

## BioGaia AB

### Interim report 1 January – 31 March 2013 (13 pages)

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

#### President's comment

“The year is off to a positive start with a growth rate of 25% (excluding foreign exchange effects) of our finished consumer products and in light of our focused efforts to enter the truly large markets and create additional business opportunities together with Nestlé, I am optimistic about our ability to exploit the potential of our acknowledged effective products in the expanding probiotics market,” says Peter Rothschild, President of BioGaia AB.

“Sales of component products, consisting mainly of cultures to Nestlé and a few other producers of baby formula products, decreased according to plan following last year's agreement with Nestlé for a perpetual license to use *Lactobacillus reuteri* Protectis in baby formula” continues Peter Rothschild, President of BioGaia AB.

#### 1 January – 31 March 2013

- Net sales reached SEK 78.1 million (78.3) (excluding licence revenue from Nestlé), which is a decrease of SEK 0.2 million (0%). Excluding foreign exchange effects, net sales improved by SEK 3.0 million (4%). Net sales for the previous year also included licence revenue of SEK 356.0 million from Nestlé, regarding the license to use *Lactobacillus reuteri* Protectis in infant formula during the remaining time of the patent that was regarded as non-recurring revenue.
- Net sales of finished consumer products amounted to SEK 65.6 million (54.8), an increase of SEK 10.8 million (20%). Excluding foreign exchange effects, net sales were up by 25%.
- Net sales of component products totalled SEK 11.9 million (23.0) (excluding licence revenue from Nestlé), a decrease of SEK 11.1 million (48%). Excluding foreign exchange effects, net sales fell by 46%. Net sales for the previous year also included licence revenue of SEK 356.0 million from Nestlé that was regarded as non-recurring revenue.
- Operating profit was SEK 17.8 million (26.1) (excluding licence revenue), down by SEK 8.3 million (-32%). Excluding foreign exchange effects, the decrease was 26%. Including licence revenue, operating profit for the first quarter of last year was SEK 382.1 million.
- Profit after tax was SEK 17.7 million (20.8) (excluding licence revenue), a decrease of SEK 3.1 million (-15%). Including licence revenue, profit after tax for the first quarter of last year was SEK 283.2 million.
- Earnings per share totalled SEK 0.97 (1.18) (excluding licence revenue). Including licence revenue, earnings per share for the first quarter of last year amounted to SEK 16.37.
- The period's total cash flow was SEK 22.8 million (358.7). Last year's cash flow included payment of SEK 356.0 million in licence revenue from Nestlé. Cash and cash equivalents at 31 March 2013 totalled SEK 397.6 million (529.9). Cash flow since 31 March 2012 includes dividends of SEK 103.6 million, tax payments of SEK 90.9 million and investments in Twopac of SEK 19.7 million. The proposed dividend to the upcoming AGM amounts to a total of SEK 172.7 million.

#### Key events in the first quarter of 2013

- Launch of gut health tablets with Vitamin D in Finland.
- Launch of gut health tablets in an additional flavour in Hungary and France.

You are welcome to take part in a teleconference on the interim report that will be held today at 9:30 a.m. by President Peter Rothschild. To participate in the conference, please see telephone numbers on [www.biogaia.com/agenda](http://www.biogaia.com/agenda).

BioGaia has published this information in accordance with the Swedish Securities Market Act. The information was issued for publication on 26 April 2013, 8:00 a.m. CET.

This is a translation of Swedish version of the interim report. When in doubt, the Swedish wording prevails.

## BioGaia AB (publ.)

### INTERIM REPORT 1 JANUARY – 31 MARCH 2013

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

The Board of Directors and the President of BioGaia AB (publ) hereby present the year-end report for the first quarter of 2013. A description of the company's operations is provided on page 13.

#### PRESIDENT'S COMMENTS

The year is off to a positive start with a growth rate of 25% (excluding foreign exchange effects) of our finished consumer products and in light of our focused efforts to enter the truly large markets and create additional business opportunities together with Nestlé, I am optimistic about our ability to exploit the potential of our acknowledged effective products in the expanding probiotics market.

In the first quarter we continued the efforts that were started in 2012 to replace our distributors in markets where we are not satisfied with the sales results. It has of course given rise to disruptions as the previous distributors sell off their inventories and before the new distributors have been able to start their sales activities. These effects are expected to continue at least through the first half of 2013.

In other respects, our sales activities are focused on the BRIC countries, where the registration process is both cumbersome and time-consuming. The choice of distributor in these enormous markets is naturally of vital importance, and we are devoting considerable time and resources to evaluating the opportunities in these countries. In spite of the difficulties, we hope to be able to sign agreements in at least one of these during the current year. We have also stepped up our efforts to enter the UK market.

Sales of finished consumer products rose by 25%, excluding foreign exchange effects. We are satisfied with this growth in sales, but as always I want to point out that we ourselves monitor development on a rolling 12-month basis. Over the past 12-month period our sales were up by 18% excluding foreign exchange effects.

Sales of component products, consisting mainly of cultures to Nestlé and a few other producers of baby formula products, decreased according to plan following last year's agreement with Nestlé for a perpetual license to use *Lactobacillus reuteri* Protectis in baby formula. In connection with this, and as announced earlier, we signed a number of option and development agreements and are currently collaborating with Nestlé in these development projects. Our aim is to replace the sold business with interesting new products and distribution initiatives. The agreements that apply to distribution of BioGaia's drops in the USA and Mexico are the first two parts of this strategy. The launch of the drops in these countries will take place in the second quarter of this year. We hope to be able to sign additional agreements with Nestlé during 2013, which will bring us closer to our goal to replace the sold business with new ventures.

Sales of oral health products in Japan are going well and since the level of penetration is still relatively low, we have excellent potential to increase our volumes there. The business model means that we sell our products via dental clinics, and we will also test this model in other markets. In Sweden we have started our own small-scale trial to sell the products via dental hygienists.

### FINANCIAL PERFORMANCE IN THE FIRST QUARTER OF 2013

#### Sales

Consolidated net sales reached SEK 78.1 million (78.3) (excluding the previous year's licence revenue from Nestlé), which is a decrease of SEK 0.2 million (0%).

Most of the company's sales are denominated in foreign currency, primarily EUR but also USD and JPY. With unchanged exchange rates, net sales would have been SEK 3.2 million higher. Excluding foreign exchange effects, net sales (excluding license revenue) thus increased by 4%. Exchange rate fluctuations for EUR, USD and JPY reduce both revenue and expenses. Operating profit would have been SEK 1.6 million higher in the event of unchanged exchange rates.

Including licence revenue from Nestlé the net sales first quarter of 2012 amounted to SEK 434.4 million. Net sales for 2012 included license revenue from Nestlé of SEK 356 million that is regarded as non-recurring revenue. In February 2012 BioGaia signed several new agreements with Nestlé including the acquisition of a perpetual license to use BioGaia's probiotic in infant formula during the remaining term of the patent. The purchase price was EUR 50.8 million, of which EUR 40.0 million (SEK 356 million) was received and recognised in the first quarter of 2012. The additional payments of EUR 10.8 million will be received during the period 2014-2017 on the achievement of predefined milestones. Due to the sale of the license, culture sales to Nestlé have fallen sharply since the third quarter of 2012 now that Nestlé buys the culture at a significantly lower price that essentially covers BioGaia's production cost.

#### Sales by segment

##### FINISHED CONSUMER PRODUCTS

Sales of finished consumer products rose by SEK 10.8 million (20%) compared to the same period of last year and amounted to SEK 65.6 million. Excluding foreign exchange effects, the increase was 25%.

Sales of finished consumer products grew primarily in Europe, but also in Asia and the rest of the world, but fell in the USA and Canada. The increase in Europe is primarily attributable to higher sales in Finland, France and Ukraine. The improvement in Asia is due to a minor increase in several countries. Growth in the rest of the world is mainly explained by higher sales in Latin America.

The decrease in the USA and Canada is a result of lower sales of drops to Everidis (the distributor that will be replaced by Gerber starting in June this year) and declining sales of strawberry-flavoured tablets to Fleet, since the company purchased large inventories in connection with the launch last year.

For the past 12-month period, sales of finished consumer products have risen by 15%. Excluding foreign exchange effects, the increase was 18%.

##### COMPONENT PRODUCTS

Sales of component products were down by SEK 11.1 million to SEK 11.9 million (-48%) compared to the same period of last year (excluding the previous year's license revenue from Nestlé).

Sales of component products declined in Europe and Asia. The decrease in Europe is a consequence of the agreement with Nestlé (see above). The drop in Asia is explained by lower sales to a dairy in South Korea.

For the past 12-month period, sales of component products have decreased by 62%, which is also a result of the license agreement with Nestlé.

#### Sales by geographic market

Sales in Europe rose by SEK 0.8 million (1%) (excluding the previous year's license revenue from Nestlé). Sales of finished consumer products increased while sales of component products decreased. For the past 12-month period, sales in Europe fell by 15% (excluding license revenue from Nestlé).

Sales in Asia were up by SEK 0.1 million (1%). In Asia, sales of finished consumer products rose while sales of component products fell. For the past 12-month period, sales in Asia declined by 12%.

Sales in the USA and Canada decreased by SEK 3.0 million (-57%), which is mainly due to lower sales of drops to Everidis (the distributor that will be replaced by Gerber starting in June) and declining sales of strawberry tablets to Fleet. For the past 12-month period, sales increased by 16%.

Sales in the rest of the world were up by SEK 2.1 million (42%), which is explained by increased sales of finished consumer products. For the past 12-month period, sales improved by 11%.

#### The BioGaia brand

Of total finished consumer products, 52% (50) were sold under the BioGaia brand, including so-called co-branding.

#### **Gross profit**

Gross profit amounted to SEK 52.0 million (55.5) (excluding the previous year's license revenue from Nestlé), which is a decrease of SEK 3.5 million (-6%) compared to the same period of last year. Including licence revenue from Nestlé, gross profit for the first quarter of 2012 was SEK 411.5 million.

The total gross margin (excluding license revenue) fell from 71% to 66%, which is mainly attributable to the gross margin for component products (see below).

The gross margin for component products decreased from 68% to 41%. This is due to a lower margin on sales of culture to Nestlé, since BioGaia sells the culture at a significantly lower price following the sale of the perpetual license for use of *Lactobacillus reuteri* Protectis in infant formula.

The gross margin for finished consumer products weakened somewhat from 72% to 71% as a result of the product mix.

#### **Operating expenses**

Selling expenses totalled SEK 19.3 million (17.7), which is equal to 25% (23)% of net sales. The increase of SEK 1.6 million (9%) is mainly attributable to higher personnel expenses but also increased marketing activities (participation in conferences, marketing campaigns, etc.). For the past 12-month period, selling expenses rose by 13%.

Administrative expenses amounted to SEK 3.5 million (3.2), which is equal to 4% (4) of net sales. The increase of SEK 0.3 million (9%) is mainly attributable to higher personnel expenses. For the past 12-month period, administrative expenses were up by 3%.

R&D expenses are reported at SEK 10.2 million (8.4), which is equal to 13% (11) of net sales. The increase of SEK 1.8 million (21%) is mainly due to higher costs for clinical studies but also higher personnel expenses. For the past 12-month period, R&D expenses rose by 8%.

The amortisation component of R&D expenses was SEK 0.1 million (0.2). Investments in capitalised development expenses totalled SEK 0 million (0).

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

#### **Operating profit**

Operating profit was SEK 17.8 million (26.1) (excluding the previous year's license revenue from Nestlé), which is SEK 8.3 million (32%) lower than in the same period of last year. This is due to a lower gross profit resulting from a narrower margin on component products and increased operating expenses.

Including licence revenue from Nestlé, operating profit for the first quarter of 2012 was SEK 382.1 million.

#### **Financial items and profit before tax**

Excluding license revenue from Nestlé in 2012, profit before tax was SEK 22.7 million (28.9), which is a decrease of SEK 6.2 million (21%) compared to the same period of last year. Including licence revenue from Nestlé, profit before tax for the same period of last year amounted to SEK 384.9 million.

Net financial items include a foreign exchange gain of SEK 3.1 million (1.4) on forward exchange contracts in EUR. At 31 March 2013 the company had outstanding forward exchange contracts for EUR 10.8 million at an average exchange rate of SEK 8.92. Forward exchange contracts amounting to EUR 5.4 million will mature for payment in 2013, EUR 5.1 million in 2014 and the remaining EUR 0.3 million in 2015. 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 March 2013 (8.36), an exchange gain/loss will be recognised in the future.

#### **Profit after tax**

Excluding license revenue from Nestlé in 2012, profit after tax was 17.7 million (20.8), which is SEK 3.1 million (15%) lower than in the same period of last year. Including licence revenue from Nestlé, profit after tax for the first quarter of 2012 was SEK 283.2 million.

The tax rate for the Group was 22% (26). The Group pays tax on profits in the Swedish companies. The Swedish companies have made provisions to untaxed reserves in 2012. For this, deferred tax of SEK 24.6 million has been recognised.

The loss in Japan is not deductible against the Swedish profits. Loss carryforwards in the Japanese subsidiary at 31 March 2013 amounted to SEK 54.8 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 0.97 (1.18) (excluding the previous year's license revenue from Nestlé. Including license revenue from Nestlé in 2012, earnings per share for the first quarter of 2012 were SEK 16.37.

### Cash flow

The Group's cash and cash equivalents at 31 March 2013 totalled SEK 397.6 million (529.9). Cash flow since 31 March 2012 includes dividends of SEK 103.6 million, tax payments of SEK 90.9 million and investments in TwoPac of SEK 19.7 million.

Cash flow for the first quarter amounted to SEK 22.8 million (358.7). The first quarter of 2012 included the payment of SEK 356.0 million in licence revenue from Nestlé.

### Equity

Consolidated equity amounted to SEK 473.9 million (512.9) and the equity/assets ratio was 88% (80).

In June 2012 BioGaia carried out the warrant programme that was resolved on by the Annual General Meeting the same year. A total of 87,000 warrants were subscribed for, of which the management subscribed for 41,000. The warrants were issued at a market price of SEK 14.27 each following valuation according to the Black & Scholes formula, which provided the Parent Company with proceeds of SEK 1.3 million. Each warrant entitles the holder to subscribe for one class B share for SEK 241.90 on 1 June 2015. Volatility was estimated at 40.

If all of the subscription warrants are exercised, the company's equity will be increased by SEK 21.0 million. This represents a dilutive effect of approximately 0.5% on the share capital and 0.4% on the total number of votes upon the full exercise of warrants.

In order to achieve a high level of participation, the AGM decided to pay a subsidy of SEK 10 per warrant (after 1 June 2015) to the employees who have subscribed for subscription warrants but have not exercised the right to buy shares. No provisions for this obligation have yet been made, since the assessment is that with the applicable market price, all holders should exercise the right to buy shares. However, the need will be continuously evaluated.

### Dividend 2012

In connection with the year-end report, the Board of BioGaia AB proposed that the upcoming AGM on 26 April 2013 approve an ordinary dividend of SEK 4.15 and an extraordinary dividend of SEK 5.85, for a total dividend of SEK 10.00 per share. This amounts to a total distribution of SEK 172.7 million.

### Investments in property, plant and equipment

The year's investments in property, plant and equipment during the first quarter amounted to SEK 1.4 million (9.8), of which SEK 1.2 million (9.0) million refers to TwoPac AB.

### Subsidiary in Japan

Net sales in the Japanese subsidiary during the first quarter are reported at SEK 2.1 million (3.7). Operating profit in the Japanese subsidiary was SEK -2.0 million (-0.6). The drop in sales to the distributor due to lower inventory in connection with rationalisations in distribution.

### Subsidiary TwoPac AB

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

Net sales in TwoPac amounted to SEK 9.2 million (6.3). Operating profit was SEK 2.9 million (1.5). Profit after tax was SEK 2.1 million (0.9).

### Subsidiary CapAble AB

CapAble, which is owned 90.1% by BioGaia AB and 9.9% by the company's president, was started in 2008 to manufacture and sell the patented LifeTop Cap.

Net sales in CapAble totalled SEK 0 million (0) during the quarter. Operating profit was SEK -0.7 million (-0.6). The reason for the lack of sales during the first quarter is that the machinery that manufactures LifeTop Cap has been rebuilt to improve the quality of product.

### Parent Company

Net sales in the Parent Company reached SEK 77.0 million (431.2) and profit before tax and appropriations was SEK 20.7 million (384.4).

Since it is uncertain whether the receivable from BioGaia Japan will be recovered in the foreseeable future, a provision has been made for the amount in question. This has resulted in an impairment loss of SEK 2.7 million (1.2), which has had a negative impact on profit.

Profit after tax was SEK 16.3 million (283.1). Cash flow in the Parent Company totalled SEK 22.0 million (362.3).

## KEY EVENTS IN THE FIRST QUARTER OF 2013

### Launches in the first quarter of 2013

Distributor/licensee	Product	Country
BG Distribution	Gut health tablets with strawberry flavour	Hungary
Laboratoire PediAct	Gut health tablets with strawberry flavour	France
Verman	Gut health tablets with Vitamin D	Finland



## EMPLOYEES

The number of employees in the Group (including TwoPac AB) at 31 March 2013 was 80 (67).

### Incentive scheme for the employees

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

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

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

On the balance sheet date, assets in the Japanese subsidiary were reported at SEK 6.3 million in the Group. BioGaia's assessment is that there is no indication of impairment of these assets. In the Parent Company, all receivables and participations in the Japanese subsidiary have been written down to zero.

CapAble, which is 90.1% owned by BioGaia AB, was started in November 2008 to manufacture and sell the patented LifeTop Cap. The shares in the subsidiary CapAble amount to a total of SEK 6.9 million in the Parent Company. CapAble has operated at a loss since the start in 2008. BioGaia made total conditional shareholder contributions of SEK 6 million to CapAble in 2009 and 2010. BioGaia AB has made total group contributions of SEK 7.3 million during the period from 2010 to 2012.

Profit before tax was SEK -0.7 million (-0.6). On the balance sheet date, assets in CapAble were reported at SEK 2.5 million in the Group. BioGaia's assessment is that CapAble will show profitability in coming years, for which reason there was no indication of impairment on the balance sheet date.

In February 2012 BioGaia signed several new agreements with Nestlé including the acquisition of a perpetual license to use BioGaia's probiotic in infant formula during the remaining term of the patent. The purchase price was EUR 50.8 million, of which EUR 40.0 million (SEK 356 million) was received and recognised as revenue in 2012 according to generally accepted accounting practices. The additional payments of EUR 10.8 million will be received during the period 2014-2017 on the achievement of predefined milestones.

The company assesses the probability of achieving these milestones as high, but feels that the degree of uncertainty is still too large to recognise this revenue in accordance with generally accepted accounting practices.

For further information, see the administration report and Notes 28 and 29 of the annual report for 2012.

## **ACCOUNTING POLICIES**

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

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

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

### ***New accounting standards***

The applied accounting policies correspond to those described in the annual report for 2012, aside from a number of minor amendments to existing standards and new interpretations that are effective as of 1 January 2013. These are not assessed to have any significant impact on the Group's or the Parent Company's profit, financial position or disclosures.

## **FUTURE OUTLOOK**

BioGaia's goal is to create strong value growth and a good return for the shareholders. This will be achieved through a greater emphasis on the BioGaia brand, increased sales to both existing and new customers and a controlled cost level.

The financial target is a sustainable operating margin (operating profit in relation to sales) of at least 30% with continued strong growth and increased investments in research, product development and brand building.

BioGaia's dividend policy is to pay a shareholder dividend equal to 30% of profit after tax. In connection with publication of the year-end report for 2012, the Board decided to change the policy so that shareholder dividends amount to 40% in future years.

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



### Consolidated statements of comprehensive income

(Amounts in SEK 000s)

	Jan-Mar 2013	Jan-Mar 2012	Jan-Dec 2012	Apr 2012- Mar 2013	Apr 2011- Mar 2012
Net sales	78,142	78,289	289,248	289,101	323,426
License revenue	-	356,004	356,004	-	356,004
Cost of goods sold	-26,181	-22,764	-88,179	-91,596	-100,153
<i>Gross profit</i>	<b>51,961</b>	<i>411,529</i>	<i>557,073</i>	<i>197,505</i>	<i>579,277</i>
Selling expenses	-19,324	-17,677	-77,361	-79,008	-69,616
Administrative expenses	-3,524	-3,153	-13,423	-13,794	-13,354
Research and development expenses	-10,216	-8,414	-35,788	-37,590	-34,763
Other operating expenses	-1,143	-204	-2,431	-3,370	311
<i>Operating profit</i>	<b>17,754</b>	<i>382,081</i>	<i>428,070</i>	<i>63,743</i>	<i>461,855</i>
Financial income	4,996	2,855	14,245	16,386	6,445
Financial expenses	-47	-22	-73	-98	-71
<i>Profit before tax</i>	<b>22,703</b>	<i>384,914</i>	<i>442,242</i>	<i>80,031</i>	<i>468,229</i>
Tax	-5,026	-101,719	-112,371	-15,678	-123,993
<b>PROFIT FOR THE PERIOD</b>	<b>17,677</b>	283,195	329,871	64,353	344,236
<b><u>Items that will be reclassified to profit or loss</u></b>					
Gains/losses arising on translation of the financial statements of foreign operations	-579	-696	-1 059	-942	494
<b>Comprehensive income for the period</b>	<b>17,098</b>	282,499	328,812	63,411	344,730
<b><u>Profit for the period attributable to:</u></b>					
Owners of the Parent Company	16,709	282,808	326,970	60,871	341,263
Non-controlling interests	968	387	2,901	3,482	2,973
	17,677	283,195	329,871	64,353	344,236
<b><u>Comprehensive income for the period attributable to:</u></b>					
Owners of the Parent Company	16,130	282,112	325,911	59,929	341,757
Non-controlling interests	968	387	2,901	3,482	2,973
	17,098	282,499	328,812	63,411	344,730
<b><u>Earnings per share</u></b>					
Basic earnings per share (average number of shares), SEK	0.97	16.37	18.93		
Diluted earnings per share, SEK	0.97	16.37	18.93		
Number of shares, thousands	17,271	17,271	17,271		
Average number of shares, thousands	17,271	17,271	17,271		
Number of outstanding warrants, thousands	87	-	87		
Number of outstanding warrants with a dilutive effect, thousands	-	-	-		
Number of shares after dilution, thousands	17,271	17,271	17,271		

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Amounts in SEK 000s)

**ASSETS**

	31 Mar 2013	31 Dec 2012	31 Mar 2012
Intangible assets	-	-	177
Property, plant and equipment	49,319	49,193	32,256
Other non-current receivables	17	17	18
<i>Total non-current assets</i>	<b>49,336</b>	<b>49,210</b>	<b>32,451</b>
Current assets excl. cash and cash equivalents	90,656	92,838	79,316
Cash and cash equivalents	397,624	374,974	529,923
<i>Total current assets</i>	<b>488,280</b>	<b>467,812</b>	<b>609,239</b>
<b>TOTAL ASSETS</b>	<b>537,616</b>	<b>517,022</b>	<b>641,690</b>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to owners of the Parent Company	469,432	453,303	511,876
Non-controlling interests	4,460	3,491	978
Total equity	473,892	456,794	512,854
Provision for deferred tax	24,649	24,710	185
Interest-free current liabilities	39,075	35,518	128,651
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>537,616</b>	<b>517,022</b>	<b>641,690</b>

**CONSOLIDATED CASH FLOW STATEMENTS**

(Amounts in SEK 000s)

**Operating activities**

	Jan-Mar 2013	Jan-Mar 2012	Jan-Dec 2012
Operating profit	17,754	382,081	428,070
Depreciation/amortisation	1,262	1,260	4,545
Other non-cash items	105	266	346
	<b>19,121</b>	<b>383,607</b>	<b>432,961</b>
Gains/losses on realised forward exchange contracts	351	285	2,818
Paid tax	-2,456	-17,246	-105,736
Interest received and paid	1,803	1,394	8,496
Cash flow from operating activities before changes in working capital	18,819	368,040	338,539
Changes in working capital	5,369	462	-2,982
<i>Cash flow from operating activities</i>	<b>24,188</b>	<b>368,502</b>	<b>335,557</b>
<i>Cash flow from investing activities</i>	<b>-1,410</b>	<b>-9,821</b>	<b>-29,391</b>
<i>Cash flow from financing activities</i>	<b>-</b>	<b>-</b>	<b>-102,373</b>
Cash flow for the period	22,778	358,681	203,793
Cash and cash equivalents at beginning of period	374,974	171,534	171,534
Exchange difference in cash and cash equivalents	-128	-292	-353
Cash and cash equivalents at end of period	<b>397,624</b>	<b>529,923</b>	<b>374,974</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(Amounts in SEK 000s)	Jan-Mar 2013	Jan-Mar 2012	Jan-Dec 2012
At beginning of period	456,794	230,355	230,355
Dividends	-	-	-103,626
Subscription warrants	-	-	1,253
Comprehensive income for the period	17,098	282,499	328,812
<b>At end of period</b>	<b>473,892</b>	<b>512,854</b>	<b>456,794</b>

**REPORTING BY SEGMENT – GROUP**

(Amounts in SEK 000s)

<b>Revenue by segment</b>	Jan-Mar 2013	Jan-Mar 2012	Jan-Dec 2012	Apr 2012- - Mar 2013	Apr 2011- - Mar 2012
Finished consumer products	65,628	54,771	237,583	248,440	216,637
Component products	11,943	23,007	50,577	39,513	104,814
License revenue (component products) 1)	-	356,004	356,004	-	356,004
Other products	571	511	1,088	1,148	1,975
	<b>78,142</b>	<b>434,293</b>	<b>645,252</b>	<b>289,101</b>	<b>679,430</b>

<b>Gross profit by segment</b>	Jan-Mar 2013	Jan-Mar 2012	Jan-Dec 2012	Apr 2012- - Mar 2013	Apr 2011- - Mar 2012
Finished consumer products	46,596	39,464	170,275	177,407	156,798
Component products	4,927	15,677	29,935	19,185	64,726
License revenue (component products) 1)	-	356,004	356,004	-	356,004
Other products	438	384	859	913	1,748
	<b>51,961</b>	<b>411,529</b>	<b>557,073</b>	<b>197,505</b>	<b>579,276</b>

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

**Revenue by geographical market**

<b>Net sales</b>	Jan-Mar 2013	Jan-Mar 2012	Jan-Dec 2012	Apr 2012- - Mar 2013	Apr 2011- - Mar 2012
Europe	60,255	59,549	203,328	204,034	240,261
License revenue (Europe) 1)	-	356,004	356,004	-	356,004
USA and Canada	2,301	5,303	28,422	25,420	21,891
Asia	8,457	8,394	32,420	32,483	36,727
Rest of world	7,129	5,043	25,078	27,164	24,547
	<b>78,142</b>	<b>434,293</b>	<b>645,252</b>	<b>289,101</b>	<b>679,430</b>



**PARENT COMPANY INCOME STATEMENTS**

(Amounts in SEK 000s)

	Jan-Mar 2013	Jan-Mar 2012	Jan-Dec 2012
Net sales	77,010	75,161	278,515
License revenue	-	356,004	356,004
Cost of goods sold	-29,426	-24,503	-97,475
<i>Gross profit</i>	47,584	406,662	537,044
Selling expenses	-15,117	-13,246	-57,673
Administrative expenses	-3,209	-2,874	-12,248
Research and development expenses	-10,266	-8,433	-35,868
Other operating income	-	-	-
Other operating expenses	-1,143	-204	-2,430
<i>Operating profit</i>	17,849	381,905	428,825
Impairment loss on receivable from subsidiary	-2,683	-1,183	-8,574
Impairment loss on shares in subsidiary	-	-	-2,583
Net financial items	5,488	3,651	17,220
Profit before appropriations and tax	20,654	384,373	434,888
Provisions to tax allocation reserve	-	-	-109,341
Profit before tax	20,654	384,373	325,547
Tax expense	-4,376	-101,290	-86,270
<b>PROFIT FOR THE PERIOD</b>	<b>16,278</b>	<b>283,083</b>	<b>239,277</b>

**PARENT COMPANY BALANCE SHEETS****ASSETS**

	31 Mar 2013	31 Dec 2012	31 Mar 2012
Intangible assets	-	-	177
Property, plant and equipment	2,087	2,275	2,138
Shares in group companies	21,160	21,160	21,160
Non-current receivables from subsidiaries	24,513	24,513	16,513
<i>Total non-current assets</i>	47,760	47,948	39,988
Current assets excl. cash and cash equivalents	82,862	85,009	69,787
Cash and cash equivalents	393,330	371,448	524,037
<i>Total current assets</i>	476,192	456,457	593,824
<b>TOTAL ASSETS</b>	<b>523,952</b>	<b>504,405</b>	<b>633,812</b>
<b>EQUITY AND LIABILITIES</b>			
Equity	365,938	349,660	495,839
Tax allocation reserve	109,341	109,341	-
Interest-free current liabilities	48,673	45,404	137,973
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>523,952</b>	<b>504,405</b>	<b>633,812</b>

**PARENT COMPANY CASH FLOW STATEMENTS**

	Jan-Mar 2013	Jan-Mar 2012	Jan-Dec 2012
<u>Operating activities</u>			
Operating profit	17,849	381,905	428,825
Depreciation/amortisation	312	379	1 510
Other non-cash items	106	176	308
Gain/losses on realised foreign exchange contracts	351	285	2,818
Paid tax	-2,444	-17,246	-105,690
Interest received and paid	1,956	1,545	9,120
Cash flow from operating activities before changes in working capital	18,130	367,044	336,891
Changes in working capital	5,438	-4,333	-13,512
<i>Cash flow from operating activities</i>	<b>23,568</b>	362,711	323,379
<i>Cash flow from investing activities</i>	-1,580	-363	-11,123
<i>Cash flow from financing activities</i>	-	-	-102,373
Cash flow for the period	21,988	362,348	209,883
Cash and cash equivalents at beginning of period	371,448	161,865	161,865
Exchange difference in cash and cash equivalents	-106	-176	-300
Cash and cash equivalents at end of period	<b>393,330</b>	524,037	371,448

**PARENT COMPANY STATEMENT OF CHANGES IN EQUITY**

	Jan-Mar 2013	Jan-Mar 2012	Jan-Dec 2012
(Amounts in SEK 000s)			
At beginning of year	349,660	212,756	212,756
Dividends	-	-	-103,626
Subscription warrant programme	-	-	1,253
Profit for the period	16,278	283,083	239,277
<b>At end of period</b>	<b>365,938</b>	495,839	349,660

## RELATED PARTY TRANSACTIONS – PARENT COMPANY

(Amounts in SEK 000s)

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

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

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

Annwall & Rothschild Investment AB holds 740,668 class A shares and 1,259,332 class B shares, which is equal to 11.6% of the share capital and 36.2% of the votes. Annwall & Rothschild Investment AB is owned by Peter Rothschild, President of BioGaia, and Jan Annwall, a member of the Board of the Parent Company. No transactions took place between BioGaia and Annwall& Rothschild Investment AB during the period.

At the end of 2012, BioGaia entered into a project agreement with Board member Jörgen Thorball's partly owned company XOventure. Under the agreement, and within the framework of XOventure's network, consultants have been hired to prepare preclinical documentation and strategy for product development. The consulting assignment began in the first quarter of 2013 and fees of approximately SEK 600 thousand have been paid during the period.

	Jan-Mar	Jan-Mar	Jan-Dec
	2013	2012	2012
<i>The following transactions have taken place with BioGaia Japan</i>			
Interest income	379	656	2,386
Loan provided	-1,456	-	-1,670
Sale of goods	848	527	4,518

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

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

	Jan-Mar	Jan-Mar	Jan-Dec
	2013	2012	2012
Interest income	151	149	643
Loan provided	-	-	-8,000
Purchase of goods	-9,232	-6,331	-29,314

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

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

	31 Mar	31 Mar	31 Dec
	2013	2012	2012
Non-current receivables from TwoPac AB (incl. subsidiary)	23,491	15,491	23,491
<b>Current transactions with related parties</b>			
Current receivables from TwoPac AB	151	149	164
Current liabilities to TwoPac AB	-2,877	-2,156	-1,972
	<b>-2,726</b>	<b>-2,007</b>	<b>-1,808</b>

<u>CONSOLIDATED KEY RATIOS 1)</u>	Jan-Mar	Jan-Mar	Jan-Mar 2012 excl. non- recurring revenue 2)
	2013	2012	
Net sales, SEK 000s	<b>78,142</b>	434,293	78,289
Operating profit, SEK 000s	<b>17,754</b>	382,081	26,077
Profit after tax, SEK 000s	<b>17,677</b>	283,195	20,820
Return on			
- average equity	<b>4%</b>	76%	9%
- average capital employed	<b>5%</b>	104%	12%
Capital employed, SEK 000s	<b>498,541</b>	513,039	250,664
Number of shares, thousands	<b>17,271</b>	17,271	17,271
Average number of shares, thousands	<b>17,271</b>	17,271	17,271
Number of outstanding warrants, thousands	<b>87</b>	-	-
Average number of outstanding warrants with a dilutive effect, thousands	-	-	-
Number of shares after dilution, thousands	<b>17,271</b>	17,271	17,271
Basic earnings per share, SEK	<b>0.97</b>	16.37	1.18
Diluted earnings per share, SEK	<b>0.97</b>	16.37	1.18
Basic equity per share, SEK	<b>27.18</b>	29.64	14.45
Diluted equity per share, SEK	<b>27.18</b>	29.64	14.45
Equity/assets ratio	<b>88%</b>	80%	88%
Operating margin	<b>23%</b>	88%	33%
Profit margin	<b>29%</b>	89%	37%
Average number of employees	<b>78</b>	66	66

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

2) Key ratios for the first quarter of 2012 excluding licence revenue from Nestlé (see above under "Financial Performance")

## FINANCIAL CALENDAR

26 April 2013	9:30 a.m. Teleconference with President Peter Rothschild. To participate in the conference, please see telephone numbers on <a href="http://www.biogaia.com/agenda">www.biogaia.com/agenda</a>
26 April 2013	Annual General Meeting, 1:00 p.m. at Lundqvist & Lindqvist Klara Strand, Klarabergsviadukten 90 in Stockholm.
22 August 2013	Interim report 1 January – 30 June 2013
23 October 2013	Interim report 1 January – 30 September 2013

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

**Stockholm, 26 April 2013**

**David Dangoor**  
Board Chairman

**Jan Annwall**  
Board member

**Stefan Elving**  
Board member

**Thomas Flinck**  
Board member

**Inger Holmström**  
Board member

**Jörgen Thorball**  
Board member

**Paula Zeilon**  
Board member

**Peter Rothschild**  
President

This interim report has not been examined by the company's independent auditor.

## BioGaia AB

### *The company*

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

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

BioGaia has 80 employees, of whom 30 are based in Stockholm, 23 in Lund, 18 in Eslöv, two in Raleigh, USA, six in Hiroshima, Japan, and one 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 tablets) to distributors, but also of revenue from the sale of component products such as Reuteri cultures, straws and caps.

The products are sold through nutrition, food, natural health and pharmaceutical companies in some 80 countries worldwide. BioGaia holds patents for the use of *Lactobacillus reuteri* and certain packaging solutions in all major markets.

### *The BioGaia brand*

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

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

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

### *Research and clinical studies*

*Lactobacillus reuteri* is one of the world's most well researched probiotics, especially in young children. To date, 108 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on around 8,600 individuals of all ages. The results have been published in 72 articles in scientific journals.

Studies have been performed on:

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

### *REPORTING OF CLINICAL STUDIES*

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

#### **Latest press releases from BioGaia:**

21 Mar 2013 Notice to attend the Annual General Meeting of BioGaia AB  
8 Feb 2013 BioGaia AB Year-end report 2012  
17 Dec 2012 BioGaia signs two new distribution agreements and yet another study on periodontitis shows positive results

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