

BioGaia®

Press Release, 25 October 2011 (13 pages) BioGaia AB Interim report 1 January – 30 September 2011

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

Interim period, 1 January – 30 September 2011

- Net sales reached SEK 232.6 million (173.3), an increase of SEK 59.3 million (34%). Excluding foreign exchange effects, the increase in net sales was 43%¹⁾.
- Operating profit was SEK 79.4 million (40.1)²⁾, an improvement of SEK 39.3 million (98%). Excluding foreign exchange effects, operating profit rose by 121%¹⁾.
- Profit before tax was SEK 79.2 million (51.1)²⁾, an increase of SEK 28.1 million (55%). Net financial items include a foreign exchange effect of SEK -2.2 million (+10.5) arising from foreign exchange contracts in EUR.
- Profit after tax was SEK 57.8 million (34.3)²⁾, an improvement of SEK 23.5 million (69%).
- Earnings per share amounted to SEK 3.24 (1.99).
- Total cash flow was SEK 14.2 million (25.7). During the period BioGaia paid dividends of SEK 34.5 million and corporate tax of SEK 30.1 million (of which SEK 18.4 million refers to the financial year 2010). Cash and cash equivalents at 30 September 2011 totalled SEK 161.4 million (125.7).

Third quarter, 1 July – 30 September 2011

- Net sales reached SEK 73.1 million (48.9), an increase of SEK 24.2 million (49%). Excluding foreign exchange effects net sales were up by 53%¹⁾.
- Operating profit was SEK 22.1 million (8.6)²⁾, an improvement of SEK 13.5 million (157%). Excluding foreign exchange effects, operating profit increased by 160%¹⁾.
- Profit before tax was SEK 21.4 million (12.9)²⁾, an increase of SEK 8.5 million (66%). Net financial items include a foreign exchange effect of SEK -1.5 million (+3.9) arising from foreign exchange contracts in EUR.
- Profit after tax was SEK 15.6 million (8.0)²⁾, an improvement of SEK 7.6 million (95%).

Key events in the third quarter of 2011

- Agreement for the sale of drops and tablets in Morocco.
- Agreement for the sale of tablets in the USA.
- Agreement for the sale of tablets in the Philippines.

Key events after the end of the third quarter

- Agreement for the sale of drops and tablets in Venezuela and Puerto Rico.

“We are extremely pleased to note continued excellent growth in sales for both of our product segments. Due to the summer holiday in Europe, the third quarter is normally our weakest period in terms of sales. Thanks to a few substantial orders from Nestlé, however, the third quarter was unusually strong.” says Peter Rothschild, President of BioGaia.

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

BioGaia has published this information in accordance with the Swedish Securities Market Act. The information was issued for publication on 25 October 2011, 8:00 a.m. CET.

- 1) Most of the company's sales are denominated in EUR. With unchanged exchange rates compared to the previous year, net sales would have been SEK 14.7 million higher and operating profit would have been SEK 9.3 million higher the period January-September 2011. For the third quarter, July-September 2011, net sales would have been SEK 1.9 million higher and operating profit would have been SEK 0.3 million higher.
- 2) The 50%-owned company TwoPac AB is consolidated as a group company with effect from 1 January 2011. TwoPac was previously reported as an associated company. If TwoPac had also been consolidated in the previous year, operating profit for the period January-September 2010 would have been SEK 41.2 million, profit before tax would have been SEK 52.2 million and profit after tax would have been SEK 35.4 million. The corresponding figures for July-September 2010 are an operating profit of SEK 8.8 million, profit before tax of SEK 13.1 million and profit after tax of SEK 8.2 million. Profit attributable to owners of the Parent Company and earnings per share would have been unchanged for both periods. See also information on page 8.

BioGaia AB (publ.)

Interim report, 1 January – 30 September 2011

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 interim report for the period from 1 January to 30 September 2011. A brief description of the company's operations is provided on page 13.

PRESIDENT'S COMMENTS

We are extremely pleased to note continued excellent growth in sales for both of our product segments.

Due to the summer holiday in Europe, the third quarter is normally our weakest period in terms of sales. Thanks to a few substantial orders from Nestlé, however, the third quarter was unusually strong. It is very positive that Nestlé has made such a good start and is continuing its launches in a number of countries. Since we give Nestlé contractual volume discounts, this will impact our margins during the second half of this year. The large volumes will give us scale economies and thereby opportunities to reduce our costs for culture production. In spite of these discounts, our operating margin for the first three quarters of 2011 is a very solid 34%.

It is satisfying to see sustained and strong sales growth also for our finished consumer products, and that applies to all of our different products, tablets, drops, the oral health product and the oral rehydration product. The drops sold to colicky infants is our top-selling product and is still showing rapid growth.

Sales development in Japan remains positive and we hope that our activities there will be profitable in the near future. Since we primarily sell oral health products in Japan, this product group has also increased.

Our sales in the USA are still unacceptably low, but our focus on this market is starting to pay off. In this regard I am referring not only to our new agreement with Fleet, who will launch the strawberry-flavoured tablets at the beginning of next year, but also the fact that our distributor Everidis has introduced our new version of room temperature storage drops in a large number of Walgreens sales outlets. Walgreens is the USA's largest drug store chain with a total of more than 7,000 stores.

FINANCIAL PERFORMANCE FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2011

Sales

Consolidated net sales reached SEK 232.6 million (173.3), an increase of 34% compared to the same period of last year.

Most of the company's sales are denominated in foreign currency, mainly EUR. With unchanged exchange rates, net sales would have been SEK 14.7 million higher. Excluding foreign exchange effects, the increase in net sales would have been 43%. Exchange rate fluctuations have reduced both income and expenses. Operating profit would have been SEK 9.3 million higher in the event of unchanged exchange rates.

Sales increased in both segments (finished consumer products and component products) and in all markets except for North America.

Sales of finished consumer products rose by SEK 37.0 million (31%) to SEK 158 million. The increase referred to all markets, but primarily Europe and Asia. Sales of component products were up by SEK 22.4 million (44%) to SEK 73.2 million, which is mainly attributable to sales of bacteria cultures to Nestlé.

Sales in Asia grew by SEK 14.3 million (94%) from SEK 15.2 million to SEK 29.5 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 42.7 million to SEK 173.8 million (33%), 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. However, in the future Nestlé may produce the culture itself and BioGaia will in such a case receive royalties from Nestlé instead of income from culture deliveries. This would lead to lower sales and a somewhat lower gross profit, but a higher gross margin than today.

Sales in the USA and Canada fell from SEK 11.7 million to SEK 9.3 million (-21%), mainly due to Nestlé's discontinued sales of beverages with BioGaia's LifeTop Straw.

Sales in the rest of the world rose from SEK 15.4 million to SEK 20.0 million (30%) as a result of higher sales of finished consumer products in Australia and South America.

Of total finished consumer products, 42% (37) were sold under the BioGaia brand.

Gross profit

Gross profit amounted to SEK 159.0 million (115.5), an improvement of SEK 43.5 million compared to the same period of last year. Gross margin rose from 67% to 68%, mainly because the consolidation of TwoPac in 2011 has reduced the group's cost of goods sold. For more information, see page 8. Gross margin fell somewhat in the third quarter as a result of contractual volume discounts to Nestlé.

Operating expenses

Selling expenses were up by SEK 2.8 million compared to the same period of last year. Selling expenses for the corresponding period of 2010 included one-time costs of around SEK 4.0 million. Aside from these, selling expenses rose by SEK 6.8 million primarily as an effect of increased marketing activities and higher personnel expenses.

Administrative expenses increased by SEK 2.0 million, mainly owing to the fact that administrative expenses in TwoPac AB, which is now reported as a group company, were not included in the same period of last year.

R&D expenses amounted to SEK 24.4 million (22.1), which is equal to 16% (16) of total operating expenses and 11% (13) of net sales. The increase of SEK 2.3 million is explained by higher activity in product development and clinical trials.

The amortisation component of R&D expenses was SEK 1.0 million (1.1). 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 the period from January to September

2011 these gave rise to operating income of SEK 1.5 million, compared to an operating expense of SEK 2.7 million in the same period of last year.

Operating profit

Operating profit was SEK 79.4 million (40.1), which is SEK 39.3 million (98%) better than in the same period of last year. Excluding foreign exchange effects (see above under "Sales"), operating profit improved by 121%.

Financial items and profit before tax

Profit before tax was SEK 79.2 million (51.1), an improvement of SEK 28.1 million (55%) over the same period of last year. Net financial items include a foreign exchange loss of SEK 2.2 million on forward exchange contracts in EUR (the same period of last year included a foreign exchange gain of SEK 10.5 million).

At 30 September 2011 the company had outstanding forward exchange contracts for EUR 14.5 million at an average exchange rate of SEK 9.34. Forward exchange contracts amounting to EUR 2.7 million will mature for payment in 2011, EUR 8.6 million in 2012 and the remaining SEK 3.2 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 30 September 2011 (9.23), an exchange gain/loss will be recognised in the future.

Profit after tax

Profit after tax was SEK 57.8 million (34.3), which represents an increase of SEK 23.5 million (69%) over the same period of last year.

The tax rate for the Group was 27% (33). 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 has decreased compared to the same period of last year, the tax rate for the Group is lower. Loss carryforwards in the Japanese subsidiary amount to SEK 51.4 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 3.24 (1.99).

Cash flow

The Group's cash and cash equivalents at 30 September 2011 totalled SEK 161.4 million (125.7).

Cash flow amounted to SEK 14.2 million (25.7), down by SEK 11.5 million compared to the same period of last year. This is partly due to payment of SEK 34.5 million (25.8) in dividends and partly due to payment of SEK 30.1 million in tax (of which SEK 18.4 million refers to the financial year 2010) during the period. In addition, investments in property, plant and equipment amounted to SEK 11.0 million (0.4), of which SEK 10.8 million refers to TwoPac.

Equity

Consolidated equity amounted to SEK 208.6 million (174.3) and the equity/assets ratio was 83% (82).

Investments in property, plant and equipment

Investments in property, plant and equipment totalled SEK 11.0 million (0.4), of which SEK 10.8 million refers to TwoPac AB.

Consolidation of TwoPac AB

Until 31 December 2010, BioGaia's 50%-owned company TwoPac AB was reported as an associated company. As a result of BioGaia's decision to finance TwoPac's new factory in Eslöv (for more information see below), BioGaia has gained a controlling influence over TwoPac, which is thus consolidated as of 1 January 2011. Comparative figures for the corresponding period of last year are provided on page 8.

Parent Company

Net sales in the Parent Company were reported at SEK 225.6 million (173.3) and profit before tax was SEK 75.6 million (52.0). 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 7.5 million (13.3) that has had a negative impact on earnings. Profit after tax was SEK 54.2 million (36.2). Cash flow in the Parent Company was SEK 8.4 million (26.4). Cash flow from investing activities includes a loan of SEK 3.6 million (11.2) to the Japanese subsidiary and a loan of SEK 11.1 million (0) to the subsidiary TwoPac.

FINANCIAL PERFORMANCE IN THE THIRD QUARTER OF 2011

Third quarter sales

Net sales for the third quarter reached SEK 73.1 million (48.9), up by SEK 24.2 million (49%) over the same period of last year. Excluding foreign exchange effects (see above under "Financial performance during the period from 1 January to 30 September 2011"), net sales rose by 53%.

Sales increased in all markets but primarily in Europe. Sale of finished consumer products grew by SEK 15.4 million (50%). Sales of component products improved by SEK 8.5 million (49%), which is mainly due to large deliveries of bacteria cultures to Nestlé.

Compared to the second quarter, net sales fell by SEK 16.5 million (18%). Third quarter sales are typically the lowest of the year due to the customary summer holiday in Europe, which results in a lower level of activity among BioGaia's customers and suppliers. However, the third quarter of 2011 was better than the first quarter, mainly due to large deliveries to Nestlé.

For a more accurate picture, a rolling 12-month income statement is presented on page 6.

Gross profit for the third quarter

Gross profit was SEK 47.8 million (32.1), an improvement of SEK 15.7 million over the same period of last year. Gross margin was 65%, which is lower than in the preceding quarter as a result of contractual volume discounts to Nestlé.

Other operating expenses for the third quarter

Selling expenses for the third quarter were SEK 1.3 million higher than in the same period of last year. The corresponding period of 2010 included one-time costs of around SEK 1.0 million attributable to expenses in Japan. Excluding these, selling expenses rose by SEK 2.3 million compared to the same period of last year, mainly as a result of increased marketing activities.

Administrative expenses increased by SEK 0.8 million compared to the same period of last year, mainly owing to the fact that administrative expenses in TwoPac AB, which is now reported as a group company, were not included in the same period of 2010.

R&D expenses rose by SEK 0.6 million compared to the same period of last year due to increased activity in product development and clinical trials.

Selling, administrative and R&D expenses were down compared to the preceding quarter as a result of lower activity during the customary summer holiday in Sweden and the rest of Europe.

Operating profit for the third quarter

Operating profit for the third quarter was SEK 22.1 million (8.6), an improvement of SEK 13.5 million (157%) over the same period of last year. Excluding foreign exchange effects (see above), the increase would have been 160%. Compared to the second quarter, operating profit was SEK 11.8 million lower.

Profit before tax for the third quarter

Profit before tax for the third quarter was SEK 21.4 million (12.9), up by SEK 8.5 million (66%) compared to the same period of last year. Net financial items include a foreign exchange loss of SEK 1.5 million on forward exchange contracts in EUR (for more information – see above). The corresponding period of 2010 included a foreign exchange gain of SEK 3.9 million.

Profit after tax for the third quarter

Profit after tax was SEK 15.6 (8.0) million, which is an improvement of SEK 7.6 million (95%) over the same period of last year.

Compared to the preceding quarter, profit after tax declined by SEK 8.1 million.

Cash flow for the third quarter

Cash flow from operating activities before changes in working capital was SEK 18.3 million (9.4).

Total cash flow for the third quarter was SEK 34.4 million (16.5).

KEY EVENTS IN THE THIRD QUARTER OF 2011

Launches in the third quarter of 2011

Distributor/licensee	Product	Country
Nestlé	Infant formula with Reuteri	Algeria and Pakistan
Semper	Tablets with strawberry flavour, Drops with Vitamin D	Sweden

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 is planned for the first 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 Probiotic chewable tablets with strawberry flavour in the USA and its territories (excluding Puerto Rico). Fleet will sell the Probiotic chewable tablets under its Pedia-Lax brand. The launch is planned for the first quarter of 2012.

Agreement with United Laboratories

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

KEY EVENTS AFTER THE END OF THE THIRD QUARTER

New agreement with Victus

In October BioGaia signed a new agreement with Victus for the sale of BioGaia's Probiotic 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.

KEY EVENTS EARLIER IN 2011

Launches in the first half of 2011

Distributor/licensee	Product	Country
Blackmores	Relaunch of tablets	Australia and New Zealand
Delta Medical	Oral Rehydration Solution (ORS)	Ukraine
Ewopharma	Oral health product	Slovakia and Bulgaria
Ferring	Tablets and drops	Guatemala
Ferring	Tablets (new flavour)	Greece
Laboratorios Casen-Fleet	Tablets (new flavour)	Spain
Nestlé	Infant formula with Reuteri	Philippines, Iran, Indonesia and Malaysia
Verman	Oral Rehydration Solution (ORS) and drops with Vitamin D	Finland

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 fourth quarter of 2011.

Decision to invest in new production facility

TwoPac, which is owned 50% by BioGaia and 50% by TwoPac's management, produces straws and oil drops containing probiotics as well as LifeTop Cap, a bottle cap which contains sensitive ingredients, for 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 at the beginning 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 results would have been affected if TwoPac had been consolidated in the Group during 2010, see page 8.

EMPLOYEES

The number of employees in the Group at 30 September 2011 was 63 (45), of which the number of employees in TwoPac was 13.

SIGNIFICANT RISKS AND UNCERTAINTIES; GROUP AND PARENT COMPANY

The business model previously used in Japan was found to be unsuccessful and the company has changed to the business model that is used successfully in other markets. The Japanese subsidiary's sales have now picked up and are expected to increase continuously.

On the balance sheet date, assets in the Japanese subsidiary were reported at SEK 8.6 million in the Group. BioGaia's assessment is that there is no indication of impairment of these assets.

The shares in the subsidiary CapAble amount to a total of SEK 6.9 million in the Parent Company. So far CapAble has reported a loss. CapAble, which is 90.1% owned by BioGaia AB, was started in November 2008 to manufacture and sell the patented LifeTop Cap. 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, for which reason there was no indication of impairment on the balance sheet date.

For further information see the administration report and Notes 29 and 30 of the annual report for 2010.

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 following new standards and interpretations are effective as of 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 BioGaia.

FUTURE OUTLOOK

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

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

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

Product launches are planned in a number of countries over the next 12-18 months. In view of the Company's strong portfolio consisting of an increased number of innovative products partly under the company's own brand, together with successful clinical trials and a growing distribution network covering a large share of the key markets, BioGaia's future outlook is bright.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts in SEK 000s)

	Jan-Sept 2011	Jan-Sept 2010	July-Sept 2011	July-Sept 2010	Jan-Dec 2010	Oct 2010- Sept 2011
Net sales	232,596	173,276	73,107	48,856	236,033	295,353
Cost of goods sold	-73,567	-57,740	-25,286	-16,711	-77,150	-92,977
<i>Gross profit</i>	159,029	115,536	47,821	32,145	158,883	202,376
Selling expenses	-47,791	-44,950	-15,532	-14,167	-61,336	-64,177
Administrative expenses	-8,849	-6,841	-2,635	-1,819	-9,849	-11,857
Research and development expenses	-24,444	-22,071	-7,498	-6,935	-29,386	-31,759
Other operating income/expenses	1,456	-2,696	-49	-815	-3,242	910
Share in profit/loss of associated company	-	1,100	-	215	1,200	100
<i>Operating profit</i>	79,401	40,078	22,107	8,624	56,270	95,593
Financial income ¹⁾	2,149	11,060	845	4,320	13,517	4,606
Financial expenses ²⁾	-2,311	-85	-1,542	-40	-100	-2,326
<i>Profit before tax</i>	79,239	51,053	21,410	12,904	69,687	97,873
Tax expense	-21,476	-16,772	-5,826	-4,905	-22,519	-27,223
PROFIT FOR THE PERIOD	57,763	34,281	15,584	7,999	47,168	70,650
Other comprehensive income						
Gains/losses arising on translation of the financial statements of foreign operations	680	-132	995	-544	-15	797
Comprehensive income for the period	58,443	34,149	16,579	7,455	47,153	71,447
Profit for the period attributable to:						
Owners of the Parent Company	55,956	34,427	14,846	8,043	47,250	68,779
Non-controlling interests	1,807	-146	738	-44	-82	1,871
	57,763	34,281	15,584	7,999	47,168	70,650
Comprehensive income for the period attributable to:						
Owners of the Parent Company	56,636	34,295	15,841	7,499	47,235	69,576
Non-controlling interests	1,807	-146	738	-44	-82	1,871
	58,443	34,149	16,579	7,455	47,153	71,447
Earnings per share						
Basic earnings per share (average number of shares), SEK	3.24	1.99	0.86	0.46	2.74	3.98
Diluted earnings per share, SEK	3.24	1.99	0.86	0.46	2.74	3.98
Number of shares, thousands	17,271	17,271	17,271	17,271	17,271	17,271
Average number of shares, thousands	17,271	17,216	17,271	17,231	17,230	17,271
Number of outstanding warrants, thousands	-	-	-	-	-	-
Number of outstanding warrants with a dilutive effect, thousands	-	-	-	-	-	-
Number of shares after dilution, thousands	17,271	17,271	17,271	17,271	17,271	17,271
1) Financial income consists of:						
Interest income	2,149	565	845	390	1,091	
Exchange gains on forward exchange contracts	-	10,495	-	3,930	12,426	
	2,149	11,060	845	4,320	13,517	
2) Financial expenses consist of:						
Exchange losses on forward exchange contracts	-2,249	-	-1,535	-	-	
Other financial expenses	-62	-85	-7	-40	100	
	-2,311	-85	-1,542	-40	100	

CONSOLIDATED BALANCE SHEETS

	30 Sept	31 Dec	30 Sept
(Amounts in SEK 000s)	2011	2010	2010
ASSETS			
Intangible assets	453	1,173	1,413
Tangible assets	19,941	4,216	4,550
Shares in associated company	-	10,641	10,541
Non-current receivables from associated company	-	4,400	4,400
Other non-current receivables	18	18	18
<i>Total non-current assets</i>	20,412	20,448	20,922
Current assets excl. cash and cash equivalents	70,400	60,471	65,308
Cash and cash equivalents	161,434	146,903	125,713
<i>Total current assets</i>	231,834	207,374	191,021
TOTAL ASSETS	252,246	227,822	211,943
EQUITY AND LIABILITIES			
Equity attributable to owners of the Parent Company	209,320	187,225	174,632
Non-controlling interests	-756	98	-313
Total equity	208,564	187,323	174,319
Interest-free current liabilities	43,682	40,499	37,624
TOTAL EQUITY AND LIABILITIES	252,246	227,822	211,943

Pledged assets 5,814 2,000 2,000

CONSOLIDATED CASH FLOW STATEMENTS

	Jan-Sept	Jan-Sept	July-Sept	July-Sept	Jan-Dec
(Amounts in SEK 000s)	2011	2010	2011	2010	2010
Operating activities					
Operating profit	79,401	40,078	22,107	8,624	56,270
Depreciation/amortisation	5,677	2,051	1,211	561	2,836
Share in profit/loss of associated company	-	-1,100	-	-215	-1,200
Other non-cash items	-90	394	-19	93	986
	84,988	41,423	23,299	9,063	58,892
Gains/losses on realised forward exchange contracts	-20	-	-330	-	6,144
Paid tax	-30,121	-	-5,649	-	-
Interest received and paid	2,226	483	977	349	995
Cash flow from operating activities before changes in working capital	57,073	41,906	18,297	9,412	66,031
Changes in working capital	129	5,090	20,516	2,490	2,934
<i>Cash flow from operating activities</i>	57,202	46,996	38,813	11,902	68,965
<i>Cash flow from investing activities</i>	-8,447	-314	-4,396	-6	-522
<i>Cash flow from financing activities</i>	-34,542	-20,948	0	4,633	-20,948
Cash flow for the period	14,213	25,734	34,417	16,529	47,495
Cash and cash equivalents at beginning of period	146,903	100,327	126,646	109,422	100,327
Exchange difference in cash and cash equivalents	318	-348	371	-238	-919
Cash and cash equivalents at end of period	161,434	125,713	161,434	125,713	146,903

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-Sept 2010 ¹⁾	Jan-Sept 2010 ²⁾	July-Sept 2010 ¹⁾	July-Sept 2010 ²⁾
Net sales	173,276	173,276	48,856	48,856
Gross profit	119,917	115,536	33,222	32,145
Operating profit	41,178	40,078	8,790	8,624
Profit for the period before tax	52,153	51,053	13,120	12,904
Profit for the period	35,381	34,281	8,215	7,999
Profit for the period attributable to owners of the Parent Company	34,427	34,427	8,043	8,043
Basic earnings per share	1.99	1.99	0.46	0.46
Operating margin	24%	23%	18%	18%
Profit margin	30%	29%	27%	26%
Number of employees	55	45	55	45

Balance sheet items on the balance sheet date, 30 September 2010:

Property, plant and equipment	14,007	4,550
Balance sheet total	210,260	211,943
Equity	171,555	174,319
Equity attributable to owners of the Parent Company	174,632	174,632

1) If TwoPac had been reported as a group company in 2010.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in SEK 000s)

	Jan-Sept 2011	Jan-Sept 2010	Jan-Dec 2010
At beginning of period	187,323	161,118	161,118
New share issue in BioGaia (warrant programme)	-	4,863	4,863
Dividends	-34,542	-25,811	-25,811
Change in group structure	-2,660	-	-
Comprehensive income for the period	58,443	34,149	47,153
At end of period	208,564	174,319	187,323

REPORTING BY SEGMENT – GROUP

(Amounts in SEK 000s)

	Jan-Sept 2011	Jan-Sept 2010	July-Sept 2011	July-Sept 2010	Jan-Dec 2010
Revenue by segment					
Finished consumer products	157,956	120,970	46,496	31,095	165,590
Component products	73,186	50,820	25,874	17,346	68,559
Other products	1,454	1,486	737	415	1,884
	232,596	173,276	73,107	48,856	236,033

	Jan-Sept 2011	Jan-Sept 2010	July-Sept 2011	July-Sept 2010	Jan-Dec 2010
Gross profit by segment					
Finished consumer products	111,090	79,633	33,377	19,612	109,476
Component products	46,558	34,566	13,768	12,146	47,680
Other products	1,381	1,337	676	387	1,727
	159,029	115,536	47,821	32,145	158,883

Revenue by geographical market – Group

	Jan-Sept 2011	Jan-Sept 2010	July-Sept 2011	July-Sept 2010	Jan-Dec 2010
Net sales					
Europe	173,777	131,082	51,473	35,785	183,858
USA and Canada	9,288	11,664	4,922	2,868	13,879
Asia	29,526	15,155	9,104	5,430	19,564
Rest of world	20,005	15,375	7,608	4,773	18,732
	232,596	173,276	73,107	48,856	236,033

PARENT COMPANY INCOME STATEMENTS

(Amounts in SEK 000s)

	Jan-Sept 2011	Jan-Sept 2010	Jan-Dec 2010
Net sales	225,590	173,323	233,988
Cost of goods sold	-78,171	-57,749	-76,698
<i>Gross profit</i>	147,419	115,574	157,290
Selling expenses	-35,464	-31,491	-42,355
Administrative expenses	-7,749	-6,778	-9,743
Research and development expenses	-24,425	-22,207	-29,497
Other operating income/expenses	1,456	-2,696	-3,242
<i>Operating profit</i>	81,237	52,402	72,453
Share in profit/loss of associated company	-	1,100	1,200
Impairment loss on receivable from subsidiary	-7,461	-13,342	-16,928
Net financial items	1,851	11,802	14,665
Profit before tax	75,627	51,962	71,390
Tax expense	-21,476	-15,722	-23,038
PROFIT FOR THE PERIOD	54,151	36,240	48,352

PARENT COMPANY BALANCE SHEETS

ASSETS

	30 Sept 2011	31 Dec 2010	30 Sept 2010
Intangible assets	453	1,173	1,413
Property, plant and equipment	2,313	3,034	3,293
Shares in group companies	21,110	10,469	7,469
Shares in associated company	-	10,641	10,541
Non-current receivables from subsidiaries	16,513	1,022	1,022
Non-current receivables from associated company	-	4,400	4,400
<i>Total non-current assets</i>	40,389	30,739	28,138
Current assets excl. cash and cash equivalents	61,831	56,430	62,642
Cash and cash equivalents	149,354	140,840	122,383
<i>Total current assets</i>	211,185	197,270	185,025
TOTAL ASSETS	251,574	228,009	213,163
<u>EQUITY AND LIABILITIES</u>			
Equity	196,241	176,632	168,985
Interest-free current liabilities	55,333	51,377	44,178
TOTAL EQUITY AND LIABILITIES	251,574	228,009	213,163

Pledged assets	2,000	2,000	2,000
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PARENT COMPANY CASH FLOW STATEMENTS

	Jan-Sept	Jan-Sept	Jan-Dec
	2011	2010	2010
Operating activities			
Operating profit	81,237	52,402	72,453
Depreciation/amortisation	1,627	1,811	2,369
Other non-cash items	-93	374	968
Gain/losses on realised foreign exchange contracts	-20	-	6,144
Paid tax	-30,121	-	-
Interest received and paid	2,224	484	988
Cash flow from operating activities before changes in working capital	54,854	55,071	82,922
Changes in working capital	2,953	3,788	1,231
<i>Cash flow from operating activities</i>	57,807	58,859	84,153
<i>Cash flow from investing activities</i>	-14,844	-11,555	-17,780
<i>Cash flow from financing activities</i>	-34,542	-20,948	-20,948
Cash flow for the period	8,421	26,356	45,425
Cash and cash equivalents at beginning of period	140,840	96,379	96,379
Exchange difference in cash and cash equivalents	93	-352	-964
Cash and cash equivalents at end of period	149,354	122,383	140,840

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

	Jan-Sept	Jan-Sept	Jan-Dec
	2011	2010	2010
(Amounts in SEK 000s)			
At beginning of year	176,632	153,693	153,693
New share issue (warrant programme)	-	4,863	4,863
Dividends	-34,542	-25,811	-25,811
Group contributions	-	-	-4,465
Profit for the period	54,151	36,240	48,352
At end of period	196,241	168,985	176,632

RELATED PARTY TRANSACTIONS – PARENT COMPANY

(Amounts in SEK 000s)

Annwall & Rothschild Investment AB holds 740,668 class A shares and 1,259,332 class B shares, corresponding to 11.6% of the share capital and 36.2% of the votes. Annwall & Rothschild Investment AB is owned by Peter Rothschild, President of BioGaia AB, and Jan Annwall, a member of the Board of the Parent Company.

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

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

The Parent Company and the Group hold 50% of the shares in TwoPac AB, which is reported as a group company as of 1 January 2011 (previously as an associated company).

The following transactions have taken place with BioGaia Japan

	Jan-Sept 2011	Jan-Sept 2010	Jan-Dec 2010
Interest income	1,650	804	1,224
Loan provided	3,567	11,174	14,339
Sale of goods	2,244	1,364	1,364

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-Sept 2011	Jan-Sept 2010	Jan-Dec 2010
Interest income	332	82	119
Loan provided	-11,091	-	-
Purchase of goods	-17,173	-12,480	-15,974

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

	30 Sept 2011	30 Sept 2010	31 Dec 2010
Non-current receivables from TwoPac AB (incl. subsidiary)	15,491	4,400	4,400
Current transactions with related parties			
Current receivables from TwoPac AB	48	31	37
Current liabilities to TwoPac AB	-3,438	-1,081	-1,066
	-3,390	-1,050	-1,029

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

CONSOLIDATED KEY RATIOS 1)

	Jan-Sept 2011	Jan-Sept 2010	Jan-Dec 2010
Return on			
- average equity, %	28%	20%	27%
- average capital employed, %	41%	30%	40%
Capital employed, SEK 000s	208,564	174,319	187,323
Number of shares, thousands	17,271	17,271	17,271
Average number of shares, thousands	17,271	17,216	17,230
Number of outstanding warrants, thousands	-	-	-
Average number of outstanding warrants with a dilutive effect, thousands	-	-	-
Number of shares after dilution	17,271	17,271	17,271
Basic earnings per share, SEK	3.24	1.99	2.74
Diluted earnings per share, SEK	3.24	1.99	2.74
Basic equity per share, SEK	12.12	10.11	10.84
Diluted equity per share, SEK	12.12	10.11	10.84
Equity/assets ratio	83%	82%	82%
Operating margin, %	34%	23%	24%
Profit margin, %	34%	29%	30%
Average number of employees	61	45	45

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

FINANCIAL CALENDAR

10 February 2012	Year-end report 2011
8 May 2012	Interim report 1 January – 31 March 2012
8 May 2012	Annual General Meeting at 4:00 pm 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 .
21 August	Interim report 1 January – 30 June 2012
23 October	Interim report 1 January – 30 September 2012

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, 25 October 2011

David Dangoor
Board Chairman

Jan Annwall
Board member

Stefan Elving
Board member

Thomas Flinck
Board member

Inger Holmström
Board member

Jörgen Thorball
Board member

Paula Zeilon
Board member

Peter Rothschild
President

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

BioGaia AB

The company

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

BioGaia has 63 employees, of whom 20 are based in Stockholm, 21 in Lund, 13 in Eslöv, 2 in Raleigh, USA, 5 in Hiroshima, Japan, and 2 in Shanghai, China.

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

Business model

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

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

In Sweden, BioGaia's products are sold under the brands Semper Magdroppar and Vätskeersättning and Gum PerioBalance lozenges in the Apoteket pharmacy chain, as well as Semper whole grain infant cereal and infant formula with active culture and Probiomax gut health tablets in grocery stores.

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

The BioGaia brand

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

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

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

Research and clinical studies

Lactobacillus reuteri is one of the world's most well researched probiotics, especially in young children. To date, 80 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on more than 5,000 individuals of all ages. The results have been published in 46 articles in scientific journals.

Studies have been performed on:

- Infantile colic
- Antibiotic-associated diarrhoea (AAD)
- Acute diarrhoea
- Oral health
- 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 trials results do become available, BioGaia will report these through press releases.

Latest press releases from BioGaia:

2011-10-17 BioGaia signs new exclusive distribution agreement with Victus

2011-09-21 BioGaia signs agreement with the largest pharmaceutical company in the Philippines for its probiotic chewable tablets

2011-08-18 BioGaia signs exclusive agreement with Fleet Laboratories in the USA

BioGaia AB
Box 3242 SE-103 64 STOCKHOLM
Street address: Kungsbrogatan 3A, Stockholm
Telephone: +46 (0)8 555 293 00, Corp. identity no. 556380-8723
www.biogaia.com

For additional information contact:

Peter Rothschild, President, BioGaia AB, telephone +46 (0)8-555 293 00
Margareta Hagman, Executive Vice President, BioGaia AB, telephone +46 (0)8-555 293 00