BioGaia and 50 per cent by TwoPac's management, produces straws and oil drops containing probiotics on behalf of BioGaia. Due to growing volumes and stricter quality requirements from the authorities and customers, the existing facilities are no longer suitable and TwoPac has decided to build its own factory in Eslöv where the company currently rents premises.

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

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

For comparative information showing how the Group's financial results would have been affected if TwoPac had been consolidated in the Group during 2010, see page 55.

## Key events after the end of the financial year

### BioGaia extends collaboration with Nestlé

Since 2008, BioGaia and Nestlé have collaborated in the field of infant nutrition products. After the signing of several new agreements in mid-February 2012, the parties have further extended this collaboration. These agreements are of significant strategic value for BioGaia since they not only involve an extended close collaboration with Nestlé but also generate greater financial freedom for BioGaia to further invest in its own brand, develop its own new products, conduct research on new indications and increase the distribution of BioGaia-branded products. The additional finances also give the Board scope to propose a generous dividend policy.

The agreements include the entry by Nestlé into a perpetual licence to use BioGaia's patented *Lactobacillus reuteri* in infant nutrition products for EUR 50.8 million. This amount will be paid over a period of five years, including an initial payment of EUR 40 million made and accounted for in the first quarter of 2012 and additional payments of EUR 10.8 million to be paid and accounted for on the achievement of certain milestones. In addition, Nestlé has entered into an option agreement with BioGaia to extend the use of *L. reuteri* to other product areas.

Furthermore, Nestlé and BioGaia are working on several other projects, including the development of innovative products in the infant nutrition and other nutrition categories and the distribution of BioGaia-branded products in new markets. These further developments will be announced at an appropriate time closer to launch.

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

## Financial performance in 2011

### Sales

Consolidated net sales reached SEK 315.0 million (236.0), an increase of 33 per cent compared to the previous year.

Most of the company's sales are denominated in foreign currency, mainly EUR. With unchanged exchange rates, net sales would have been SEK 15.5 million higher. Excluding foreign exchange effects, the increase in net sales was 40 per cent. Exchange rate fluctuations have reduced both income and expenses. Operating profit would have been SEK 10.0 million higher in the event of unchanged exchange rates.

Sales increased in both segments (finished consumer products and component products) and in all markets.

Sales of finished consumer products rose by SEK 49.8 million (30 per cent) to SEK 215.4 million. The increase referred to all markets, but primarily Europe and Asia. Sales of component products were up by SEK 29.2 million (43 per cent) to SEK 97.7 million, which is mainly attributable to sales of bacteria cultures to Nestlé.

Sales in Asia grew by SEK 17.6 million (90 per cent) from SEK 19.6 million to SEK 37.1 million. This is mainly due to higher sales in Japan but also to the fact that negotiations with Yili in China led to a solution that contributed to higher sales during the period. The increase in Asia referred primarily to finished consumer products.

Sales in Europe rose by SEK 50.6 million to SEK 234.5 million (28 per cent), which is mainly explained by sales of bacteria cultures to Nestlé as well as increased sales of finished consumer products above all in Italy and Eastern Europe. Final sales of Nestlé's products also take place outside Europe. For further information about Nestlé, see above under "Key events after the end of the financial year".

Sales in the USA and Canada increased from SEK 13.9 million to SEK 17.8 million (28 per cent). This is explained mainly by higher sales to both of the company's distributors of drops and digestive health tablets sold under the BioGaia brand and to BioGaia's new distributor Fleet, which will launch digestive health tablets with strawberry flavour under its own brand in the first quarter of 2012. Certain sales to Fleet were made already in 2011.

Sales in the rest of the world rose from SEK 18.7 million to SEK 25.6 million (37 per cent) as a result of higher sales of finished consumer products in Australia and South America.

Of total finished consumer products, 43 per cent (38) were sold under the BioGaia brand. Including co-branding, the percentage was 51 per cent (48).

### Gross profit

Gross profit amounted to SEK 216.3 million (158.9), an improvement of SEK 57.4 million compared to the previous year. Gross margin rose from 67 per cent to 69 per cent, mainly because the consolidation of TwoPac in 2011 has reduced the company's cost of goods sold. Furthermore, sales were up in Japan, where both the margin and selling expenses are higher than in other markets.

### Operating expenses

Selling expenses amounted to SEK 66.1 million (61.3), which is equal to 21 per cent (26) of net sales. Selling expenses for the previous year included one-time costs of around SEK 5.0 million. Aside from these, selling expenses rose by SEK 9.8

million primarily as an effect of increased marketing activities and higher personnel expenses.

Administrative expenses totalled SEK 13.0 million (9.8), which is equal to 4 per cent (4) of net sales. The increase of SEK 3.2 million is due mainly to the fact that administrative expenses in TwoPac AB, which is now reported as a group company, were not included in the previous year, as well as higher personnel expenses.

R&D expenses amounted to SEK 34.3 million (29.4), which is equal to 11 percent (12) of net sales. The increase of SEK 4.9 million is explained primarily by higher activity in product development and clinical trials, but to a certain extent also to higher personnel expenses. The amortisation component of R&D expenses was SEK 1.2 million (1.4). Investments in capitalised development expenses totalled SEK 0 million (0).

Other operating income/expenses refer to foreign exchange gains/losses on operating receivables and liabilities. For 2011 these gave rise to operating income of SEK 0.3 million, compared to an operating expense of SEK 3.2 million in the previous year.

### Operating profit

Operating profit was SEK 103.2 million (56.3), which is SEK 46.9 million (83 per cent) better than in the previous year. Excluding foreign exchange effects (see above under "Sales"), operating profit improved by 101 per cent.

### Financial items and profit before tax

Profit before tax was SEK 108.9 (69.7) million, an improvement of SEK 39.2 million (56 per cent) over the previous year. Net financial items include a foreign exchange gain of SEK 2.5 million (12.4) on forward exchange contracts in EUR.

At 31 December 2011 the company had outstanding forward exchange contracts for EUR 13.3 million at an average exchange rate of SEK 9.30. Forward exchange contracts amounting to EUR 8.9 million will mature for payment in 2012 and the remaining EUR 4.4 million in 2013. The actual exchange gain/loss depends on the exchange rate on the maturity date of the contracts. If the EUR rate on the maturity date is lower/higher than that at 31 December 2011 (8.92), an exchange gain/loss will be recognised in the future.

### Profit after tax

Profit after tax was SEK 79.5 million (47.2), which represents an increase of SEK 32.3 million (68 per cent) over the previous year.

The tax rate for the Group was 27 per cent (32). The Group pays tax on profits in the Swedish companies. The loss in Japan is not deductible against the Swedish profits. Since the loss in Japan was lower than in the previous year, the tax rate for the Group has decreased. Loss carryforwards in the Japanese subsidiary amount to SEK 61.9 million. The deferred tax asset for these has not been recognised, since a sustainable profit level has not yet been shown in the Japanese subsidiary.

### Earnings per share

Earnings per share amounted to SEK 4.42 (2.74).

### Cash flow

The Group's cash and cash equivalents at 31 December 2011 totalled SEK 171.5 million (146.9).

Cash flow amounted to SEK 24.7 million (47.5), down by SEK 22.8 million compared to the previous year.

Cash flow for 2011 was affected by payment of SEK 34.5 million (25.8) in dividends and SEK 35.8 million in tax (of which SEK 18.4 million refers to the 2010 financial year) during the year. In addition, investments in property, plant and equipment amounted to SEK 16.2 million (0.6), of which SEK 15.8 million refers to TwoPac.

### Equity

Consolidated equity amounted to SEK 230.4 million (187.3) and the equity/assets ratio was 82 per cent (82).

### Investments in property, plant and equipment

Investments in property, plant and equipment totalled SEK 16.2 million (0.6), of which SEK 15.8 million refers to TwoPac AB.

### Consolidation of TwoPac AB

Until 31 December 2010, BioGaia's 50 per cent-owned company TwoPac AB was reported as an associated company. BioGaia has significant influence over TwoPac's operations and as a result of BioGaia's decision to finance TwoPac's new factory in Eslöv (for more information see above), TwoPac is consolidated in the BioGaia Group as of 1 January 2011. Comparative figures for the previous year are provided on page 55.

### Subsidiary in Japan

The business model previously used in Japan was found to be unsuccessful and in 2010 the company changed to the business model that is being used successfully in other markets. The Japanese subsidiary's sales have now picked up and net sales for 2011 reached SEK 12.6 million (3.4). Operating profit, including BioGaia's internal profit, was SEK -3.9 million (-14.8).

### Parent Company

Net sales in the Parent Company are reported at SEK 306.2 million (234.0) and profit before tax was SEK 102.3 million (71.4). 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 10.5 million (16.9) that has had a negative impact on earnings. Profit after tax was SEK 72.5 million (48.4). Cash flow in the Parent Company was SEK 21.1 million (45.4).

Cash flow from investing activities includes a loan of SEK 4.5 million (14.3) to the Japanese subsidiary and a loan of SEK 11.1 million (0) to the subsidiary TwoPac.

## Research and development activities

BioGaia has an extensive research network and collaborates with numerous universities and hospitals around the world, such as the Swedish University of Agricultural Sciences in Uppsala, Sweden, the Karolinska Institute in Stockholm, Sweden, Texas Children's Hospital in the USA, University Hospital of Bari, Italy, and University Hospital of Turin, Italy. Current areas of research include studies related to mapping of the reuteri genome and how it is linked to the bacterium's function and effects. In addition, the company is

working to identify and develop new probiotic lactic acid bacteria with potential effect in a number of human applications and is conducting clinical trials on its existing and new products.

Several studies on *Lactobacillus reuteri* are underway and the results of these will be reported when they become available to BioGaia. Among other things, the results two studies on patients with *Helicobacter pylori* infection were presented during 2011 (see above).

R&D expenses amounted to SEK 34.3 million (29.4), which is equal to 11 per cent (12) of net sales. The increase of SEK 4.9 million is explained primarily by higher activity in product development and clinical trials, but also to a certain extent also higher personnel expenses. The amortisation component of R&D expenses was SEK 1.2 million (1.4). Investments in capitalised development expenses totalled SEK 0 million (0).

For more information, see Note 14.

### Reporting of clinical studies

Publication of clinical trial results is a key success factor for BioGaia. The International Committee of "Medical Journal Editors" has initiated a policy requiring clinical investigators to deposit information about trial design into an accepted clinical trials registry before the onset of patient enrolment, and this has now become a prerequisite for publication of trial outcomes in major medical journals. "ClinicalTrials.gov" is a registry of clinical trials provided by the U.S. "National Institutes of Health" and BioGaia encourages all clinicians working with BioGaia products to register their trials on this site. Many of the trials are registered at an early stage, which means that some of the registered trials will not be performed as planned. Consequently, BioGaia takes no responsibility for ensuring that the registered trials reach completion or are successfully reported in the register or the scientific literature. When clinical trial results of significance to the company's business do become available, BioGaia will report these through press releases.

## Environmental information

BioGaia has a fundamentally ethical vision, namely to improve human health. The company's products are based on ethical research in which consumer safety is the foremost priority.

The ability to take responsibility for sustainable development is vital in winning and retaining the confidence of the company's stakeholders, and is therefore essential for successful business operations.

BioGaia contributes to positive development through its commitment to ecology and biology. The microorganisms used by the company are natural and are normally present in human beings. The modes of action of these microorganisms are based on biological principles. To stay healthy, the human body must maintain equilibrium between its various systems. An imbalance quickly results in diminished ability of the immune defence to prevent and fight disease. This ecological-biological approach is at the very core of BioGaia's operations.

BioGaia conducts no operations that require permits.

BioGaia contributes to a better environment by:

- Selecting packages that have the smallest possible environmental impact during their life cycle
- Ensuring that the packages are not unnecessarily large and bulky
- Urging suppliers and distributors to always take environmental aspects into account in their decisions
- Weighing in environmental aspects every time a significant decision is made.

## Business risks and uncertainties

BioGaia's operations are associated with both risks and opportunities of various types. Certain risks are of a general nature, while others are more specific to the company. The following section is not a complete risk analysis, but an indication of the factors of significance for future development.

### The Japanese venture

The Japanese subsidiary has operated at a loss since the start in 2006. The previously chosen business model was found to be unsuccessful and in 2010 BioGaia decided to change the business model in Japan to that which is used in the other markets.

In 2011 this had a visible effect. The loss in the Japanese subsidiary decreased and the company reported an operating loss of SEK -3.9 million (-14.8%). On the balance sheet date, assets in the Japanese subsidiary were reported at SEK 8.7 million (5.6). BioGaia's assessment is that the subsidiary will show good profitability in the future, for which reason there was no indication of impairment of these assets on the balance sheet date.

### Shares in group companies

CapAble, which is 90.1 per cent owned by BioGaia AB, was started in November 2008 to manufacture and sell the patented LifeTop Cap. The shares in the subsidiary CapAble are reported at a total of SEK 6.9 million in the Parent Company. CapAble has operated at a loss since the start in 2008. Loss before tax for 2011 was SEK -2.5 million. BioGaia has made total conditional shareholder contributions of SEK 6 million to CapAble in 2009 and 2010.

BioGaia's assessment is that CapAble will show good profitability in the coming years, for which reason there was no indication of impairment on the balance sheet date.

### BioGaia's partners

BioGaia does not sell directly to end-users but instead sells its products to companies (partners) which then sell the products to wholesalers and pharmacies. This means that BioGaia is dependent on these partners to invest the resources necessary for marketing and sales. In order to influence this to a greater extent on its own, BioGaia launched its own brand in 2006. Today a number of BioGaia's partners sell products wholly or partly under the BioGaia brand and BioGaia-branded products are currently sold in

38 countries. BioGaia also provides its partners with strong support in the form of education, information about new clinical studies and speakers at symposia, as well as marketing and PR support.

### Research and development

BioGaia invests considerable sums in research, clinical studies and product development with the aim of developing products with proven health benefits. Even after thorough pilot studies, there is always a risk that a project will be wholly or partly unsuccessful or that the finished products will not be attractive to potential customers. There is also a certain risk that the studies that lie outside BioGaia's control are not performed in accordance with BioGaia's strict requirements. On the other hand, these studies are regarded as more objective and also contribute to reducing the company's research expenses.

### Intellectual property

BioGaia's business activities are based on a large number of intellectual property rights, such as patents, trademarks, names of strains and Internet domains. The company works continuously to strengthen its intellectual property rights by protecting the use of the company's products.

There is always a risk for infringement of intellectual property. In 2010 BioGaia filed a lawsuit in the USA against one of the company's former licensees, Nature's Way. Although the agreement with Nature's Way expired in August 2007, the company continued to use reuteri in its marketing and products despite repeated requests to cease. In the autumn of 2011 a settlement was reached with Nature's Way, which was required to pay damages to BioGaia.

These rights are enforced on an ongoing basis, but there are no guarantees that future infringements will not cause the company damage. BioGaia continuously monitors the environment.

### Regulatory situation

BioGaia's products are currently sold in some 60 countries around the world. Due to their differing regulatory systems, the length of time between contract and product launch varies between countries. In most countries the products are registered as dietary supplements but in certain markets, like Turkey, Canada, Hong Kong and Peru, they are registered as a category of pharmaceuticals.

There is always a risk that the rules will be changed in the different markets with a resulting negative impact on sales, at least for a limited period of time.

In the EU, the use of nutrition and health claims is regulated by the European Food Safety Authority (EFSA). The EFSA rules apply to food products that are marketed to consumers with various claims about preventative health effects, for example that a lower intake of cholesterol reduces the risk for cardiovascular disease or a food product's ability to improve the immune defence. In the case of BioGaia's products, these are often recommended to patients by doctors or other healthcare professionals because the patient in question is in more or less urgent need of the product's probiotic effect. As a result, the EFSA rules are not applicable to the majority of BioGaia's products. Further-

more, because the products are recommended by healthcare professionals, in most countries there is no need to make general health claims in the marketing materials as would be the case if the company was marketing a yoghurt or beverage directly to consumers.

If it becomes necessary to use another type of marketing for future products, BioGaia will apply for approval of its health claims from the EFSA. Together with partners BioGaia is assessing the opportunities to register its products under the existing regulations as Food for Special Medical Purposes, natural remedies or other registration categories depending on the type of product and the country involved.

### Employees

BioGaia's operations are wholly dependent on the employees' expertise, and they therefore make up the company's most valuable resource. In order to attract and retain skilled and motivated employees, BioGaia strives to create a culture in which all employees are given the opportunity to develop, influence their own work situation and maintain a good balance between work and leisure in order to avoid stress. In addition, there is an incentive scheme that is open to all employees in the Parent Company and the wholly owned subsidiaries.

### Product liability insurance

BioGaia's partners require the company to have product liability insurance as protection against liability claims for third party damage. BioGaia has product liability insurance that provides coverage up to SEK 60 million per claim up to a maximum of SEK 120 million per year. The insurance is valid worldwide.

## Financial risk management

### Currency risk

BioGaia has revenue primarily in EUR (around 80 percent of net sales) and expenses primarily in SEK, EUR, JPY and USD. In 2011 the company had a cash flow surplus of approximately EUR 17.6 million (14.0), a cash flow deficit of JPY 65.2 million (170.0) and a cash flow deficit of USD 0.3 million (0.6).

Growth in sales has also led to increased currency risks, for which reason the company has taken currency hedges in EUR. The company's Board of Directors has issued a policy to hedge approximately 50-60 per cent of projected cash flow 12 months forward and approximately 10-40 per cent of projected cash flow 13-24 months forward in order to spread the risk for exchange rate fluctuations. At 31 December 2011 the company had outstanding forward exchange contracts for EUR 13.3 million at an average exchange rate of SEK 9.30, of which EUR 8.9 million will mature for payment in 2012 and EUR 4.4 million in 2013. BioGaia does not apply hedge accounting. For more information see Notes 10 and 21.

A stronger SEK rate against the EUR will decrease the value of BioGaia's sales and profit, but through profitable forward exchange transactions and by trying to reallocate a portion of expenses to EUR, the company should be able to

minimise the impact on earnings. BioGaia is also trying to reallocate a portion of its revenue from EUR to other currencies, primarily SEK.

#### Interest rate risk

The Group has no loans and therefore no interest rate risks. Excess liquidity is held in bank or invested in fixed income securities with a high credit rating.

#### Credit risk

BioGaia's credit risks are attached to trade receivables and, for the Parent Company, also loans to subsidiaries. When signing agreements with new customers, BioGaia always carries out an assessment of the customer's financial position. The company has routines for collection of accounts receivable due and additional evaluation of the customers' financial position is carried out when needed in order to minimise risks.

The loan from the Parent Company to the subsidiary CapAble AB has been used to purchase equipment for manufacturing of LifeTop Cap. The company's assessment is that the loan entails no credit risk.

The loan from the Parent Company to the subsidiary TwoPac AB has been used mainly to build a new production facility in Eslöv, Sweden. The company's assessment is that the loan entails no credit risk.

#### Liquidity risk

Excess liquidity is held in bank or invested in fixed income securities with a high credit rating.

#### Cash flow risk

In 2011 BioGaia had a positive cash flow from operating activities before changes in working capital of SEK 77.2 million (66.0). After changes in working capital, cash flow was SEK 72.8 million (69.0). Total cash flow for the year was SEK 24.7 million (47.5). Because cash and cash equivalents at 31 December 2011 amounted to SEK 171.5 million (146.9) and cash flow is positive, no infusion of capital is necessary.

#### Price risk

BioGaia buys most of its goods on the international market and has several alternative suppliers, which minimises the company's price risk.

### Employees

The number of employees in the Group at 31 December 2011 was 64 (46), consisting of 35 women and 29 men. The management team includes 6 men and 2 women. In 2011, five new employees were hired and no employees left the company.

#### BioGaia's incentive scheme for the employees

BioGaia has no warrant programmes currently in progress for the employees.

BioGaia had 2011 an incentive scheme that applies to all employees in the Parent Company and the wholly owned subsidiaries under which an extra bonus (equal to no more than 8 per cent of salary) is payable depending on BioGaia's gross profit.

### 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 per cent with continued strong growth and increased investments in research, product development and brand building.

BioGaia's policy is to pay a shareholder dividend equal to 30 per cent of profit after tax.

Product launches are planned in a number of countries over the next 12 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.

### The Board of Directors' proposal to the AGM regarding remuneration and other terms of employment for senior executives

The Board of Directors proposes that the AGM approve the following guidelines for remuneration and other terms of employment for senior executives in the Group. These principles apply to employment contracts entered into after the decision of the AGM and in the event that changes are made in the existing terms after this time.

It is of fundamental importance for the Board that the principles for remuneration and other terms of employment for senior executives in the Group create long-term motivation and enable the company to retain competent employees who work to attain maximum shareholder and customer value. In order to achieve this, it is vital to uphold fair and internally balanced terms that are market-based and competitive with respect to the structure, scope and level of remuneration. The total remuneration package for the affected individuals should contain a well-balanced mix of fixed salary, variable remuneration, long-term incentive schemes, pension benefits, other benefits and terms of notice/termination benefits.

**Fixed salary** – Fixed salary shall be differentiated on the basis of the individual's role and responsibilities, as well as the individual's competence and experience in the relevant position.

**Variable remuneration** – The amount of variable remuneration shall not exceed 25 per cent of total remuneration.

**Long-term incentive schemes** – Every year, the Board of Directors shall evaluate whether a share-based or share price-based incentive scheme should be proposed to the AGM. Other types of long-term incentive schemes can be decided on by the Board. Any remuneration in the form of long-term incentive schemes shall be consistent with generally accepted practices in the respective market.

**Pensions** – Senior executives who are entitled to pension benefits shall have pension agreements of the defined contribution type. The mandatory age of retirement for senior executives who are Swedish citizens is 65 years, and for others according to the pension rules in their respective countries. The amount of benefit payable depends on the amount payable under the pension agreements in force.

**Other benefits** – Other benefits shall be of limited value in relation to the other remuneration and shall be consistent with general norms in the respective geographic market.

**Terms of notice and termination benefits** – the President and the company have a mutual notice period of 18 months. The company's Vice Presidents have a corresponding notice period of six months. For other senior executives, the notice period is three months.

The Board of Directors proposes that the Board be authorised to deviate from the above proposed guidelines in individual cases when there is special reason to do so.

For more information about remuneration to senior executives, see Note 4.

### Most recently adopted guidelines regarding remuneration and other terms of employment of senior executives

The most recently adopted guidelines correspond to those that are proposed to the AGM (see above) except for "variable remuneration". The prior wording was "the amount of variable remuneration shall not exceed 10 per cent of total remuneration".

### Corporate governance

BioGaia has issued a separate corporate governance report.

### Proposed appropriation of profits

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

Retained profit:	45,306,082
Profit for the year:	72,478,229
Together amounting to:	<b>117,784,311</b>
<b>The Board of Directors proposes that the earnings be disposed of as follows:</b>	
To be paid as a dividend to the shareholders	69,083,848 <sup>*)</sup>
To be carried forward to new account:	48,700,463
Total:	<b>117,784,311</b>

<sup>\*)</sup> The proposed dividend consists of an ordinary dividend of SEK 1.26 per share and, in view of the company's good liquidity and strong balance sheet, an extraordinary dividend of SEK 2.74 per share, amounting to a total dividend of SEK 4.00 per share.

# Group

## Income statements

SEK 000s	Note	2011	2010
Net sales	2, 3	314,992	236,033
Cost of goods sold		-98,727	-77,150
<b>Gross profit</b>	2	<b>216,265</b>	158,883
Selling expenses	4	-66,079	-61,336
Administrative expenses	4, 5	-13,014	-9,849
Research and development expenses	4, 14	-34,317	-29,386
Other operating income	6	304	-
Other operating expenses	7	-	-3,242
Share in profit of associated company	8	-	1,200
<b>Operating profit</b>	9	<b>103,159</b>	56,270
Financial income	10	5,792	13,417
Financial expenses	11	-84	-100
<b>Net financial items</b>		<b>5,708</b>	13,417
<b>Profit before tax</b>		<b>108,867</b>	69,687
Tax	12	-29,345	-22,519
<b>PROFIT FOR THE YEAR</b>		<b>79,522</b>	47,168
<b>Other comprehensive income</b>			
Gain/losses arising on translation of the financial statements of foreign operations:		712	-15
<b>Comprehensive income for the year</b>		<b>80,234</b>	47,153
<b>Profit for the year attributable to:</b>			
Owners of the Parent Company		76,369	47,250
Non-controlling interests	13	3,153	-82
		<b>79,522</b>	47,168
<b>Comprehensive income for the period attributable to:</b>			
Owners of the Parent Company		77,081	47,235
Non-controlling interests		3,153	-82
		<b>80,234</b>	47,153
<b>Earnings per share</b>			
Basic earnings per share, SEK		4,42	2,74
Diluted earnings per share, SEK		4,42	2,74
Number of shares, thousands		17,271	17,271
Average number of shares, thousands		17,271	17,230
Number of outstanding warrants, thousands		-	-
Number of outstanding warrants with a dilutive effect, thousands		-	-
Average number of shares after dilution, thousands		17,271	17,271

## Cash flow statements

SEK 000s	Note	2010	2009
<b>Operating activities</b>			
Operating profit		103,159	56,270
<i>Adjustments for non-cash items</i>			
Depreciation/amortisation		5,425	2,836
Capital gains/losses on the sale of non-current assets		1,340	22
Share in profit of associated company		-	-1,200
Other non-cash items		58	964
		<b>109,982</b>	58,892
Taxes paid		-35,768	-
Realised forward exchange contracts		-164	6,144
Interest received		3,269	1,091
Interest paid		-80	-96
<b>Cash flow from operating activities before changes in working capital</b>		<b>77,239</b>	66,031
<i>Cash flow from changes in working capital</i>			
Inventories		-5,928	-779
Current receivables		-13,057	-5,870
Trade payables		7,788	1,629
Current interest-free operating liabilities		6,750	7,954
<b>Cash flow from operating activities</b>		<b>72,792</b>	68,965
<b>Investing activities</b>			
Purchase of intangible assets	14	-	-
Purchase of property, plant and equipment	15	-16,179	-640
Sale of property, plant and equipment	15	-	107
Purchase of financial assets	16	2,612	-
Net change in non-current receivables		-	11
<b>Cash flow from investing activities</b>		<b>-13,567</b>	-522
<b>Financing activities</b>			
New share issue warrants		-	4,863
Dividend		-34,542	-25,811
<b>Cash flow from financing activities</b>		<b>-34,542</b>	-20,948
<b>CASH FLOW FOR THE YEAR</b>		<b>24,683</b>	47,495
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>146,903</b>	100,327
Exchange difference in cash and cash equivalents		-52	-919
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>171,534</b>	146,903

**Balance sheets**

SEK 000s	Note	31 Dec. 2011	31 Dec. 2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	14	264	1,173
Property, plant and equipment	15	24,158	4,216
Participations in associated company	16	–	10,641
Receivables from associated company	17, 20, 23, 29	–	4,400
Deposits		18	18
<b>Total non-current assets</b>		<b>24,440</b>	20,448
<b>Current assets</b>			
Inventories	18	21,528	14,028
Trade receivables	19, 23	49,112	33,574
Other receivables	21	7,044	9,442
Deferred expenses and accrued income	22	6,094	3,347
Short-term investments	23	80	80
Cash and cash equivalents	23	171,534	146,903
<b>Total current assets</b>		<b>255,392</b>	207,374
<b>TOTAL ASSETS</b>		<b>279,832</b>	227,822

**Balance sheets**

SEK 000s	Note	31 Dec. 2011	31 Dec. 2010
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	24	17,271	17,271
Other contributed capital		82,501	77,701
Reserves		1,644	932
Retained profit		51,979	44,071
Profit for the year attributable to owners of the Parent Company		76,369	47,250
<b>Total equity attributable to owners of the Parent Company</b>		<b>229,764</b>	187,225
Non-controlling interests	13, 16	591	98
<b>Total non-controlling interests</b>		<b>591</b>	98
<b>Total equity</b>		<b>230,355</b>	187,323
<b>Long-term liabilities</b>			
Deferred tax liability		185	–
<b>Total long-term liabilities</b>		<b>185</b>	–
<b>Current liabilities</b>			
Prepayments from customers	23	2,960	1,054
Trade payables	23	17,769	9,373
Liabilities to associated company	20, 23	–	1,029
Current tax liability		12,102	18,184
Other liabilities	25	1,296	696
Accrued expenses and deferred income	26	15,165	10,163
<b>Total current liabilities</b>		<b>49,292</b>	40,499
<b>Total liabilities</b>		<b>49,477</b>	40,499
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>279,832</b>	227,822
<b>Pledged assets and contingent liabilities in the Group</b>			
	27		

**Statement of changes in equity**

SEK 000s	Share capital	Other contributed capital	Translation reserve	Retained profit incl. profit for the year	Equity attributable to owners of the Parent Company	Non-controlling interests	Total equity
<b>Opening balance, 1 January 2010</b>	17,208	77,701	947	65,428	161,284	–166	161,118
New share issue (warrants)	63			4,800	4,863		4,863
Dividend				–25,811	–25,811		–25,811
<b>Total transactions with owners</b>	63	0	0	–21,011	–20,948	0	–20,948
<b>Profit for 2010</b>				47,250	47,250	–82	47,168
<b>Other comprehensive income</b>							
Gain/losses arising on translation of the financial statements of foreign operations			–15		–15		–15
<b>Comprehensive income for the year</b>	0	0	–15	47,250	47,235	–82	47,153
Change in non-controlling interest				–346	–346	346	0
<b>Closing balance, 31 December 2010</b>	17,271	77,701	932	91,321	187,225	98	187,323
Reclassification of prior new share issue		4,800		–4,800	0		0
Dividend				–34,542	–34,542		–34,542
<b>Total transactions with owners</b>	0	4,800	0	–39,342	–34,542	0	–34,542
<b>Profit for 2011</b>				76,369	76,369	3,153	79,522
<b>Other comprehensive income</b>							
Gain/losses arising on translation of the financial statements of foreign operations			712		712		712
<b>Comprehensive income for the year</b>			712	76,369	77,081	3,153	80,234
Change in group structure						–2,660	–2,660
<b>Closing balance, 31 December 2011</b>	17,271	82,501	1,644	128,348	229,764	591	230,355

# Parent Company

## Income statements

SEK 000s	Note	2011	2010
Net sales	2, 3	<b>306,182</b>	233,988
Cost of goods sold		<b>-106,868</b>	-76,698
<b>Gross profit</b>	2	<b>199,314</b>	157,290
Selling expenses	4	<b>-49,406</b>	-42,355
Administrative expenses	4, 5	<b>-11,607</b>	-9,743
Research and development expenses	4, 14	<b>-34,283</b>	-29,497
Other operating income	6	<b>304</b>	-
Other operating expenses	7	<b>-</b>	-3,242
<b>Operating profit</b>	9	<b>104,322</b>	72,453
<i>Result from financial investments</i>			
Result from participations in associated company	8, 16	<b>-</b>	1,200
Impairment loss of non-current receivable from group company	17	<b>-10,453</b>	-16,928
Interest income and similar profit/loss items	10	<b>8,469</b>	14,760
Interest expense and similar profit/loss items	11	<b>-78</b>	-95
<b>Net financial items</b>		<b>-2,062</b>	-1,063
<b>Profit before tax</b>		<b>102,260</b>	71,390
Tax	12	<b>-29,781</b>	-23,038
<b>PROFIT FOR THE YEAR</b>		<b>72,479</b>	48,352

## Cash flow statements

SEK 000s	Note	2011	2010
<b>Operating activities</b>			
Operating profit		<b>104,322</b>	72,453
<i>Adjustments for non-cash items</i>			
Depreciation/amortisation		<b>2,096</b>	2,369
Capital gains/losses on the sale of non-current assets		<b>-</b>	4
Other non-cash items		<b>51</b>	964
		<b>106,469</b>	75,790
Taxes paid		<b>-35,769</b>	-
Realised forward exchange contracts		<b>-164</b>	6,144
Interest received		<b>3,660</b>	1,083
Interest paid		<b>-78</b>	-95
<b>Cash flow from operating activities before changes in working capital</b>		<b>74,118</b>	82,922
<i>Cash flow from changes in working capital</i>			
Inventories		<b>-5,522</b>	-785
Current receivables		<b>12,926</b>	-6,070
Trade payables		<b>6,208</b>	701
Current interest-free operating liabilities		<b>9,554</b>	7,385
<b>Cash flow from operating activities</b>		<b>71,432</b>	84,153
<b>Investing activities</b>			
Purchase of intangible assets	14	<b>-</b>	-
Purchase of tangible assets	15	<b>-221</b>	-446
Sale of tangible assets	15	<b>-</b>	5
Purchase of financial assets	16	<b>-50</b>	-3,000
Payment of loan to subsidiary	17	<b>-15,542</b>	-14,339
<b>Cash flow from investing activities</b>		<b>-15,813</b>	-17,780
<b>Financing activities</b>			
New share issue warrants		<b>-</b>	4,863
Dividend		<b>-34,542</b>	-25,811
<b>Cash flow from financing activities</b>		<b>-34,542</b>	-20,948
<b>CASH FLOW FOR THE YEAR</b>		<b>21,077</b>	45,425
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
Exchange difference in cash and cash equivalents		<b>-52</b>	-964
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>161,865</b>	140,840

**Balance sheets**

SEK 000s	Note	31 Dec. 2011	31 Dec. 2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
<i>Intangible assets</i>			
Capital development expenditure	14	264	1,173
<b>Total intangible assets</b>		<b>264</b>	1,173
<i>Property, plant and equipment</i>			
Production equipment	15	218	303
Office equipment and computers		1,850	2,731
<b>Total tangible assets</b>		<b>2,068</b>	3,034
<i>Financial assets</i>			
Participations in group companies	16	21,160	10,469
Participations in associated company	16, 29	–	10,641
Receivables from group companies	17, 29	16,513	1,022
Receivables from associated company	17, 20, 23, 29	–	4,400
<b>Total financial assets</b>		<b>37,673</b>	26,532
<b>Total non-current assets</b>		<b>40,005</b>	30,739
<b>Current assets</b>			
Inventories	18	18,665	13,143
<b>Current receivables</b>			
Trade receivables	19	42,872	31,600
Other receivables	21	6,479	8,657
Deferred expenses and accrued income	22	5,547	2,950
<b>Total current receivables</b>		<b>54,898</b>	43,207
Short-term investments	23	80	80
Cash and cash equivalents		161,865	140,840
<b>Total current assets</b>		<b>235,508</b>	197,270
<b>TOTAL ASSETS</b>		<b>275,513</b>	228,009

**Statement of changes in equity**

SEK 000s	Share capital	Statutory reserve	Retained profit incl. profit for the year	Total equity
<b>Opening balance, 1 January 2010</b>	<b>17,208</b>	<b>77,700</b>	<b>58,785</b>	<b>153,693</b>
New share issue of warrants	63		4,800	4,863
Group contributions paid			–6,058	–6,058
Tax on group contributions paid			1,593	1,593
Dividend			–25,811	–25,811
Profit for 2010			48,352	48,352
<b>Closing balance, 31 December 2010</b>	<b>17,208</b>	<b>77,700</b>	<b>81,661</b>	<b>176,632</b>
Group contributions paid			–2,460	–2,460
Tax on group contributions paid			647	647
Dividend			–34,542	–34,542
Profit for 2011			72,479	72,479
<b>Closing balance, 31 December 2011</b>	<b>17,271</b>	<b>77,700</b>	<b>117,785</b>	<b>212,756</b>

**Balance sheets**

SEK 000s	Note	31 Dec. 2011	31 Dec. 2010
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<i>Restricted equity</i>			
<b>Share capital</b>		<b>17,271</b>	17,271
Statutory reserve		77,700	77,700
		<b>94,971</b>	94,971
<i>Non-restricted equity</i>			
Retained profit		45,306	33,309
Profit for the year		72,479	48,352
		<b>117,785</b>	81,661
<b>Total equity</b>		<b>212,756</b>	176,632
<b>Liabilities</b>			
<i>Current liabilities</i>			
Prepayments from customers		2,960	1,054
Trade payables		14,295	8,086
Liabilities to associated company	20	–	1,029
Liabilities to group companies	20	19,404	12,793
Current tax liability		12,056	18,176
Other liabilities	25	779	667
Accrued expenses and deferred income	26	13,263	9,572
<b>Total current liabilities</b>		<b>62,757</b>	51,377
<b>Total liabilities</b>		<b>62,757</b>	51,377
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>275,513</b>	228,009
<b>Pledged assets and contingent liabilities for the Parent Company</b>			
Floating charges	27	2,000	2,000
Contingent liabilities		None	None

# Notes to the financial statements and accounting policies

All figures in SEK 000s unless otherwise specified.  
Figures in brackets refer to the preceding year.

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## ■ Note 1 Accounting policies

### Compliance with norms and laws

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Furthermore, the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Rules for Consolidated Financial Statements, has been applied.

The Parent Company applies the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities, i.e. the same accounting policies as the Group except in cases where the Parent Company's compliance with the Swedish Companies Act limits the applicability of IFRS in the Parent Company.

### Standards, interpretations and amendments applied as of 1 January 2011

The following new standards and interpretations effective for the financial year beginning on 1 January 2011:

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

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

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

### Basis of presentation

The financial statements have been prepared in accordance with the cost method of accounting unless otherwise stated.

Non-current assets, non-current liabilities and provisions essentially consist of amounts that are expected to be recovered or settled more than 12 months after the closing date. Current assets and current liabilities essentially consist of amounts that are expected to be recovered or settled within 12 months from the closing date.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 29.

### Scope of consolidation

The consolidated financial statements include those companies over which the Parent Company has a controlling influence. Control is achieved where the company directly or indirectly has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated financial statements have been prepared in accordance with the acquisition method of accounting, whereby the acquisition of a subsidiary is regarded as a transaction in which the Group indirectly acquires the subsidiary's assets and assumes its liabilities and contingent liabilities. To determine the Group's cost for the investment in the subsidiary, a purchase price allocation (PPA) is conducted in connection with the acquisition. The consideration transferred for the acquisition of a subsidiary or business is measured as the aggregate of the fair values, on the date of exchange, of the assets given, equity instruments issued and liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. All acquisition-related costs are expensed immediately. In cases where the Group increases its equity interest sufficiently to achieve control (business combination achieved in stages), any previously-held equity interests in the acquiree are remeasured to fair value. The resulting gain or loss is recognised in the statement of comprehensive income. For acquisitions of non-controlling interests there are two alternatives for recognition of goodwill – full goodwill or partial goodwill. The choice of method is made on an acquisition-by-acquisition basis. Subsequent acquisitions once control has been achieved are regarded as transactions with owners and are recognised directly in equity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. All inter-company balances and transactions, including unrealised gains or losses arising from inter-company transactions, are eliminated in full in presentation of the consolidated financial statements.

### Foreign currency translation

#### Functional currency

The functional currency is the currency of the primary economic environments in which the Group's companies operate.

#### Transactions

Foreign currency transactions are translated to the functional currency at the rate of exchange ruling on the transaction date. Monetary assets and liabilities in foreign currency are translated to the functional currency at the closing day rate. Exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities carried at cost are translated at the rate of exchange ruling on the transaction date. Non-monetary assets and liabilities measured at fair value are translated to the functional currency using the rates of exchange ruling on the date when the fair value was determined.

Foreign exchange gains/losses on operating receivables and liabilities are recognised in operating profit while foreign exchange gains/losses on financial receivables and liabilities are recognised in net financial items.

#### Financial statements of foreign operations

Assets and liabilities in foreign operations are translated from the foreign operation's functional currency to the Group's presentation currency, SEK, at the closing day rate of exchange. Income

and expenses in foreign operations are translated to SEK at an average rate that is a reasonable approximation of actual rates on the respective transaction dates. An average rate is calculated quarterly. Exchange differences arising on translation of foreign operations are recognised in other comprehensive income.

#### Net investments in foreign operations

Receivables from a foreign operation for which settlement is neither planned nor likely occur in the foreseeable future are, in substance, part of the company's net investment in that foreign operation. Exchange differences arising on translation of long-term loans in foreign currency that form part of the net investment in a foreign operation are deferred to a translation reserve in other comprehensive income.

#### Investments in associates

Associated companies are all entities over which the Group has a significant but not controlling influence. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost on the acquisition date and are subsequently adjusted to reflect the company's share of fair value changes in the net assets of the associated company

#### Segment reporting

The Group has applied IFRS 8, Operating Segments, since 1 January 2009. The Executive Management has analysed the Group's internal reporting and determined that the Group's operations are monitored 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 (such as infant formula and dairy products), royalties for the use of *Lactobacillus reuteri* and sales of LifeTop Straw and LifeTop Cap
- Other products: Animal Health, etc.

#### Revenue recognition

BioGai's net sales consist primarily of revenue from the sale of finished consumer products (tablets, drops and oral health products) to distributors but also revenue from the sale of component products for the use of *Lactobacillus reuteri* in licensee products (such as infant formula and dairy products), and to a certain extent royalties for the use of *Lactobacillus reuteri* in licensee products and revenue from the sale delivery systems such as straws and caps.

Revenue from the sale of goods is recognised when the amount can be measured reliably, it is probable that the economic benefits will flow to the company and the criteria have been met for delivery in accordance with the agreed sale and shipping conditions.

Royalties are measured as a percentage of the licensee's reported sales value for consumer products containing BioGai's products, and are recognised monthly or quarterly. License revenue received in connection with the signing of agreements is accrued in cases where it intended to cover costs until the time of launch. In other cases, the revenue is recognised immediately.

Interest income is recognised in the income statement for the period in which it arises.

### Leases

Leased assets are classified as operating leases, since all the risks and rewards incident to ownership have not been substantially transferred to BioGaia. As a result, the lease payments are recognised on a straight-line basis over the term of the lease.

### Pensions

All employees in Sweden are subject to mandatory retirement in accordance with Swedish law, currently at the age of 65 years. The company has no pension commitments other than payment of annual pension insurance premiums. The pension insurance premiums are of the defined contribution type and are expensed as incurred.

### Income taxes

Current tax refers to the tax computed on the year's taxable profit. Deferred tax refers to the tax calculated partly on the basis of temporary differences and partly on taxable deficits. At every closing date, an assessment is made to determine whether to recognise deferred tax assets not previously recognised in the balance sheet. Such tax assets are recognised to the extent that it is deemed likely that sufficient taxable profits will be available in the future.

### Research and development

Costs related to research undertaken with the prospect of gaining new scientific or technical knowledge in the Group's operations are expensed as incurred. Costs for development, where knowledge and understanding gained from research and practical experience are directed towards producing new products, processes or systems, are recognised as intangible assets in the balance sheet when they meet the criteria for capitalisation according to IAS 38, i.e. only when the technical and commercial feasibility of the product or process has been established, the Group has adequate resources to complete development and the Group intends and is able to complete the intangible asset and either use it or sell it. It should also be probable that the future economic benefits attributable to the asset will flow to the company and the cost of the asset can be reliably measured. The reported value includes all directly attributable costs, such as those for materials, purchased services and compensation to employees engaged in R&D activities. Other development costs are expensed as incurred.

Individual assessment is made of all ongoing research and development projects to determine which costs for the respective project are capitalisable and to look for any indications of impairment.

The company has a number of projects that meet the criteria for capitalisation and are recognised in the balance sheet. In 2011 no development costs were assessed to meet these criteria, for which reason all of the year's costs were expensed.

### Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are recognised at cost with a deduction for accumulated amortisation/ depreciation and impairment.

The following amortisation schedules are applied:

Intangible assets	Parent Company	
	Group	Company
Capitalised development expenditure	5-10 yrs	5-10 yrs
Licenses	5 yrs	5 yrs
Brands	5 yrs	5 yrs
<b>Property, plant and equipment</b>		
Production equipment	5-10 yrs	5 yrs
Equipment and computers	3-5 yrs	3-5 yrs
Construction in progress	-	-

Amortisation of intangible assets is started when a project has been completed and the product begins generating revenue.

The amortisation period varies between 5-10 years depending on the estimated useful life of the project. The only project with an amortisation schedule of more than 5 years is the Animal Health project, for which the amortisation period is matched to the term of the contract.

The carrying amounts of the Group's assets are reviewed at each balance sheet date to look for any indication that an asset may be impaired. If impairment is indicated, the recoverable amount of the asset is calculated. If this is lower than the carrying amount, the value is written down to recoverable amount.

Depreciation of a building is started when construction is completed.

### Inventories

Inventories are stated at the lower of cost and net realisable value, including provisions for obsolescence. Cost is measured according to weighted average prices.

### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank.

### Financial assets and liabilities

Financial instruments in the Group are measured and recognised in accordance with the rules in IAS 39.

The financial assets recognised in balance sheet include cash and cash equivalents, short-term investments, trade payables and loans. Financial liabilities and equity include trade payables and prepayments from customers.

Financial assets and liabilities are initially measured at cost, corresponding to fair value including transaction costs for all financial assets and liabilities not measured at fair value through profit or loss. Subsequent measurement depends on how the instruments have been classified according to the following.

A financial asset or liability is recognised in the balance sheet when the company initially becomes party to the contractual provisions of the instrument. Financial liabilities are recognised when the counterparty has performed and there is contractual obligation to pay, even if no invoice has been received. Trade receivables are initially measured at cost and subsequently at amortised cost less provision for impairment. Impairment losses on trade receivables are recognised in profit or loss. Trade payables are recognised when an invoice has been received.

The purchase or sale of a financial asset is recognised on the trade date, which is the date on which the company commits to purchase or sell the asset.

A financial asset is derecognised from the balance sheet when the company's rights under the agreement are realised, expire or the company has relinquished control of the asset. The same applies to a part of a financial asset. A financial liability is derecognised from the balance sheet when the obligation specified in the agreement is discharged or otherwise extinguished. The same applies to a part of a financial liability.

The company classifies its financial assets and liabilities in the following categories; Financial assets and liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments and other financial liabilities.

### Accounting policies of the Parent Company

The difference between the accounting policies applied by the Group and the Parent Company are described below. The following accounting policies for the Parent Company have been applied consistently for all periods presented in the Parent Company financial statements.

### Subsidiaries

In the Parent Company, shareholdings in subsidiaries are accounted for in accordance with the cost method of accounting.

### Income taxes

In the Parent Company, untaxed reserves are recognised including deferred tax liability. In the consolidated financial statements, however, untaxed reserves are divided between deferred tax liability and equity.

### Group and shareholder contributions for legal entities

The Parent Company reports group and shareholder contributions in accordance with a statement from the Swedish Financial Reporting Board (UFR 2). Shareholder contributions are recognised directly in equity by the recipient and are capitalised in shares and participations by the giver, to the extent that impairment is not indicated. Group contributions are reported in accordance with their financial significance. This means that group contributions paid to minimise the Group's overall tax burden are recognised directly in retained earnings less the current tax effect.

## Note 2 Segment reporting

Starting on 1 January 2009 the Group has implemented IFRS 8, Operating Segments. The Executive Management, which is BioGaia's chief operating decision-maker, has analysed the Group's internal reporting and determined that 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 (such as infant formula and dairy products), royalties for the use of reuteri and sales of LifeTop Straw and Life Top Cap
- Other products: Animal Health, etc.

The management monitors net sales and gross profit. Other expenses are not broken down at the segment level, but only at the group level.

Revenue by segment	Group 2011	2010	Parent Company 2011	2010
Finished consumer products	215,431	165,590	206,623	163,575
Component products	97,731	68,559	97,729	68,529
Other products	1,830	1,884	1,830	1,884
	<b>314,992</b>	236,033	<b>306,182</b>	233,988

Gross profit by segment	2011	2010	2011	2010
Finished consumer products	154,015	109,476	136,980	107,901
Component products	60,523	47,680	60,607	47,663
Other products	1,727	1,727	1,727	1,727
	<b>216,265</b>	158,883	<b>199,314</b>	157,291

Trade receivables by segment	31-dec 2011	31-dec 2010	31-dec 2011	31-dec 2010
Finished consumer products	35,812	21,040	29,611	19,183
Component products	13,300	12,323	13,261	12,207
Other products	–	211	–	211
	<b>49,112</b>	33,574	<b>42,872</b>	31,601

In 2011, SEK 134.0 million, or 42.3 per cent of the revenue, was related to three customers, two in the Finished Consumer Products segment and one in the Component Products segment (2010: SEK 100.4 million or 42.6 per cent).

Net sales by geographical market	Group 2011	2010	Parent Company 2011	2010
Europe	234,505	183,858	234,505	183,858
USA and Canada	17,816	13,879	17,814	13,849
Asia	37,117	19,564	28,309	17,549
Rest of world	25,554	18,732	25,554	18,732
	<b>314,992</b>	236,033	<b>306,182</b>	233,988

More than 90 per cent of the Group's total assets, amounting to SEK 279,831 thousand (227,822) are located in Europe.

Of the Group's capital expenditure on tangible and intangible assets, totalling SEK 16,179 thousand (640), more than 90 per cent pertained to Europe.

Sales in Sweden amounted to SEK 14.4 million (11.9) or 4.6 per cent (5.0 per cent).

The Group's non-current assets amount to SEK 24.4 million, of which SEK 24.2 million is located in Sweden and SEK 0.2 million in other countries (USA and Japan).

## Note 3 Revenue

	Group 2011	2010	Parent Company 2011	2010
Product revenue	302,309	228,995	293,499	226,950
Royalties	12,683	7,038	12,683	7,038
	<b>314,992</b>	236,033	<b>306,182</b>	233,988

## Note 4 Employees and personnel expenses, remuneration to senior executives

### Average number of employees by country

Parent Company	2011	of whom, men	2010	of whom, men
Sweden	41	14	38	12
<b>Subsidiaries</b>				
Sweden	13	11	1	1
Japan	5	4	4	3
USA	2	0	2	0
Total subsidiaries	20	15	7	4
<b>Total Group</b>	<b>61</b>	<b>29</b>	45	16

The number of employees in the Group at 31 December 2011 was 64 (46).

### Salaries and other remuneration divided by country and between the Board/President and other employees

Parent Company	2011 Board and President	2010 Board and President	2011 Other employees	2010 Other employees
Sweden	2,975	3,296	20,836	19,265
<b>Subsidiaries</b>				
Sweden	2,031	869	3,599	–
Japan	1,804	1,804	3,227	2,828
USA	–	–	985	1,082
Total subsidiaries	3,835	2,673	7,811	3,910
<b>Total Group</b>	<b>6,810</b>	5,969	<b>28,647</b>	23,175

Total salaries and social security expenses	Group 2011	2010	Parent Company 2011	2010
Salaries and other remuneration	35,457	29,144	23,811	22,561
Pension expenses for the Board and President	1,455	418	1,161	204
Pension expenses for other employees	2,965	2,226	2,561	1,916
Other social security expenses	10,490	7,975	8,386	7,227
<b>Total</b>	<b>50,367</b>	39,763	<b>35,919</b>	31,908

### Pensions and health insurance

All employees in Sweden are subject to mandatory retirement in accordance with Swedish law, currently at the age of 65 years. The company has no pension commitments other than payment of annual pension insurance premiums.

For all employees over the age of 25 years, the following pension insurance premiums are paid in relation to salary:

Pensionable salary within the range:	0–7.5 base amounts	More than 7.5 base amounts
Premium:	6%	20%

Cont'd, Note 4

All employees aside from the President (for the President, see below) are covered by health insurance, with benefits, in addition to compensation from the Swedish Social Insurance Office. This health insurance is activated after 90 days of sick leave.

Together with the employer's health insurance and compensation from the Social Insurance Office, the employee receives total benefits equal to approximately 65-87 per cent of salary after a qualifying period of 3 months (depending on the level of salary).

#### Remuneration to senior executives

Remuneration to the Chairman and members of the Board is paid according to the decision of the Annual General Meeting. The Board has appointed a remuneration committee consisting of Board Chairman David Dangoor and Board member Stefan Elving. The remuneration committee handles matters related to remuneration and other terms of employment of senior executives. The principles for remuneration to senior executives are approved by the Annual General Meeting. The task of the remuneration committee is to prepare recommendations in accordance with these principles. Board member Jan Annwall was Vice President until 1 April 2010 and has thereafter worked for BioGaia to a limited extent in the capacity of consultant.

Remuneration to the President and other senior executives employed by the company consists of basic salary and other benefits. Other senior executives comprise the 7 persons who together with the President make up the executive management team. One senior executive works on a consulting basis since May 2003.

In the event of termination by the company, the President is entitled to full salary during an 18-month period of notice. For Vice Presidents, the corresponding period is six months. Other senior executives have a statutory notice period of at least 3 months in the event of termination by the company. For the President, the company made extra pension payments of SEK 750,000 in 2011. In addition, for the President the company pays the cost of health insurance that provides sickness benefits equal to 75 per cent of salary after a qualifying period of 3 months. In other respects, the President has the same benefits as other employees.

No agreements for termination benefits exist for the President or other senior executives.

#### Remuneration and other benefits during the year

	Director's fees	Basic salary	Variable remuneration	Pension insurance including health insurance	Other remuneration	Total
Board Chairman David Dangoor	300					300
Board member Jan Annwall	150				296	446
Board member Stefan Elving	150					150
Board member Thomas Flinck	150					150
Board member Inger Holmström	150					150
Board member Jörgen Thorball	150					150
Board member Paula Zeilon	150					150
President Peter Rothschild		1,639	136	1,161		2,936
Other senior executives (7 persons)		5,383	601	954	2,384	9,322
	<b>1,200</b>	<b>7,022</b>	<b>737</b>	<b>2,115</b>	<b>2,680</b>	<b>13,754</b>

Comments on the table

Other remuneration to other senior executive refers to consulting fees to a former employee who has worked for the company on a consulting basis since 2003 and is a member of the executive management team.

#### BioGaia's incentive scheme for the employees

In June 2007 BioGaia carried out a warrant programme that was approved by the AGM the same year. This warrant programme was completed in 2010. Since the completion of this programme, BioGaia has no ongoing warrant programmes.

#### Gender distribution

	2011 Women	2010 Women	2011 Men	2010 Men
Board members	2	2	5	5
Management including President	2	2	6	6

#### Note 5 Audit fees

	Group 2011	2010	Parent Company 2011	2010
Grant Thornton Sweden AB				
Audit assignments	431	488	346	485
Audit services in addition to audit	120	120	120	120
Tax advice	25	31	15	31
Other assignments	34	14	34	13

#### Cherry, Bekaert & Holland, L.L.P.

Audit assignments	41	67	-	-
Other assignments	100	123	-	-

#### Nakashima Accounting Firm

Audit assignments	18	17	-	-
Other assignments	-	-	-	-

Audit assignments refer to the auditors' work on the statutory audit, other auditing activities and different types of quality assurance services. Other services are such that are not included in the audit assignment, auditing activities or tax advice.

#### Note 6 Other operating income

	Group 2011	2010	Parent Company 2011	2010
Exchange gains on operating receivables/liabilities	304	-	304	-
	<b>304</b>	<b>-</b>	<b>304</b>	<b>-</b>

#### Note 7 Other operating expenses

	Group 2011	2010	Parent Company 2011	2010
Exchange losses on receivables/liabilities	-	3,242	-	3,242
	<b>-</b>	<b>3,242</b>	<b>-</b>	<b>3,242</b>

#### Note 8 Share in profit of associated company

	2011	2010
Share in profit of TwoPac AB	-	1,200

See also information in Note 16.

## Note 9 Operating expenses allocated by type of cost

	Group 2011	2010	Parent Company 2011	2010
Cost of goods	98,727	78,111	106,868	77,594
Personnel expenses	50,529	39,887	35,727	32,032
Depreciation/amortisation	5,425	2,836	2,096	2,369
Other operating expenses	57,456	61,090	57,473	50,436
	<b>212,137</b>	181,924	<b>202,164</b>	162,431

Operating expenses include lease payments of SEK 192 thousand (177). Total minimum future lease payments fall due as follows:  
Within one year: 130  
Within two to five years: 154

The Group's future payment commitments for rents amount to SEK 7.8 million, of which SEK 7.0 million refers to the Parent Company. The Group's rents fall due for payment in an amount of SEK 3.8 within one year and SEK 4.0 million within two to five years.

## Note 10 Financial income

	Group 2011	2010	Parent Company 2011	2010
Interest income	3,270	1,091	5,947	2,334
Exchange gains on forward exchange contracts	2,522	12,426	2,522	12,426
	<b>5,792</b>	13,517	<b>8,469</b>	14,760

The Parent Company and the Group have entered into forward exchange contracts in EUR for a total of EUR 13.3 million (13.9) at an average exchange rate of SEK 9.30 of which EUR 8.9 million will mature in 2012 and EUR 4.4 million in 2013. The unrealised foreign exchange loss is reported as a financial income/expense.

## Note 11 Financial expenses

	Group 2011	2010	Parent Company 2011	2010
Other financial expenses	84	100	78	95
	<b>84</b>	100	<b>78</b>	95

## Note 12 Tax on profit for the year

	Group 2011	2010	Parent Company 2011	2010
Current tax	-29,160	-18,419	-29,134	-18,395
Tax on group contributions paid	-	-	-647	-1,593
Deferred tax	-185	-4,100	-	-3,050
	<b>-29,345</b>	-22,519	<b>-29,781</b>	-23,038

## Deferred tax expense/tax income

Deferred tax expense attributable to utilisation of previously capitalised loss carryforwards	-	-4,101	-	-3,049
Deferred tax income attributable to loss carryforwards capitalised during the year	-185	-	-	-
Deferred tax related to temporary differences	-	1	-	-1
	<b>-185</b>	-4,100	-	-3,050

## Reconciliation of nominal tax and actual tax expenses

	Group 2011	2010	Parent Company 2011	2010
Reported profit before tax	108,867	69,687	102,260	71,390
Nominal tax rate 26.3%	-28,632	-18,328	-26,894	-18,776
Tax effect of non-capitalised loss carryforwards	-2,050	-4,382	-	-
Tax effect of other non-deductible and non-taxable items	-237	191	-2,887	-4,261
Tax effect of group adjustments	1,574	4	-	-
Tax effect of temporary adjustments	-	-4	-	-
	<b>-29,345</b>	-22,519	<b>-29,781</b>	-23,038

The Group's loss carryforwards amounted to a total of SEK 61.9 million (54.1) at 31 December 2011. Loss carryforwards of SEK 0 thousand (0) are attributable to the Swedish companies.

No deferred tax has been recognised on loss carryforwards amounting to SEK 61.9 thousand (54.1). These carryforwards are attributable to the Japanese subsidiary and will expire as follows: SEK 3,101 thousand will expire in the financial year 2013, SEK 11,907 thousand in 2014, SEK 11,093 thousand in 2015, SEK 12,699 thousand in 2016, SEK 15,259 thousand in 2017 and SEK 7,814 thousand in 2018.

## Note 13 Non-controlling interests

	2011	2010
Opening balance, 1 January	98	-166
Share of group contributions received	-	346
Change in group structure	-2,660	-
Non-controlling interests' share in profit/loss for the year	3,153	-82
<b>Closing balance, 31 December</b>	<b>591</b>	98

The non-controlling interests refer to a 9.9% stake in the subsidiary CapAble AB that is held by its managing director and a 50% stake in the subsidiary TwoPac AB that is held by the management of TwoPac AB.

## Note 14 Intangible assets

Group and Parent Company	Capitalised development expenditure	Licenses and brands	Total intangible assets
<b>Accumulated cost</b>			
Opening balance, 1 January 2010	26,875	2,528	29,403
Purchases	–	–	–
<b>Closing balance, 31 December 2010</b>	<b>26,875</b>	<b>2,528</b>	<b>29,403</b>
Opening balance, 1 January 2011	26,875	2,528	29,403
Purchases	–	–	–
<b>Closing balance, 31 December 2011</b>	<b>26,875</b>	<b>2,528</b>	<b>29,403</b>
<b>Accumulated amortisation</b>			
Opening balance, 1 January 2010	24,590	2,528	27,118
The year's amortisation	1,112	–	1,112
<b>Closing balance, 31 December 2010</b>	<b>25,702</b>	<b>2,528</b>	<b>28,230</b>
Opening balance, 1 January 2011	25,702	2,528	28,230
The year's amortisation	909	–	909
<b>Closing balance, 31 December 2011</b>	<b>26,611</b>	<b>2,528</b>	<b>-29,139</b>
<b>Carrying amounts</b>			
At 1 January 2010	2,285	0	2,285
At 31 December 2010	1,173	0	1,173
<b>At 31 December 2011</b>	<b>264</b>	<b>0</b>	<b>264</b>

Capitalised expenses include internally generated and externally acquired assets.

### Amortisation is recognised on the following lines in the income statement

	Group 2011	2010	Parent Company 2011	2010
Research and development expenses	909	1,112	909	1,112
	909	1,112	909	1,112

Amortisation begins when a project has been completed. The amortisation period varies between 5–10 years depending on the estimated useful life of the project. The remaining projects refer to Animal Health products and will be fully amortised in one year.

### Total research and development expenditure

	Group 2011	2010	Parent Company 2011	2010
Total R&D expenditure	33,035	27,930	33,058	28,054
The year's capitalisation of development expenses	–	–	–	–
Uncapitalised R&D expenditure	33,035	27,930	33,058	28,054
Amortisation/depreciation recognised in R&D expenses	1,282	1,456	1,225	1,443
R&D expenses with an effect on income	34,317	29,386	34,283	29,497

## Note 15 Property, plant and equipment

Group	Land and buildings	Production equipment	Work in progress	Office equipment and computers	Total property, plant and equipment
<b>Accumulated cost</b>					
Opening balance, 1 January 2010	–	4,519	–	11,262	15,781
Purchases	–	22	–	618	640
Sales and disposals	–	–	–	-319	-319
Translation difference	–	–	–	-58	-58
<b>Closing balance, 31 December 2010</b>	<b>0</b>	<b>4,541</b>	<b>0</b>	<b>11,503</b>	<b>16,044</b>
Opening balance, 1 January 2011	–	4,541	–	11,503	16,044
Opening balance, 1 January 2011 inTwoPac AB	–	13,461	3,141	746	17,348
Purchases	506	926	14,272	482	16,186
Sales and disposals	–	-2,241	-77	-264	-2,582
Reclassifications	–	2,046	-2,046	–	0
Impairment losses	–	–	-774	–	-774
Translation difference	–	–	–	50	50
<b>Closing balance, 31 December 2011</b>	<b>506</b>	<b>18,733</b>	<b>14,516</b>	<b>12,517</b>	<b>46,272</b>
<b>Accumulated depreciation</b>					
Opening balance, 1 January 2010	–	2,897	–	7,460	10,357
Depreciation	–	-86	–	1,638	1,724
Sales and disposals	–	–	–	-200	-200
Translation difference	–	–	–	-53	-53
<b>Closing balance, 31 December 2010</b>	<b>0</b>	<b>2,983</b>	<b>0</b>	<b>8,845</b>	<b>11,828</b>
Opening balance, 1 January 2011	–	2,983	–	8,845	11,828
Opening balance, 1 January 2011 inTwoPac AB	–	7,128	–	613	7,741
Depreciation	–	2,398	–	1,352	3,750
Sales and disposals	–	-983	–	-259	-1,242
Translation difference	–	–	–	36	36
<b>Closing balance, 31 December 2011</b>	<b>0</b>	<b>11,526</b>	<b>0</b>	<b>10,587</b>	<b>22,113</b>
<b>Carrying amounts</b>					
At 1 January 2010	0	1,622	0	3,802	5,424
At 31 December 2010	0	1,558	0	2,658	4,216
<b>At 31 December 2011</b>	<b>506</b>	<b>7,207</b>	<b>14,516</b>	<b>1,929</b>	<b>24,158</b>

Parent Company	Production equipment	Office equipment and computers	Total property, plant and equipment
<b>Accumulated cost</b>			
Opening balance, 1 January 2010	2,293	9,639	11,932
Purchases	22	424	446
Sales and disposals	–	-31	-31
<b>Closing balance, 31 December 2010</b>	<b>2,315</b>	<b>10,032</b>	<b>12,347</b>
Opening balance, 1 January 2011	2,315	10,032	12,347
Purchases	–	220	220
Sales and disposals	–	-70	-70
<b>Closing balance, 31 December 2011</b>	<b>2,315</b>	<b>10,182</b>	<b>12,497</b>
<b>Accumulated depreciation</b>			
Opening balance, 1 January 2010	1,926	6,151	8,077
Depreciation	86	1,172	1,258
Sales and disposals	–	-22	-22
<b>Closing balance, 31 December 2010</b>	<b>2,012</b>	<b>7,301</b>	<b>9,313</b>

Cont'd, Note 15

Opening balance, 1 January 2011	2,012	7,301	9,313
Depreciation	85	1,101	1,186
Sales and disposals	-	-70	-70
<b>Closing balance, 31 December 2011</b>	<b>2,097</b>	<b>8,332</b>	<b>10,429</b>
<b>Carrying amounts</b>			
<b>At 1 January 2010</b>	<b>367</b>	<b>3,488</b>	<b>3,855</b>
<b>At 31 December 2010</b>	<b>303</b>	<b>2,731</b>	<b>3,034</b>
<b>At 31 December 2011</b>	<b>218</b>	<b>1,850</b>	<b>2,068</b>

Depreciation is recognised on the following lines in the income statement:

	Group		Parent Company	
	2011	2010	2011	2010
Cost of goods sold	2,249	-	-	-
Selling expenses	1,341	1 209	693	756
Administrative expenses	553	171	178	171
Research and development expenses	373	344	316	331
	4,516	1,724	1,187	1,258

## Note 16 Financial assets

### Parent Company

	2011	2010
	Parent Company	Parent Company
<b>Participations in group companies</b>		
At beginning of year	10,469	7,469
Conditional shareholder contribution to CapAble AB	-	3,000
Reclassification of TwoPac AB from associated company to group company	10,641	-
Purchase of Infant Baby AB	50	-
<b>Book value at end of year</b>	<b>21,160</b>	<b>10,469</b>

### Specification of the Parent Company's equity holdings in group companies

Subsidiary/corp. reg.no./ Domicile	No. of shares	Holding, %	Book value
BioGaia Biologics Inc. /-/ Raleigh, NC, USA	100,000	100	0
TriPac AB /556153-2200/Lund	10,000	100	3,568
CapAble AB /556768-3601/ Stockholm	9,010	90.1	6,901
BioGaia Japan Inc. /-/ Hiroshima, Japan	180	100	0
TwoPac AB /556591-9767/Eslöv	5,000	50	10,641
Infant Baby AB /556873-8586/ Stockholm	50,000	100	50
			<b>21,160</b>

The assets and liabilities of the American subsidiary BioGaia Biologics Inc. have been translated at the closing day rate of exchange, SEK 6.88 (6.78). All items in the income statement have been translated at the average exchange rate during the year, SEK 6.48 (7.21). The assets and liabilities of the Japanese subsidiary BioGaia Japan Inc. have been translated at an exchange rate of SEK 0.089 (0.083) kronor. All items in the income statement have been translated at an exchange rate of SEK 0.082 (0.082). The resulting translation differences have been recognised in consolidated comprehensive income.

CapAble AB was formed in the autumn of 2008. BioGaia owns 90.1 per cent of the company. CapAble's President, Staffan Pålsson, owns 9.9 per cent of the company. The non-controlling interests' share in equity of CapAble amounts to SEK -82 thousand.

TwoPac AB was formed in 2002 and is owned 50 per cent by BioGaia and 50 per cent by the management of TwoPac. The non-controlling interests' share in equity of TwoPac amounts to SEK 673 thousand. Of total purchases made by the Parent Company, 1.1 per cent (1.6) was attributable to group companies. Of total sales made by the Parent Company, 1.2 per cent (0.6) was attributable to group companies.

### Participations in associated companies

	Group	2010	Parent Company	2010
	2011		2011	
At beginning of year	10,641	9,441	10,641	9,441
Share in profit for the year	-	1,200	-	-
Reversal of previous impairment loss on participation in associated company	-	-	-	1,200
Reclassification of associated company to group company	-10,641	-	-10,641	-
<b>Book value at end of year</b>	<b>0</b>	<b>10,641</b>	<b>0</b>	<b>10,641</b>

The reversal of the previous impairment loss on participations in the associated company to the value of the equity share in the Group was recognised in the Parent Company.

### Specification of the Parent Company's and the Group's equity holdings in associated companies

TwoPac AB/556591-9767/Eslöv	2010
Assets <sup>1)</sup>	14,612
Liabilities	6,432
Equity	8,180
Revenue	16,189
Profit	2,407
Number of shares	5,000
Holding, %	50
Value of equity share in Group	10,641
Book value in Parent Company	10,641

<sup>1)</sup> TwoPac's assets of SEK 14,612 thousand include cash of SEK 2,612 thousand.

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

### Effect of consolidation of TwoPac as a group company

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

	Jan-Dec 2010 <sup>1)</sup>	Jan-Dec 2010 <sup>2)</sup>
Net sales	236,033	236,033
Gross profit	164,339	158,883
Operating profit	57,588	56,270
Profit for the period before tax	70,887	69,687
Profit for the period	48,368	47,168
Profit for the period attributable to owners of the Parent Company	47,250	47,250
Basic earnings per share, SEK	2.74	2.74
Operating margin	24%	24%
Profit margin	30%	30%
Number of employees	55	45

### Balance sheet items on the balance sheet date, 31 December 2010:

Property, plant and equipment	13,824	4,216
Balance sheet total	226,131	227,822
Equity	184,660	187,323
Equity attributable to owners of the Parent Company	187,225	187,225

<sup>1)</sup> If TwoPac had been reported as a group company in 2010.

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

## ■ Note 17 Non-current receivables from subsidiaries and associated company

### Non-current receivables from subsidiaries

	Parent Company 2011	Parent Company 2010
At beginning of year	1,022	1,022
Payment of loan to BioGaia Japan Inc.	4,451	14,340
Payment of loan to TwoPac AB	11,091	–
Reclassification of loan to associated company	4,400	–
Sale of products to BioGaia Japan Inc.	3,759	1,364
Interest income from BioGaia Japan Inc.	2,243	1,224
Provisions for receivables <sup>1)</sup>	-10,453	-16,928
	<b>16,513</b>	<b>1,022</b>

<sup>1)</sup> Because it is uncertain whether the receivable from the subsidiary in Japan will be repaid within the foreseeable future, a provision has been made for this amount.

Non-current receivables from subsidiaries as of December 31	2011 Parent Company	2010 Parent Company
CapAble AB	1,022	1,022
TwoPac AB	15,491	–
	<b>16,513</b>	<b>1,022</b>

### Receivables from associated company

	Group 2011	2010	Parent Company 2011	2010
At beginning of year	4,400	4,400	4,400	4,400
Reclassification of loan to subsidiary	-4,400	–	-4,400	–
<b>Closing balance at end of year</b>	<b>0</b>	<b>4,400</b>	<b>0</b>	<b>4,400</b>

## ■ Note 18 Inventories

	Group 2011	2010	Parent Company 2011	2010
Raw materials and consumables	2,297	95	96	95
Finished goods and goods for resale	19,231	13,933	18,569	13,048
	<b>21,528</b>	<b>14,028</b>	<b>18,665</b>	<b>13,143</b>

The company's provisions for obsolescence amounted to SEK 469 thousand (239) at 31 December 2011. An individual assessment of the obsolescence reserve has been carried out. The entire inventory value is recorded at cost with a deduction for obsolescence.

## ■ Note 19 Trade receivables

The Group and the Parent Company have recorded a loss of SEK 0 thousand (0) on the write-down of trade receivables in 2011. Provisions for bad debt losses amounted to SEK 244 thousand (150) at 31 December 2011. At 31 December 2011, trade receivables of SEK 1,751 thousand (2,026) were overdue without any assessed grounds for impairment. Of the overdue receivables, SEK 1,640 thousand had been recovered as of the closing date.

An age analysis of overdue trade receivables is shown below:

	Group 2011	2010	Parent Company 2011	2010
Less than 3 months	1,727	1,910	1,714	1,910
3-6 months	24	116	–	–
	<b>1,751</b>	<b>2,026</b>	<b>1,714</b>	<b>1,910</b>

### The reported amounts for the Group's trade receivables by currency are:

	Group 2011	2010	Parent Company 2011	2010
SEK	3,349	3,906	3,338	3,903
EUR	35,479	26,184	35,464	26,105
USD	3,327	897	3,314	862
DKK	756	605	756	605
NOK	–	125	–	125
JPY	6,201	1,857	–	–
	<b>49,112</b>	<b>33,574</b>	<b>42,872</b>	<b>31,600</b>

## ■ Note 20 Related party transactions

### Group

Annwall & Rothschild Investment AB holds 740,668 class A shares and 1,259,332 class B shares, corresponding to 11.6 per cent of the share capital and 36.2 per cent of the votes. Annwall & Rothschild Investment AB is owned by Peter Rothschild, President of BioGaia AB, and Jan Annwall, a member of the Board of the Parent Company. The transaction that took place during 2011 is a dividend of SEK 2.00 per share. No other transactions have taken place between BioGaia and Annwall & Rothschild Investment AB. For further information, see Note 4, Employees and personnel expenses.

### Parent Company

The Parent Company owns 50 per cent of TwoPac AB, which is reported as a group company since 1 January 2011. TwoPac was previously reported as an associated company. For more information, see the administration report. The Parent Company owns 100 per cent of the shares in BioGaia Biologics Inc, USA, BioGaia Japan Inc, Tripac AB and Infant Baby AB. The Parent Company owns 90.1 per cent of the shares in CapAble AB.

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

	Parent Company 2011	2010
Interest income	487	119
Loan paid	-11,091	–
Purchase of goods	-26,179	-15,959

Goods are purchased at cost plus profit margin.

### The following transactions have taken place with BioGaia Japan Inc.

	Parent Company 2011	2010
Interest income	2,244	1,224
Loan paid	-4,451	-14,339
Sale of goods	3,759	1,364

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 amount.

Cont'd, Note 20

The following transactions have taken place with BioGaia Biologics Inc.

	Parent Company 2011	2010
Purchase of services	-2,284	-2,44

The following transactions have taken place with CapAble AB

	Parent Company 2011	2010
Interest income	43	27
Conditional shareholder contribution	-	-3,000
Sales of services	165	209
Group contribution paid	-2,459	-4,740
Tax on group contribution paid	647	1,249

The following transactions have taken place with Tripac AB

	Parent Company 2011	2010
Group contribution paid	-1	-1,310
Tax on group contribution paid	-	345

The closing balance was as follows:

Non-current receivables, related parties	Parent Company 31 Dec 2011	31 Dec 2010
Non-current receivables, TwoPac AB	15,491	4,400
	<b>15,491</b>	4,400
Non-current receivables, CapAble AB	1,022	1,022
<b>Current liabilities, related parties</b>		
Current liabilities, BioGaia Biologics Inc.	-805	-328
Current liabilities, BioGaia Japan	-4,241	-4,241
Current liabilities, CapAble AB	-6,720	-3,575
Current liabilities, Tripac AB	-4,648	-4,647
Current liabilities, TwoPac AB	-2,990	-1,029
	<b>-19,404</b>	-13,820

## Note 21 Other receivables

	Group 2011	2010	Parent Company 2011	2010
VAT refund	2,883	1,675	2,797	1,662
Tax asset	358	125	253	85
Foreign exchange contracts	2,873	6,277	2,873	6,277
Other receivables	930	1,365	556	633
	<b>7,044</b>	9,442	<b>6,479</b>	8,657

Forward contracts have been measured at fair value, taking into account the applicable interest rates and exchange rates on the balance sheet date.

## Note 22 Deferred expenses and accrued income

	Group 2011	2010	Parent Company 2011	2010
Accrued income	3,633	1,586	3,620	1,586
Prepaid rents	880	738	789	738
Other deferred expenses	1,581	1,024	1,138	626
	<b>6,094</b>	3,348	<b>5,547</b>	2,950

## Note 23 Financial assets and liabilities

The Group classifies its financial assets and liabilities in the following categories; financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and other financial liabilities.

### Financial assets measured at fair value through profit or loss

The Group's assets at fair value through profit or loss consist of cash and cash equivalents and short-term investments. The financial assets are recognised in the balance sheet and are valued at the closing day rate of exchange.

Assets (SEK 000s)	Fair value 31 Dec 2011	Fair value 31 Dec 2010	Carrying amount 31 Dec 2011	Carrying amount 31 Dec 2010
Cash and cash equivalents in SEK	156,561	135,703	156,561	135,703
Cash and cash equivalents in EUR	12,319	7,918	12,319	7,918
Cash and cash equivalents in USD	2,358	1,696	2,358	1,696
Cash and cash equivalents in JPY	260	1,485	260	1,485
Cash and cash equivalents in DKK	36	101	36	101
Short-term investments	80	80	80	80
<b>Total assets</b>	<b>171,614</b>	146,983	<b>171,614</b>	146,983

This item refers to listed securities. The shares have been valued at the quoted market price on the balance sheet date. The intention is to sell the shares when an appropriate occasion arises.

### Held-to-maturity investments

The Group has no held-to-maturity investments.

### Loans and receivables

The Group's holdings of loans referred to the associated company. The company is reported as a group company since 1 January 2011.

	31 Dec 2011 Carrying amount <sup>1)</sup>	31 Dec 2010 Carrying amount <sup>1)</sup>
Loan to associated company	-	4,400
Trade receivables	49,112	33,574
<b>Total loans and receivables</b>	<b>49,112</b>	37,974

<sup>1)</sup> Fair value corresponds to the carrying amount. The maximum credit risks are equal to the reported amounts.

### Other financial liabilities

The Group's other financial liabilities consist of trade payables, liabilities to associated companies and prepayments from customers.

	Fair value 31 Dec 2011	Fair value 31 Dec 2010	Carrying amount 31 Dec 2011	Carrying amount 31 Dec 2010
Trade payables	17,769	9,373	17,769	9,373
Liability to associated company	-	1,029	-	1,029
Prepayments from customer	2,960	1,054	2,960	1,054
<b>Total other financial liabilities</b>	<b>20,729</b>	11,456	<b>20,729</b>	11,456

## Note 24 Equity

The share capital in BioGaiA AB consists of 740,668 class A shares, carrying 10 votes each, and 16,530,294 class B shares, carrying one vote each. The class A and B shares grant equal entitlement to the company's assets and profits. Both the A shares and B shares have a quota value of SEK 1 each. All shares are fully paid-up and no shares are reserved for transfer. No shares are held in treasury by the company itself or by its subsidiaries.

Other contributed capital consists of payments made by the shareholders in excess of the quota value.

The translation reserve arises in translation of the net assets of foreign operations according to the acquisition method.

Retained profit consists of other equity. The Parent Company's dividend for 2011 was SEK 34.5 million, equal to SEK 2.00 per share. For 2012 the Board and President propose that the company pay an ordinary dividend of SEK 1.26 per share and an extraordinary dividend of SEK 2.74 per share, amounting to a total dividend of SEK 4.00 per share. This is equal to total dividends of SEK 69.1 million.

Non-controlling interests account for 9.9 per cent of equity in the subsidiary CapAble and 50 per cent of equity in the subsidiary TwoPac AB.

Equity in the BioGaiA Group consists of the sum of equity attributable to owners of the Parent Company and equity attributable to non-controlling interests. At 31 December 2011, total consolidated equity amounted to SEK 230.3 million (187.3) and equity attributable to owners of the Parent Company amounted to SEK 229.8 million (187.2).

### Dividend policy

The company's policy is to pay a shareholder dividend equal to 30 per cent of profit after tax.

### Key ratios

	2011	2010
Number of shares at 31 Dec., thousands	17,271	17,271
Average number of shares, thousands	17,271	17,230
Number of outstanding warrants, thousands	–	–
Number of outstanding warrants with a dilutive effect, thousands	–	–
Number of outstanding shares including outstanding warrants with a dilutive effect, thousands	17,271	17,271
Earnings per share, SEK	4.42	2.74
Earnings per share after dilution, SEK	4.42	2.74
Equity per share, SEK	13.30	10.84
Equity per share after dilution, SEK	13.30	10.84
Return on equity, %	37	27
Share price on closing day, SEK	163	96.00
Dividend per share, SEK	4.00 <sup>1)</sup>	2.00

<sup>1)</sup> Dividend proposed but not yet approved. The Board and President propose that the company pays an ordinary dividend of SEK 1.26 per share and an extraordinary dividend of SEK 2.74 per share, equal to a total dividend of SEK 4.00 per share.

## Note 25 Other liabilities

	Group 2011	2010	Parent Company 2011	2010
Employee withholding tax	880	696	779	667
Other current liabilities	416	–	–	–
	1,296	696	779	667

## Note 26 Accrued expenses and deferred income

	Group 2011	2010	Parent Company 2011	2010
Accrued holiday pay	3,985	3,699	3,364	3,515
Accrued social security expenses	859	648	709	625
Other accrued expenses	10,321	5,814	9,190	5,432
	15,165	10,161	13,263	9,572

## Note 27 Pledged assets and contingent liabilities

	Group 2011	2010	Parent Company 2011	2010
<b>Pledged assets</b>				
Floating charges	2,000	2 000	2,000	2 000
Blocked account for new facility in TwoPac AB	3,874	–	–	–
Contingent liabilities	None	None	None	None

## Note 28 Policy for financial risk management

The overall objective of the Group's finance function is to secure cost-effective financing for the Group's operations and group companies and to provide secure cash management with a market-based return on investment. The overall objective of financial risk management is to minimise the risk for negative effects on the Group's earnings. Consequently, the Group's financial investments must have a low risk profile.

The Group's assessed risk exposure and related risk management are described below:

### Currency risk

BioGaiA has revenue primarily in EUR (around 80 per cent of net sales) and expenses primarily in SEK, EUR, JPY and USD. In 2011 the company had a cash flow surplus of approximately EUR 17.6 million (14.0), a cash flow deficit of JPY 65.2 million (170.0) and a cash flow deficit of USD 0.3 million (0.6). Growth in sales has also led to increased currency risks, for which reason the company has taken currency hedges in EUR. The company's Board of Directors has issued a policy to hedge approximately 50-60 per cent of projected cash flow 12 months forward and approximately 10-40 per cent of projected cash flow 13-24 months forward in order to spread the risk for exchange rate fluctuations. At 31 December 2011 the company had outstanding forward exchange contracts for EUR 13.3 million at an average exchange rate of SEK 9.30, of which EUR 8.9 million will mature for payment in 2012 and EUR 4.4 million in 2013. For more information see Notes 10 and 21. A stronger SEK rate against the EUR will decrease the value of BioGaiA's sales and profit, but through profitable forward exchange transactions and by trying to reallocate a portion of expenses to EUR, the company should be able to minimise the impact on earnings. BioGaiA is also trying to reallocate a portion of its revenue from EUR to other currencies, primarily SEK.

### Interest rate risk

The Group has no loans and therefore no interest rate risks. Excess liquidity is held in bank interest rates or invested in fixed income securities with a high credit rating, which the company regards as a risk-free investment.

### Credit risk

BioGaiA's credit risks are attached to trade receivables and, for the Parent Company, also loans to subsidiaries. When signing agreements with new customers, BioGaiA always carries out an assessment of the customer's financial position. The company has routines for collection of past due accounts receivable and additional evaluation of the customers' financial position is carried out when needed in order to minimise risks.

The loan from the Parent Company to the subsidiary CapAble AB has been used to purchase equipment for manufacturing of LifeTop Cap. The company's assessment is that the loan entails no credit risk. The loan from the Parent Company to the subsidiary TwoPac AB has been used mainly

Cont'd, Note 28

to build a new production facility in Eslöv, Sweden. The company's assessment is that the loan entails no credit risk.

**Liquidity risk**

Excess liquidity is held in bank interest rates or invested in fixed income securities with a high credit rating.

**Cash flow risk**

In 2011 BioGaia had a positive cash flow from operating activities before changes in working capital of SEK 77.2 million (66.0). After changes in working capital, cash flow was SEK 72.8 million (69.0). Total cash flow for the year was SEK 24.7 million (47.5). Because cash and cash equivalents at 31 December 2011 amounted to SEK 171.5 million (146.9) and cash flow is positive, no infusion of capital is necessary.

**Price risk**

BioGaia buys most of its goods on the international market and has several alternative suppliers, which minimises the company's price risk.

**Note 29 Critical accounting estimates and assumptions**

Certain sources of uncertainty in accounting estimates and assumptions are described below.

**BioGaia's Japanese venture**

The Japanese subsidiary has operated at a loss since the start in 2006. The previously chosen business model was found to be unsuccessful and in 2010 BioGaia decided to change the business model in Japan to that which is used in the other markets. As a result of this, the loss in the Japanese subsidiary decreased in 2011 and the company reported an operating loss of SEK -3.9 million (-14.8). On the balance sheet date, assets in the Japanese subsidiary were reported at SEK 8.7 million (5.6). BioGaia's assessment is that the subsidiary will show good profitability in the future, for which reason there was no indication of impairment of these assets on the balance sheet date.

**Shares in group companies**

CapAble, which is 90.1 per cent owned by BioGaia AB, was started in November 2008 to manufacture and sell the patented LifeTop Cap.

The shares in the subsidiary CapAble are reported at a total of SEK 6.9 million in the Parent Company. CapAble has operated at a loss since the start in 2008. Loss before tax for 2011 was SEK -2.5 million.

BioGaia made total conditional shareholder contributions of SEK 6 million to CapAble in 2009 and 2010.

BioGaia's assessment is that CapAble will show good profitability in the coming years, for which reason there was no indication of impairment on the balance sheet date.

**The Board of Directors and the President hereby give their assurance that the consolidated financial statements and annual report have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and generally accepted auditing practices, and give a true and fair view of the financial position and results of operations of the Group and the Parent Company.**

**The administration report for the Group and the Parent Company gives a true and fair view of the business activities, financial position and results of operations of the Group and the Parent Company, and describes the significant risks and uncertainties to which the Parent Company and the Group companies are exposed.**

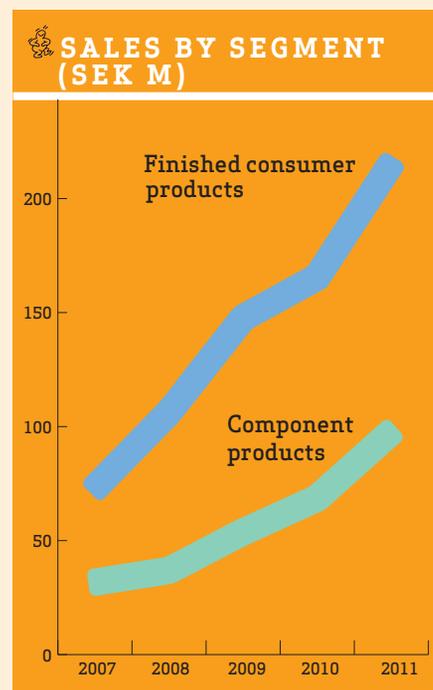
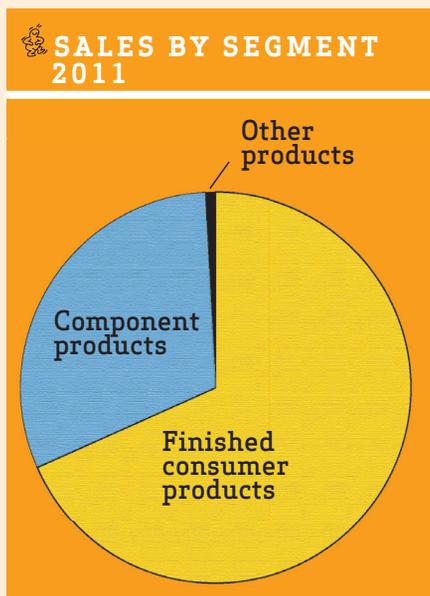
Stockholm, 21 February 2012

David Dangoor <i>Chairman</i>	Peter Rothschild <i>President</i>
Jan Annwall	Stefan Elving
Thomas Flinck	Inger Holmström
Jörgen Thorball	Paula Zeilon

**My audit report was submitted on 21 February 2012**

Grant Thornton Sweden AB

Lena Möllerström Nording  
*Authorised Public Accountant*



# Five-year summary

## Key ratios

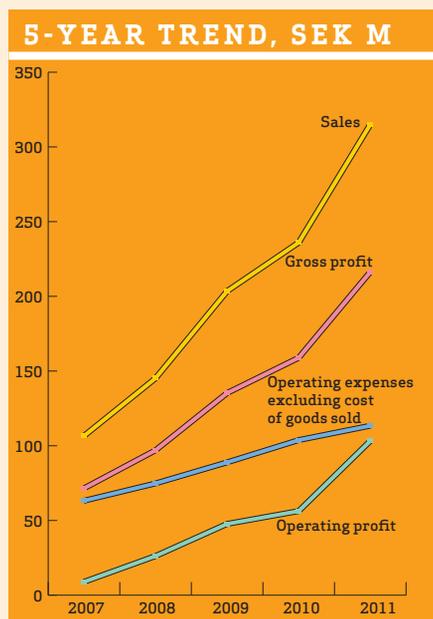
	2011	2010	2009	2008	2007
Net sales, SEK M	<b>315.0</b>	236.0	203.5	145.2	106.6
Operating profit, SEK M	<b>103.2</b>	56.3	47.7	25.8	8.9
Profit before tax, SEK M	<b>108.9</b>	69.7	53.1	24.0	10.7
Profit after tax, SEK M	<b>79.5</b>	47.2	36.0	36.1	19.7
Profit after tax attributable to owners of the Parent Company, SEK M	<b>76.4</b>	47.3	36.3	36.1	19.7
Growth, %	<b>33</b>	16	40	36	23
Operating margin, %	<b>33</b>	24	23	18	8
Profit margin, %	<b>35</b>	30	26	17	10
Current ratio, times	<b>5.2</b>	5.1	8.2	5.1	5.1
Equity/assets ratio, %	<b>82</b>	82	90	86	86
Capital employed, SEK M	<b>230.5</b>	187.3	161.1	132.4	94.9
Return on capital employed, %	<b>52</b>	40	36	25	13
Return on equity, %	<b>37</b>	27	25	32	23
Average number of employees	<b>61</b>	45	43	39	37

## Data per share

Number of shares at 31 Dec., thousands <sup>1)</sup>	<b>17,271</b>	17,271	17,208	17,208	17,208
Average number of shares, thousands	<b>17,271</b>	17,230	17,208	17,208	17,208
Number of outstanding warrants, thousands	–	–	129	129	129
Number of outstanding warrants with a dilutive effect, thousands	–	–	129	–	–
Number of outstanding shares including outstanding warrants with a dilutive effect, thousands	<b>17,271</b>	17,271	17,337	17,208	17,208
Basic earnings per share, SEK	<b>4.42</b>	2.74	2.11	2.10	1.14
Diluted earnings per share, SEK	<b>4.42</b>	2.74	2.09	2.10	1.14
Equity per share, SEK	<b>13.30</b>	10.84	9.37	7.69	5.52
Equity per share after dilution, SEK	<b>13.30</b>	10.84	9.30	7.69	5.52
Share price on the balance sheet date, SEK	<b>163.00</b>	96.00	80.00	33.10	27.80
Dividend per share, SEK	<b>4.00<sup>2)</sup></b>	2.00	1.50	0.40	–

<sup>1)</sup> The share capital consists of 740,668 class A shares and 16,530,294 class B shares. The quota value is SEK 1 per share.

<sup>2)</sup> Dividend proposed but not yet approved.



## Definitions

### Basic earnings per share

Profit after tax attributable to owners of the parent company divided by the number of shares.

### Capital employed

Balance sheet total less interest-free liabilities.

### Current ratio

Total current assets divided by current liabilities.

### Diluted earnings per share

Profit after tax attributable to owners of the Parent Company divided by the number of shares plus the number of outstanding warrants with a dilutive effect

### Diluted equity per share

Shareholders' equity attributable to the owners of the parent company divided by the number of shares plus the number of outstanding warrants with a dilutive effect.

### Equity/assets ratio

Shareholders' equity attributable to the owners of the company divided by total assets.

### Equity per share

Shareholders' equity attributable to the owners of the company divided by the number of shares.

### Growth

Sales for the current year less sales for the previous year divided by sales for the previous year.

### Operating margin

Operating profit in relation to net sales.

### Profit margin

Profit before tax in relation to net sales.

### Return on capital employed

Profit before financial items plus financial income, divided by average capital employed.

### Return on equity

Profit after tax equity attributable to the owners of the Parent Company divided by average shareholders' equity attributable to the owners of the Parent Company.

# Audit Report

To the general meeting of BioGaia AB (publ), corporate identity number 556380-8723

## Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of BioGaia AB for the year 2011. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 38-60.

### Responsibilities of the Board of Directors and the President for the annual accounts and consolidated accounts

The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent Company as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of 31 December 2011 and of their financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the Parent Company and the Group.

## Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of BioGaia AB for the year 2011.

### Responsibilities of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the President are responsible for administration under the Companies Act.

### Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act and the Articles of Association.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to

determine whether any member of the Board of Directors or the President is liable to the company. We also examined whether any member of the Board of Directors or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

**Stockholm, 21 February 2012**  
Grant Thornton Sweden AB

Lena Möllerström Nording  
*Authorised Public Accountant*

# Corporate governance report 2011

## Corporate governance in BioGaiä

BioGaiä is a Swedish public limited company whose class B shares are listed on the Mid Cap list of the NASDAQ OMX Nordic Exchange Stockholm. The company's corporate governance is exercised through the General Meeting of Shareholders, the Board of Directors, the President and the Executive Management in accordance with the Swedish Companies Act, the Articles of Association and the Swedish Code of Corporate Governance.

## Articles of Association

According to BioGaiä's Articles of Association, the company, directly or through subsidiaries or other forms of co-ownership or partnership, shall engage in the development, production, marketing and sale of health-enhancing products in the form of pharmaceuticals, natural health products, dietary supplements, additives for food products and animal feed, suitable delivery systems for these products and other activities compatible therewith. The company is domiciled in Stockholm, Sweden. The Articles of Association can be viewed on BioGaiä's website under the heading "Investors/Corporate Governance".

## General Meeting of Shareholders

The General Meeting of Shareholders is the highest decision-making body through which the shareholders exercise their influence over the company. The Annual General Meeting (AGM) elects the members of the Board of Directors. The responsibilities of the AGM also include adoption of the company's income statements and balance sheets, approval of the appropriation of disposable profits and discharge from liability for the members of the Board and the President. The AGM also elects the company's auditor.

One shareholder, Annwall & Rothschild Investment AB, holds 11.6 per cent of the share capital and 36.2 per cent of the votes in the company. Other individual shareholders hold less than 10 per cent of the share capital and votes each.

### 2011 AGM

BioGaiä's AGM was held on 10 May 2011 and was attended by shareholders representing 44.4 per cent of the total number of votes in the company. The AGM was also attended by the company's President, the Board members elected by the previous AGM and all of the Board members elected by the year's AGM, as well as the company's elected auditor.

### 2012 AGM

The 2012 AGM will be held at 4:00 p.m. on Tuesday, 8 May 2012, at Citykonferensen Ingenjörshuset, Malmskillnadsgatan 46, in Stockholm.

### Notice of the AGM

Notice of the AGM is given through an announcement in the Official Gazette (Post- och Inrikes Tidningar) and on the company's website. An announcement that notice has been given shall be published in Svenska Dagbladet no earlier than six weeks and no later than four weeks prior to the Meeting.

## Nominating Committee

The task of the Nominating Committee is to prepare recommendations regarding election and remuneration for decision by the AGM.

The 2011 resolved that the Nominating Committee

would be appointed according to the following:

"The Board Chairman shall convene the three largest shareholders in the company in terms of voting power, each of which has the right to appoint a member to the Nominating Committee together with the Board Chairman. In determining the composition of the Nominating Committee, the largest shareholders in terms of voting power shall be based on the ownership conditions at 30 June 2011. The Nominating Committee shall be chaired by the member representing the largest shareholder at that time. If any of the three largest shareholders should waive their right to appoint a member to the Nominating Committee, the next largest shareholder in order of voting power shall be given the opportunity to appoint a member. The names of the three shareholder representatives shall be made public as soon as they have been appointed, but no later than six months before the 2012 AGM. The term of office shall extend until a new Nominating Committee has been appointed.

In the event that the shareholder represented by a member is no longer one of the three largest shareholders in terms of voting power, and if the Nominating Committee deems it appropriate, the member can resign and a representative for the next largest shareholder in order of voting power can be given the opportunity to replace this member. The same applies of a member of the Nominating Committee leaves the Committee for some other reason."

In accordance with the AGM's resolution, the Nominating Committee was appointed and consists of Per-Erik Andersson, representing Annwall & Rothschild Investment AB, the company's largest shareholder, Allan Ladow, representing Sebastian Jahreskog, who is the second largest shareholder via direct and indirect holdings, and Board Chairman David Dangoor, the fourth largest shareholder. All three members of the Nominating Committee are independent in relation to the company and its management.

The Nominating Committee will prepare recommendations for the following matters to be put before the 2012 AGM for resolution:

- appointment of the Chairman of the AGM
- election of the Board of Directors
- election of the Board Chairman
- fees for members of the Board
- fees for the auditors
- appointment of the Nominating Committee ahead of the 2013 AGM

All shareholders have the opportunity to contact the Nominating Committee with recommendations for Board candidates for further evaluation within the framework of the Committee's work. No suggestions or proposals have been submitted to the Nominating Committee as of today's date.

The Nominating Committee presents a written motivation to the AGM for election of Board members.

## Board of Directors

According to BioGaiä's Articles of Association, the Board shall consist of at least five and at most eight members with no more than three deputies. The Board is elected yearly by the AGM to

serve for the period until the end of the following AGM. In 2011 the Board consisted of seven members elected by the AGM, with no deputies. One Board member, Jan Annwall, has been a member of the Board since 1990 and is a major shareholder in the company. Jan Annwall was previously employed by the company as CFO and Executive Vice President, but retired on 1 April 2010. However, Jan Annwall works to a limited extent as a consultant to the company. The six remaining members are independent in relation to both the company and its management. A presentation of the Board is provided on page 66.

BioGaiä's independent legal counsel has been appointed to serve as Secretary at Board meetings. The President is not a member of the Board but is co-opted to attend all Board meetings. Other executives in the company take part in Board meetings in order to present reports. The Board has adopted rules of procedure that include instructions for the division of responsibilities between the Board and the President and the structure of Board activities during the year. Furthermore, the Board has adopted instructions for the President, authorisation instructions including instructions for liquidity management and a policy for foreign exchange management. The rules of procedure, President's instructions and authorisation instructions are reviewed at least once a year.

The Board decides on matters related to the Group's overall strategy, organisation and management. The Board approves both interim reports and the annual report before these are published. The Board held nine minutes meetings and one strategy seminar in 2011. At these meetings the Board has discussed budgetary matters, business plans, financial accounts, investments, financial reports and major agreements. At the strategy seminar, the Board dealt mainly with issues concerning R&D, product development, brand building and related matters. During the year, Inger Holmström was absent from one meeting.

The Board of Directors continuously evaluates its own performance through both open discussions and a written evaluation. The results of the written evaluation are submitted to the Nominating Committee

## Board fees

The 2011 AGM resolved that Board fees would be paid in an amount of SEK 300,000 to the Board Chairman and SEK 150,000 to each of the other Board members not employed by the company.

## Board Chairman

The Chairman supervises the work of the Board and is responsible for ensuring that the Board carries out its duties in accordance with the Swedish Companies Act and the rules of procedure. Through ongoing contact with the President, the Chairman continuously monitors the company's development and ensures that the Board is provided with the information necessary to carry out its duties. David Dangoor has been Board Chairman since the 2007 AGM.

## President

The President is responsible for overseeing the company's business development and for

supervising and coordinating its day-to-day operations. The Board has established instructions for the President that among other things regulate his management and development of the company and the provision of reports and decision data to the Board. The President prepares the requisite information and decision data such as reports on the company's finances, the order situation, significant business matters and strategic issues prior to Board meetings, as well as presenting reports and motivating proposals for decision. Furthermore, the President continuously informs the Board Chairman about the company's financial and business situation. Every year the Board carries out an evaluation of the President's performance in which no member of the Executive Management is present.

### Executive Management

BioGaia's Group Executive Management consists of the eight individuals who are presented on page 67. The Group's Executive Management is headed by the President and is responsible for planning, supervising and monitoring the company's day-to-day operations. Minuted meetings are normally held once a month. The responsibilities and powers of the President are regulated by the Swedish Companies Act and by the instructions that are adopted by the Board. The responsibilities and powers of the Executive Management are defined in the established job descriptions and authorisation instructions.

### Remuneration Committee

The Board has appointed a Remuneration Committee consisting of the Board Chairman David Dangoor and Board member Stefan Elving. The task of the Remuneration Committee is to prepare recommendations for remuneration and other terms of employment of the President and other senior executives who together make up the Executive Management. The principles for remuneration to senior executives are resolved on by the AGM. The Remuneration Committee prepares its recommendations based on these principles.

### Auditors

BioGaia's independent auditors are normally appointed by the AGM to serve for a period of four years. The 2010 AGM elected Grant Thornton Sweden AB as the company's auditor until the end of the 2014 AGM. Grant Thornton has appointed Lena Möllerström Nording as Auditor in Chief. By decision of the AGM, auditing fees are paid according to approved account.

The auditors examine the administration of the company by the Board of Directors and the President and the quality of the company's financial reporting. At the request of the Board, the auditors review the semi-annual report and the year-end report.

The auditors report the results of their review to the shareholders through an audit report, which is presented to the AGM. In addition, the auditors submit written and oral reports to the Executive Management and the Board. The auditors take part in the Board meeting preceding publication of the year-end report to present the results of their audit of the annual accounts and observations from ongoing examination of the company's internal control during the financial year.

The auditors also submit an auditor's statement on the corporate governance report and a report on the examination of remuneration to senior executives.

In addition, Grant Thornton has provided certain tax-related advice and performed other audit-related services. Information about remuneration to the

auditors can be found in Note 5 of the annual report.

Due to the fact that independent Board members have accounting expertise and in view of the Board's ongoing examination of the financial reporting and the company's limited size and transaction volume, the Board has decided not to set up any audit committee. Instead, the entire Board of Directors meets with the auditors at least once a year without the presence of the President or other members of the Executive Management.

### The Board's report on internal control over financial reporting for the 2011 financial year

#### Introduction

As stated in the Swedish Companies Act and the Swedish Code of Corporate Governance (the Code), the Board of Directors is responsible for establishing and maintaining adequate internal control. This report has been prepared in accordance with these rules and provisions and is thereby limited to internal control over financial reporting.

#### Financial reporting

The Board is responsible for ensuring that the company's organisation is suitably structured so that the financial accounts, cash management and other financial conditions can be controlled satisfactorily.

Every year, the Board of Directors adopts rules of procedure for the Board's activities and instructions regulating the division of responsibilities between the Board and the President. The rules of procedure state which matters require approval or authorisation from the Board. At Board meetings, the President reports on matters requiring treatment by the Board.

The Managing Director ensures that the Board is provided with the objective, detailed and relevant information needed for the Board to make well founded decisions and that the Board is continuously informed about the company's business development and financial position.

Aside from the rules of procedure between the Board and the President, BioGaia's control environment is based on the company's organisation and operating structure, in which roles and responsibilities are defined. There is a high level of employee awareness about the importance of maintaining good control over financial reporting. The company's financial development is assessed and monitored monthly. Financial reports and summaries are prepared by the Group's finance department and are presented to the Board quarterly and to the Executive Management monthly.

#### BioGaia's values

BioGaia's vision is to improve the health of people around the world by offering first class probiotic solutions.

BioGaia also has a set of shared values and the company's employees are well aware of these.

BioGaia and BioGaia's employees:

- are fast, innovative and respectful
- build strong relationships with their customers
- strive for high quality and deliver on time
- have ethical principles and are open and honest
- take personal responsibility for and are dedicated to the company's business.

#### Risk assessment

The company works continuously with risk assessment and risk management to ensure that the risks to which the company is exposed are handled within the limits ultimately established by the Board. The executive management conti-

nously analyses the company's business processes with regard to efficiency and risks. This work includes the identification of significant risks for misstatements and deficiencies in the financial reporting. To limit risks, suitable processes and controls are built into the company's operations. The most critical business processes and the absolutely largest values, in terms of both assets and business/product development, are found in the Parent Company. In addition, the bulk of sales take place in the Parent Company. Processes that are deemed to be of special importance to BioGaia are sales including quality assurance, R&D and manufacturing.

#### Control activities

The risks identified in financial reporting are managed through a number of control activities in the company's processes. Processes and controls are reviewed and updated regularly in order to detect, prevent and correct any errors or deficiencies. The control structure also includes the division of powers and responsibilities and the Executive Management's monthly review of the company's financial information.

#### Information and communication

BioGaia has information and communication paths that are designed to promote the completeness and accuracy of the financial reporting. Authorisation instructions and policies are distributed to all employees and can be viewed on the company's intranet. Once or twice a year, all of BioGaia's employees meet to increase their knowledge about the company's processes and goals and to exchange information and experiences. In 2011 the company's employees met for two days in May.

#### Monitoring

The Executive Management performs a yearly evaluation of the effectiveness of internal control. Every year, the company's elected auditing firm, Grant Thornton Sweden AB, also audits of a selection of BioGaia's routines and internal controls. The Board then evaluates this information and ensures that measures are taken in respect of the identified deficiencies and resulting recommendations.

The company has no special internal audit function. In light of the company's size and the volume of transactions, together with the expertise in this area possessed by the Board of Directors and the Board's meeting with the independent auditor, the Board has determined that there is no reason to set up a formal internal audit function.

**Stockholm, 21 February 2012**

**Board of Directors of BioGaia AB**

#### Auditors' statement on the corporate governance report

The Board of Directors and the President are responsible for the corporate governance report and for ensuring that it is prepared in accordance with the Annual Accounts Act.

As a basis for our statement on whether the corporate governance report has been prepared and is consistent with the other parts of the annual report, we have read the corporate governance report and judged its statutory content based on our knowledge of the company.

A corporate governance report has been prepared and its statutory information is consistent with the annual report and the consolidated accounts.

**Stockholm, 21 February 2012**

Grant Thornton Sweden AB

Lena Möllerström Nording  
Authorised Public Accountant

# The BioGaia share

Figures in brackets refer to the preceding year

## Trading volume

BioGaia AB's class B share has been quoted on the OMX Nordic Exchange Stockholm since May 1998. On 1 January 2012 the share was moved from the Small Cap list to the Mid Cap list. In 2011 BioGaia shares were traded for a total of around SEK 872 million (524), corresponding to approximately 6.3 million shares (5.8).

The number of shareholders at 31 December 2011 was 6,752 (6,985).

The total registered share capital of BioGaia AB consists of 740,668 class A shares and 16,530,294 class B shares.

## Share price development

In 2011 the share price increased from SEK 96.00 to SEK 163.00. The highest closing price during the year was SEK 174.00 and the lowest was SEK 94.50. Market capitalisation at 31 December 2011 was approximately SEK 2,815 million (1,660).

## Dividend policy

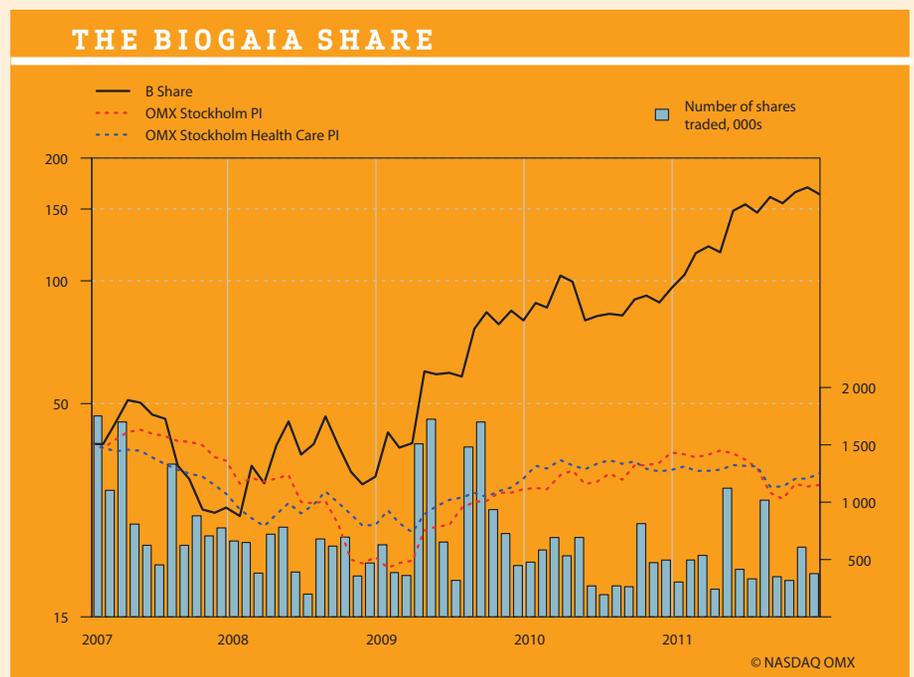
BioGaia's policy is to pay a shareholder dividend equal to 30% of profit after tax.

## Incentive scheme

BioGaia has no ongoing warrant programmes.

## Distribution of ownership (30 Dec.)

Number of shares	Total number of shareholders, 31 December	
	2010	2011
1–500	5,221	5,245
501–1,000	927	781
1,001–5,000	621	525
5,001–10,000	86	72
10,001–15,000	24	21
15,001–20,000	18	13
20,001–	88	95
Total number of shareholders:	6,985	6,752



## Largest shareholders in BioGaia at 31 December 2011 (source: Euroclear Sweden AB)

	A shares, 000's	B shares, 000's	Share capital, SEK 000's	No. of votes, 000's	Holding, %	Votes, %
Annwall & Rothschild Inv. AB	741	1,259	2,000	8,666	11.6	36.2
Sebastian Jahreskog		1,061	1,061	1,061	6.1	4.4
David Dangoor (inkl bolag)		569	569	569	3.3	2.4
SIX SIS AG		569	569	569	3.3	2.4
Futuris		530	530	530	3.1	2.2
Pictet & CIE		519	519	519	3.0	2.1
Livförsäkringsaktiebolaget Skandia		477	477	477	2.8	2.0
Swedbank Robur fonder		416	416	416	2.4	1.7
Handelsbanken fonder		406	406	406	2.4	1.7
AMF Försäkring och Fonder		388	388	388	2.3	1.6
Skandinaviska Enskilda Banken S.A., NQI		387	387	387	2.2	1.6
Banque Carnegie Luxembourg SA		309	309	309	1.8	1.3
Försäkringsaktiebolaget Avanza Pension		303	303	303	1.8	1.3
Credit Agricole Suisse SA		300	300	300	1.7	1.3
Caroline Hamilton		299	299	299	1.7	1.3
Fidelity Nordic Fund		285	285	285	1.7	1.2
Hanvad Invest Aktiebolag		268	268	268	1.6	1.1
Lars Thunberg		214	214	214	1.2	0.9
Tanglin Asset Managment AB		178	178	178	1.0	0.7
Subfund Ruffer European FD		165	165	165	1.0	0.7
Sten Irwe		158	158	158	0.9	0.7
Incore bank AG		152	152	152	0.9	0.6
Lärostandens Brandförsäkring GE		130	130	130	0.8	0.5
Goldman Sachs International		127	127	127	0.7	0.5
Nordnet pensionsföräkring AB		125	125	125	0.7	0.5
Other shareholders		6,936	6,936	6,936	40.1	29.0
<b>Total</b>	<b>741</b>	<b>16,530</b>	<b>17,271</b>	<b>23,937</b>	<b>100.0</b>	<b>100.0</b>

## Changes in share capital since the Company's formation

Year	Transaction	Increase in no. of shares	Increase in share capital, SEK	Total share capital, SEK	Total no. of A shares	Total no. of B shares	Quota value, SEK	Issue proceeds, SEK
1990	Company founded			150,000		30,000	5.00	–
1991	New share issue	12,857	64,285	214,285		42,857	5.00	4,500,000
1993	New share issue	12,554	62,770	277,055		55,411	5.00	4,394,341
1995	New share issue	2,303	11,515	288,570		57,714	5.00	806,009
1996	Bonus issue/Split	60,541,986	5,771,400	6,059,970	4,740,278	55,859,422	0.10	–
1996	New share issue	18,200,000	1,820,000	7,879,970	4,740,278	74,059,422	0.10	15,320,000
1997	New share issue							
	Banco Fonder	2,608,696	260,870	8,140,840	4,740,278	76,668,118	0.10	5,760,000
1997	New share issue							
	BioGaia Fermentation	4,400,000	440,000	8,580,840	4,740,278	81,068,118	0.10	7,469,000
1997	New share issue	21,452,099	2,145,210	10,726,050	5,925,347	101,335,148	0.10	38,597,265*
1998	New share issue	5	1		5,925,350	101,335,150	0.10	20
1998	Reverse split				592,535	10,133,515	1.00	–
1998	New share issue (IPO on SSE)	2,681,512	2,681,512	13,407,562	740,668	12,666,894	1.00	57,934,131*
2000	New share issue November	3,275,000	3,275,000	16,682,562	740,668	15,941,894	1.00	73,031,886*
2000	New share issue December	425,000	425,000	17,107,562	740,668	16,366,894	1.00	11,505,294*
2004	New share issue Industrifonden	100,000	100,000	17,207,562	740,668	16,466,894	1.00	100,000
2010	New issue, warrant programme	63,400	63,400	17,270,962	740,668	16,530,294	1.00	4,862,780

\*Excluding underwriting costs

# BioGaia's Board of Directors

Photo: Anette Andersson



## David Dangoor

Born in 1949.

Chairman of the Board. Elected to the Board in 2003. M.B.A. Marketing and PR consultant. President of Innoventive Partners LLC. Former Vice President and Marketing Director at Philip Morris USA and Philip Morris International.

Other board assignments: Lifetime Brands, Inc., New York, City Ballet Inc., School of Creative Leadership, Berlin University and Swedish-American Chambers of Commerce (SACC NY, Chairman 1997–2001), among others.

Holds 518,918 class B shares and 50,000 class B shares via private company.



## Inger Holmström

Born in 1948.

Elected to the Board in 2007.

M.A. in language and linguistics and a degree in journalism. Communication and Relationships Director in Paf. Former Corporate Communications Director at Coop Norden, Posten and Vattenfall.

Other board assignments: Star Management AB. Holds 500 class B shares.



## Jörgen Thorball

Born in 1962.

Elected to the Board in 2008.

Physician. Managing Partner in XOventure GmbH. Former international senior positions for example at Novozymes, BioGaia, Aventis and Pharmacia.

Other board assignments: ViroGates A/S, YourGlobalEye Aps and Immudex A/S. Holds 0 shares.



## Jan Annwall

Born in 1950.

Elected to the Board in 1990. M.B.A. Former Executive Vice President and CFO of BioGaia AB. Founder and principal shareholder in BioGaia AB. Holds 370,334 class A shares and 629,666 class B shares via Annwall & Rothschild Investment AB.



## Thomas Flinck

Born in 1948.

Elected to the Board in 1996. M.B.A. Managing Director and partner in Centrecourt AB. Other board assignments: Centrecourt AB and Briggen Tre Kronor AB, among others. Holds 57 class B shares.



## Stefan Elving

Born in 1941.

Elected to the Board in 2001.

Former Marketing Director and Executive Vice President of ICA Handlarnas AB.

Other board assignments: Arcus AS and Cervera AB. Holds 0 shares.



## Paula Zeilon

Born in 1962.

Elected to the Board in 2003. M.Sc.Eng. Partner in Conlega affärskonsultbolag. President of Life Science Foresight Institute. Former Marketing Director of Amersham Biosciences AB.

Other board assignments: Hansa Medical AB. Holds 0 shares.

# BioGaia's Executive Management



## **Peter Rothschild**

Born in 1950.  
M.B.A. President, founder and principal shareholder. Board assignments in Looft Industries AB and Moberg Derma AB. Holds 370,334 class A shares and 629,666 class B shares via Annwall & Rothschild Investment AB and 50,000 class B shares privately.



## **Jonas Weimer**

Born in 1971.  
M.B.A. Vice President Sales and Marketing. Employed by the company since 1998, in current position since 2008. Holds 8,000 class B shares.



## **Margareta Hagman**

Born in 1966.  
M.B.A. Executive Vice President Accounting, Finance and Investor Relations. Employed by the company since 1996, in current position since 2010. Holds 9,000 class B shares.



## **Eamonn Connolly**

Born in 1957.  
Ph.D. Senior Vice President Research. Employed by the company since 2000, in current position since 2002. Holds 0 shares.



## **Kristina Silverio**

Born in 1964.  
M.Sc.Eng. Vice President Production and Supply. Employed by the company since 2003, in current position since 2005. Holds 0 shares.



## **Urban Strindlöv**

Born in 1964.  
Mechanical Engineer. Executive Vice President Business and Product Development. Employed by the company since 2004, in current position since 2010. Holds 0 shares.



## **Björn Lindman**

Born in 1946.  
Ph.D. Senior Vice President Quality Assurance and Regulatory Affairs. Employed by the company since 1999, in current position since 2002. Holds 0 shares.



## **Bo Möllstam**

Born in 1952.  
M.B.A. Director of Intellectual Property. Employed by the company since 1990, on a consulting basis since 2003. Holds 70,000 class B shares.

# BioGaia®

Clinically Proven Probiotics



The annual report will be distributed to all shareholders. The year-end report, annual report and quarterly reports are also available in English. All financial information is published on [www.biogaia.com](http://www.biogaia.com) and can be ordered from BioGaia's head office.

#### **BioGaia AB**

Kungsbroplan 3A  
Box 3242  
SE-103 64 Stockholm  
Tel +46 8 555 293 00  
Fax: +46 8 555 293 01  
E-post: [info@biogaia.se](mailto:info@biogaia.se)  
[www.biogaia.com](http://www.biogaia.com)

#### **BioGaia AB**

Stora Södergatan 47  
Box 966  
SE-220 09 Lund  
Tel: +46 46 311 900  
Fax: +46 46 311 901

#### **BioGaia Biologics Inc.**

6213 - D Angus Drive  
Raleigh, NC 27 617,  
USA  
Tel: +1 919 782 33 12  
Fax: +1 919 783 69 40

#### **BioGaia Japan Inc.**

3-17 Komachi, Naka-Ku  
730-0041  
Hiroshima City, Japan  
Tel: +81 82 244 5021  
Fax: +81 82 244 5022

#### **Press**

Peter Rothschild  
[pr@biogaia.se](mailto:pr@biogaia.se)

#### **Investor Relations**

Margareta Hagman  
[mh@biogaia.se](mailto:mh@biogaia.se)