**Press Release, 10 February 2012**

# BioGaia AB Year-end report 2011 (15 pages)

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

## 2011

- **Net sales reached SEK 315.0 million (236.0), an increase of SEK 79.0 million (33%). Excluding foreign exchange effects, net sales grew by 40%.**
- **Operating profit was SEK 103.2 million (56.3), an improvement of SEK 46.9 million (83%). Excluding foreign exchange effects, operating profit rose by 101%.**
- **Profit before tax was SEK 108.9 million (69.7), an increase of SEK 39.2 million (56%). Net financial items include a foreign exchange gain of SEK 2.5 million (12.4) arising from foreign exchange contracts in EUR.**
- **Profit after tax was SEK 79.5 million (47.2), an improvement of SEK 32.3 million (68%).**
- **Earnings per share amounted to SEK 4.42 (2.74).**
- **The period's total cash flow was SEK 24.7 million (47.5). During the year BioGaia paid dividends of SEK 34.5 million (25.8) and corporate tax of SEK 35.8 million (0), of which SEK 18.4 million refers to the 2010 financial year. Cash and cash equivalents at 31 December 2011 totalled SEK 171.5 million (146.9).**
- **The Board proposes that the upcoming AGM approve an ordinary dividend of SEK 1.26 and an extraordinary dividend of SEK 2.74, equal to a total dividend of SEK 4.00 per share.**

## Fourth quarter 2011

- **Net sales reached SEK 82.4 million (62.8), an increase of SEK 19.6 million (31%). Excluding foreign exchange effects, net sales grew by 32%.**
- **Operating profit was SEK 23.8 million (16.2), an improvement of SEK 7.6 million (47%). Excluding foreign exchange effects, operating profit rose by 51%.**
- **Profit before tax was SEK 29.6 million (18.6), an increase of SEK 11.0 million (59%). Net financial items include a foreign exchange gain of SEK 4.8 million (1.9) arising from foreign exchange contracts in EUR.**
- **Profit after tax was SEK 21.8 million (12.9) , an improvement of SEK 8.9 million (69%).**

## Key events in the fourth quarter of 2011

- **Agreement for the sale of drops and tablets in Venezuela and Puerto Rico.**
- **Results from two Helicobacter pylori studies**

> **"Last year was yet another year of strong growth in sales. This applies both to finished products, in all markets, and our component products in Europe and Asia. It is also encouraging to see that our focused efforts in Japan and the USA have yielded results that we now continue to build on," 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*, which has probiotic, health-enhancing effects. The class B share of the Parent Company BioGaia AB is quoted on the Mid 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 10 February 2012, 8:00 a.m.

# BioGaia AB (publ.)

**Year-end report 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 year-end report for 2011. A brief description of the company's operations is provided on page 15.

## PRESIDENT'S COMMENTS

Last year was yet another year of strong growth in sales. Over the past five years our sales growth has averaged at 30%. In 2011 we achieved sales growth of 33% and adjusted for foreign exchange effects it reached a full 40%. Both finished products, in all regions, and component products in Europe and Asia are growing. In addition, our operating margin has risen to a relatively high 33% despite volume discounts to Nestlé in the second half of the year.

Gross margins held strong in the fourth quarter mainly as a result of good prices for our sales in Japan. The higher price there is motivated by the fact that we have a larger sales organisation in Hiroshima (5 people) to support our Japanese distributor. The Japanese subsidiary is still making a loss, but the loss decreased significantly during the year. If the current sales trend continues in the year ahead, the figures at the subsidiary should soon be in the black.

With fast-growing sales, it is natural that our selling expenses are also rising, and our increased participation in various medical congresses is visible here. In 2011 we took part in seven different congresses by arranging satellite seminars and also hosting our own stand with a strong presence of BioGaia staff. This gives us the opportunity to meet a large number of doctors so that we can explain how our products work and show the results of our impressive clinical studies.

Our sales and profit for 2011 are very satisfying and it is encouraging to see that our focused efforts in Japan and the USA have yielded results that we now continue to build on.

## FINANCIAL PERFORMANCE IN 2011

### *Sales*

Consolidated net sales reached SEK 315.0 million (236.0), an increase of 33% 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%. 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%) 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%) to SEK 97.7 million, which is mainly attributable to sales of bacterial cultures to Nestlé.

Sales in Asia grew by SEK 17.6 million (90%) 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 year. The increase in Asia was primarily related to finished consumer products.

Sales in Europe rose by SEK 50.6 million to SEK 234.5 million (28%), which is mainly explained by sales of bacterial 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. In the future, Nestlé may produce the culture itself and BioGaia will in such case receive royalties on Nestlé's sales 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 increased from SEK 13.9 million to SEK 17.8 million (28%). 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 that will launch digestive health tablets with strawberry flavour under its own brand in the first quarter of 2012. Certain sales to Fleet took place already during 2011.

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

Of total finished consumer products, 43% (38) were sold under the BioGaia brand. Including co-branding, the percentage was 50% (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% to 69%, mainly because the consolidation of TwoPac in 2011 has reduced the company's cost of goods sold. For more information, see page 9. Furthermore, sales were up in Japan, where the gross margin, and also 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% (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 9.7 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% (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% (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%) better than in the previous year. Excluding foreign exchange effects (see above under "Sales"), operating profit improved by 101%.

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

Profit before tax was SEK 108.9 (69.7) million, an improvement of SEK 39.2 million (56%) 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 amounting to 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 SEK 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%) over the previous year.

The tax rate for the Group was 27% (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 has decreased compared to the previous year, the tax rate for the Group is lower. Loss carryforwards in the Japanese subsidiary amount to SEK 61.9 million as of December 31 2011. 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. This is partly due to 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% (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%-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 gained a controlling influence over TwoPac, which was thus consolidated as of 1 January 2011. Comparative figures for the previous year are provided on page 9.

***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 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.

## FINANCIAL PERFORMANCE IN THE FOURTH QUARTER OF 2011

***Fourth quarter sales***

Net sales for the fourth quarter reached SEK 82.4 million (62.8), up by SEK 19.6 million (31%) over the same period of last year. Excluding foreign exchange effects (see above under "Financial performance in 2011"), net sales rose by 32%.

Sales increased in all markets, but primarily in Europe and North America. Sales of finished consumer products grew by SEK 12.9 million (29%). Sales of component products rose by SEK 6.8 million (38%), which is mainly due to large deliveries of bacterial culture to Nestlé.

Compared to the third quarter, net sales improved by SEK 9.3 million (13%).

***Gross profit for the fourth quarter***

Gross profit was SEK 57.2 million (43.3), up by SEK 13.9 million over the same period of last year. Gross margin was 69%, which is unchanged compared to the same quarter of 2010. Gross margin for finished consumer products rose from 67% to 75%, mainly due to the consolidation of TwoPac and the resulting decrease in the Group's cost of goods sold, as well as higher sales in Japan. Gross margin for component products fell from 74% to 57% as an effect of volume discounts to Nestlé.

Compared to the third quarter, gross margin was higher for both finished consumer products and component products. The increase for finished consumer products is explained by the market and product mix, primarily a higher margin in Japan. The increase for component products is due to lower purchasing costs for cultures.

***Other operating expenses for the fourth quarter***

Selling expenses for the fourth quarter were up by SEK 1.9 million compared to the same period of last year, mainly as a result of increased marketing activities and higher personnel expenses.

Administrative expenses increased by SEK 1.2 million compared to the same period of last year, owing to higher personnel expenses and the fact that administrative expenses in TwoPac AB, which is now reported as a group company, were not included in the corresponding period of 2010.

R&D expenses rose by SEK 2.6 million compared to the same period of last year due to increased activity in product development and clinical trials, and to a certain extent also higher personnel expenses.

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

***Operating profit for the fourth quarter***

Operating profit for the fourth quarter was SEK 23.8 million (16.2), an improvement of SEK 7.6 million (47%) over the same period of last year. Excluding foreign exchange effects (see above), the increase was 51%.

Compared to the third quarter, operating profit was SEK 1.7 million higher.

***Profit before tax for the fourth quarter***

Profit before tax for the fourth quarter was SEK 29.6 million (18.6), an increase of SEK 11.0 million (59%) compared to the same period of last year. Net financial items include a foreign exchange gain of SEK 4.8 million (1.9) on forward exchange contracts in EUR (for more information – see above).

***Profit after tax for the fourth quarter***

Profit after tax was SEK 21.8 million (12.9), which is an improvement of SEK 8.9 million (69%) over the same period of last year.

Compared to the preceding quarter, profit after tax increased by SEK 6.2 million.

***Cash flow for the fourth quarter***

Cash flow for the fourth quarter was SEK 10.5 million (21.8). The difference compared to the same period of last year is due to payment of tax, a large increase in working capital and the investment in a new building in the subsidiary TwoPac.

## KEY EVENTS IN THE FOURTH QUARTER OF 2011

***Launches in the fourth quarter of 2011***

| Distributor/licensee | Product | Country |
|---|---|---|
| BG Distribution | Drops | Hungary |
| Ewopharma | Drops | Latvia and Lithuania |
| Nestlé | Infant formula with *Lactobacillus reuteri* Protectis | Bahrain, United Arab Emirates, Jordan, Kuwait, Lebanon, Qatar, Saudi Arabia and Vietnam |
| Noos and Italchimichi | Drops with Vitamin D | Italy |
| Sued | Drops and digestive health tablets | Dominican Republic |

***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.

***Results from two studies on Helicobacter pylori infections***

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. A few of BioGaia's distribution partners will launch BioGaia Gastrus during 2012.

BioGaia announced these results in the beginning of November so that they would then be made 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.

## KEY EVENTS EARLIER IN 2011

### *Launches in January - September 2011*

| Distributor/licensee | Product | Country |
|---|---|---|
| Blackmores | Relaunch of digestive health tablets | Australia and New Zealand |
| Delta Medical | Oral Rehydration Solution (ORS) | Ukraine |
| Ewopharma | Oral health product | Slovakia and Bulgaria |
| 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 *Lactobacillus reuteri* Protectis | Algeria, Philippines, Iran, Indonesia, Malaysia and Pakistan |
| Semper | Digestive health tablets with strawberry flavour, drops with Vitamin D | Sweden |
| 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 first quarter of 2012.

### *Decision to invest in new production facility*

TwoPac, which is owned 50% by BioGaia and 50% by TwoPac's management, produces straws and 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 9.

### *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 drops and digestive health 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.

### *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.

## EMPLOYEES

The number of employees in the Group at 31 December 2011 was 64 (46), of which the number of employees in TwoPac was 14.

## 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 being 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 8.7 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.

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 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.

## PROPOSED APPROPRIATION OF PROFITS

The following funds in the Parent Company are at the disposal of the Annual General Meeting (SEK 000s):

| | |
|---|---|
| Retained profit: | 45,306 |
| Profit for the year: | 72,479 |
| Together amounting to: | 117,785 |

The Board of Directors and the President propose that the company pay an ordinary dividend of SEK 1.26 and, in view of the company's good liquidity and strong balance sheet, an extraordinary dividend of SEK 2.74, amounting to a total dividend of SEK 4.00 per share. This is equal to a total distribution of SEK 69.1 million. It is proposed that the remaining retained profits of SEK 48.7 million be carried forward to new account.

**Consolidated statement of comprehensive income**

| (Amounts in SEK 000s) | **Jan-Dec 2011** | Jan-Dec 2010 | **Oct-Dec 2011** | Oct-Dec 2010 |
|---|---|---|---|---|
| Net sales | **314,992** | 236,033 | **82,396** | 62,757 |
| Cost of goods sold | **-98,727** | -77,150 | **-25,160** | -19,410 |
| *Gross profit* | ***216,265*** | *158,883* | ***57,236*** | *43,347* |
| Selling expenses | **-66,079** | -61,336 | **-18,288** | -16,386 |
| Administrative expenses | **-13,014** | -9,849 | **-4,165** | -3,008 |
| Research and development expenses | **-34,317** | -29,386 | **-9,873** | -7,315 |
| Other operating income/expenses | **304** | -3,242 | **-1,152** | -546 |
| Share in profit/loss of associated company | **-** | 1,200 | **-** | 100 |
| *Operating profit* | ***103,159*** | *56,270* | ***23,758*** | *16,192* |
| Financial income [1)] | **5,792** | 13,517 | **5,892** | 2,456 |
| Financial expenses [2)] | **-84** | -100 | **-22** | -14 |
| *Profit before tax* | ***108,867*** | *69,687* | ***29,628*** | *18,634* |
| Tax expense | **-29,345** | -22,519 | **-7,869** | -5,747 |
| **PROFIT FOR THE PERIOD** | **79,522** | 47,168 | **21,759** | 12,887 |
| **Other comprehensive income** | | | | |
| Gains/losses arising on translation of the financial statements of foreign operations | **712** | -15 | **32** | 117 |
| **Comprehensive income for the period** | **80,234** | 47,153 | **21,791** | 13,004 |
| | | | | |
| **Profit for the period attributable to:** | | | | |
| Owners of the Parent Company | **76,369** | 47,250 | **20,413** | 12,823 |
| Non-controlling interests | **3,153** | -82 | **1,346** | 64 |
| | **79,522** | 47,168 | **21,759** | 12,887 |
| **Comprehensive income for the period attributable to:** | | | | |
| Owners of the Parent Company | **77,081** | 47,235 | **20,445** | 12,940 |
| Non-controlling interests | **3,153** | -82 | **1,346** | 64 |
| | **80,234** | 47,153 | **21,791** | 13,004 |
| | | | | |
| **Earnings per share** | | | | |
| Basic earnings per share (average number of shares), SEK | **4.42** | 2.74 | **1.18** | 0.74 |
| Diluted earnings per share, SEK | **4.42** | 2.74 | **1.18** | 0.74 |
| Number of shares, thousands | **17,271** | 17,271 | **17,271** | 17,271 |
| Average number of shares, thousands | **17,271** | 17,230 | **17,271** | 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 |
| | | | | |
| 1) Financial income consists of: | | | | |
| Interest income | **3,270** | 1,091 | **1,121** | 525 |
| Exchange gains on forward exchange contracts | **2,522** | 12,426 | **4,771** | 1,931 |
| | **5,792** | 13,517 | **5,892** | 2,456 |
| | | | | |
| 2) Financial expenses consist of: | | | | |
| Exchange losses on forward exchange contracts | **-** | - | **-** | - |
| Other financial expenses | **-84** | -100 | **-22** | -14 |
| | **-84** | -100 | **-22** | -14 |



BioGaia® Clinically Proven Probiotics

| **CONSOLIDATED STATEMENT OF FINANCIAL POSITION** | **31 Dec** | 31 Dec |
|---|---|---|
| (Amounts in SEK 000s) | **2011** | 2010 |
| ASSETS | | |
| Intangible assets | **264** | 1,173 |
| Property, plant and equipment | **24,158** | 4,216 |
| Shares in associated company | **-** | 10,641 |
| Non-current receivables from associated company | **-** | 4,400 |
| Other non-current receivables | **18** | 18 |
| *Total non-current assets* | ***24,440*** | *20,448* |
| Current assets excl. cash and cash equivalents | **83,858** | 60,471 |
| Cash and cash equivalents | **171,534** | 146,903 |
| *Total current assets* | ***255,392*** | *207,374* |
| **TOTAL ASSETS** | **279,832** | 227,822 |
| EQUITY AND LIABILITIES | | |
| Equity attributable to owners of the Parent Company | **229,764** | 187,225 |
| Non-controlling interests | **591** | 98 |
| Total equity | **230,355** | 187,323 |
| Deferred tax liability | **185** | - |
| Interest-free current liabilities | **49,292** | 40,499 |
| TOTAL EQUITY AND LIABILITIES | **279,832** | 227,822 |
| | | |
| **Pledged assets** | **5,874** | 2,000 |

| **CONSOLIDATED CASH FLOW STATEMENTS** | **Jan-Dec** | Jan-Dec | **Oct-Dec** | Oct-Dec |
|---|---|---|---|---|
| (Amounts in SEK 000s) | **2011** | 2010 | **2011** | 2010 |
| *Operating activities* | | | | |
| Operating profit | **103,159** | 56,270 | **23,758** | 16,192 |
| Depreciation/amortisation | **6,765** | 2,836 | **1,088** | 785 |
| Share in profit/loss of associated company | **-** | -1,200 | **-** | -100 |
| Other non-cash items | **58** | 986 | **148** | 592 |
| | **109,982** | 58,892 | **24,994** | 17,469 |
| Gains/losses on realised forward exchange contracts | **-164** | 6,144 | **-144** | 6,144 |
| Paid tax | **-35,768** | - | **-5,647** | - |
| Interest received and paid | **3,189** | 995 | **963** | 512 |
| Cash flow from operating activities before changes in working capital | **77,239** | 66,031 | **20,166** | 24,125 |
| Changes in working capital | **-4,447** | 2,934 | **-4,576** | -2,156 |
| *Cash flow from operating activities* | ***72,792*** | *68,965* | ***15,590*** | *21,969* |
| *Cash flow from investing activities* | ***-13,567*** | -522 | ***-5,120*** | -208 |
| *Cash flow from financing activities* | ***-34,542*** | -20,948 | ***0*** | - |
| Cash flow for the period | **24,683** | 47,495 | **10,470** | 21,761 |
| Cash and cash equivalents at beginning of period | **146,903** | 100,327 | **161,434** | 125,713 |
| Exchange difference in cash and cash equivalents | **-52** | -919 | **-370** | -571 |
| Cash and cash equivalents at end of period | **171,534** | 146,903 | **171,534** | 146,903 |



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**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 gave been affected as follows:

| | Jan-Dec 2010 1) | Jan-Dec 2010 2) | Oct-Dec 2010 1) | Oct-Dec 2010 2) |
|---|---|---|---|---|
| Net sales | 236,033 | 236,033 | 62,757 | 62,757 |
| Gross profit | 164,339 | 158,883 | 44,422 | 43,347 |
| Operating profit | 57,588 | 56,270 | 16,410 | 16,192 |
| Profit for the period before tax | 70,887 | 69,687 | 18,734 | 18,634 |
| Profit for the period | 48,368 | 47,168 | 12,987 | 12,887 |
| Profit for the period attributable to owners of the Parent Company | 47,250 | 47,250 | 12,823 | 12,823 |
| Basic earnings per share | 2.74 | 2.74 | 0.74 | 0.74 |
| 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 | | |

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 STATEMENT OF CHANGES IN EQUITY**

| (Amounts in SEK 000s) | **Jan-Dec 2011** | Jan-Dec 2010 |
|---|---|---|
| At beginning of period | **187,323** | 161,118 |
| New share issue in BioGaia (warrant programme) | **-** | 4,863 |
| Dividends | **-34,542** | -25,811 |
| Change in group structure | **-2,660** | - |
| Comprehensive income for the period | **80,234** | 47,153 |
| **At end of period** | **230,355** | 187,323 |

**REPORTING BY SEGMENT – GROUP**

(Amounts in SEK 000s)

| **Revenue by segment** | **Jan-Dec 2011** | Jan-Dec 2010 | **Oct-Dec 2011** | Oct-Dec 2010 |
|---|---|---|---|---|
| Finished consumer products | **215,431** | 165,590 | **57,475** | 44,620 |
| Component products | **97,731** | 68,559 | **24,545** | 17,739 |
| Other products | **1,830** | 1,884 | **376** | 398 |
| | **314,992** | 236,033 | **82,396** | 62,757 |

| **Gross profit by segment** | **Jan-Dec 2011** | Jan-Dec 2010 | **Oct-Dec 2011** | Oct-Dec 2010 |
|---|---|---|---|---|
| Finished consumer products | **154,015** | 109,476 | **42,925** | 29,843 |
| Component products | **60,523** | 47,680 | **13,965** | 13,114 |
| Other products | **1,727** | 1,727 | **346** | 390 |
| | **216,265** | 158,883 | **57,236** | 43,347 |

**Revenue by geographical market**

| Net sales | **Jan-Dec 2011** | Jan-Dec 2010 | **Oct-Dec 2011** | Oct-Dec 2010 |
|---|---|---|---|---|
| Europe | **234,505** | 183,858 | **60,728** | 52,776 |
| USA and Canada | **17,816** | 13,879 | **8,528** | 2,215 |
| Asia | **37,117** | 19,564 | **7,591** | 4,409 |
| Rest of world | **25,554** | 18,732 | **5,549** | 3,357 |
| | **314,992** | 236,033 | **82,396** | 62,757 |



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| **PARENT COMPANY INCOME STATEMENTS** | **Jan-Dec** | Jan-Dec |
|---|---|---|
| (Amounts in SEK 000s) | **2011** | 2010 |
| Net sales | **306,182** | 233,988 |
| Cost of goods sold | **-106,868** | -76,698 |
| *Gross profit* | **199,314** | 157,290 |
| Selling expenses | **-49,406** | -42,355 |
| Administrative expenses | **-11,607** | -9,743 |
| Research and development expenses | **-34,283** | -29,497 |
| Other operating income/expenses | **304** | -3,242 |
| *Operating profit* | **104,322** | 72,453 |
| Share in profit/loss of associated company | **-** | 1,200 |
| Impairment loss on receivable from subsidiary | **-10,453** | -16,928 |
| Net financial items | **8,391** | 14,665 |
| Profit before tax | **102,260** | 71,390 |
| Tax expense | **-29,781** | -23,038 |
| **PROFIT FOR THE PERIOD** | **72,479** | 48,352 |

| **PARENT COMPANY BALANCE SHEETS** | **31 Dec** | 31 Dec |
|---|---|---|
| | **2011** | 2010 |
| **ASSETS** | | |
| Intangible assets | **264** | 1 173 |
| Property, plant and equipment | **2,068** | 3,034 |
| Shares in group companies | **21,160** | 10,469 |
| Shares in associated company | **-** | 10,641 |
| Non-current receivables from subsidiaries | **16,513** | 1,022 |
| Non-current receivables from associated company | **-** | 4,400 |
| *Total non-current assets* | ***40,005*** | *30,739* |
| Current assets excl. cash and cash equivalents | **73,643** | 56,430 |
| Cash and cash equivalents | **161,865** | 140,840 |
| *Total current assets* | ***235,508*** | *197,270* |
| **TOTAL ASSETS** | **275,513** | 228,009 |
| | | |
| **EQUITY AND LIABILITIES** | | |
| Equity | **212,756** | 176,632 |
| Interest-free current liabilities | **62,757** | 51,377 |
| **TOTAL EQUITY AND LIABILITIES** | **275,513** | 228,009 |
| | | |
| **Pledged assets** | 2,000 | 2,000 |



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**PARENT COMPANY CASH FLOW STATEMENTS**

| | Jan-Dec 2011 | Jan-Dec 2010 |
|---|---|---|
| Operating activities | | |
| Operating profit | **104,322** | 72,453 |
| Depreciation/amortisation | **2,096** | 2,369 |
| Other non-cash items | **51** | 968 |
| Gain/losses on realised foreign exchange contracts | **-164** | 6,144 |
| Paid tax | **-35,769** | - |
| Interest received and paid | **3,582** | 988 |
| Cash flow from operating activities before changes in working capital | **74,118** | 82,922 |
| Changes in working capital | **-2,686** | 1,231 |
| *Cash flow from operating activities* | **71,432** | 84,153 |
| *Cash flow from investing activities* | **-15,813** | -17,780 |
| *Cash flow from financing activities* | **-34,542** | -20,948 |
| Cash flow for the period | **21,077** | 45,425 |
| Cash and cash equivalents at beginning of period | **140,840** | 96,379 |
| Exchange difference in cash and cash equivalents | **-52** | -964 |
| Cash and cash equivalents at end of period | **161,865** | 140,840 |

**PARENT COMPANY STATEMENT OF CHANGES IN EQUITY**

| (Amounts in SEK 000s) | Jan-Dec 2011 | Jan-Dec 2010 |
|---|---|---|
| At beginning of year | **176,632** | 153,693 |
| New share issue (warrant programme) | **-** | 4,863 |
| Dividends | **-34,542** | -25,811 |
| Group contributions | **-1,813** | -4,465 |
| Profit for the period | **72,479** | 48,352 |
| **At end of period** | **212,756** | 176,632 |

**RELATED PARTY TRANSACTIONS – PARENT COMPANY**

(Amounts in SEK 000s)

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

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

The Parent Company and the Group 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-Dec 2011** | Jan-Dec 2010 |
|---|---|---|
| Interest income | **2,244** | 1,224 |
| Loan provided | **4,451** | 14,339 |
| Sale of goods | **3,758** | 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-Dec 2011** | Jan-Dec 2010 |
|---|---|---|
| Interest income | **487** | 119 |
| Loan provided | **-11,091** | - |
| Purchase of goods | **-26,179** | -15,974 |

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

| | **31,Dec 2011** | 31,Dec 2010 |
|---|---|---|
| Non-current receivables from TwoPac AB (incl. subsidiary) | **15,491** | 4,400 |
| ***Current transactions with related parties*** | | |
| Current receivables from TwoPac AB | **349** | 37 |
| Current liabilities to TwoPac AB | **-3,339** | -1,066 |
| | **-2,990** | -1,029 |

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

| CONSOLIDATED KEY RATIOS 1) | Jan-Dec 2011 | Jan-Dec 2010 |
|---|---|---|
| Return on | | |
| - average equity | **37%** | 27% |
| - average capital employed | **52%** | 40% |
| Capital employed, SEK 000s | **230,540** | 187,323 |
| Number of shares, thousands | **17,271** | 17,271 |
| Average number of shares, thousands | **17,271** | 17,230 |
| Basic earnings per share, SEK | **4.42** | 2.74 |
| Basic equity per share, SEK | **13.30** | 10.84 |
| Equity/assets ratio | **82%** | 82% |
| Operating margin | **33%** | 24% |
| Profit margin | **35%** | 30% |
| Average number of employees | **61** | 45 |

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

## FINANCIAL CALENDAR

The annual report for 2011 will be distributed to all shareholders during the last week of March 2012. At that time it will also be available on BioGaia's website and can be ordered by telephone +46 8-55529300 or by e-mail to info@biogaia.se.

| | |
|---|---|
| 8 May 2012 | Interim report 1 January – 31 March 2012 |
| 8 May 2012 | Annual General Meeting at 4:00 p.m. at Citykonferensen Ingenjörshuset, Malmskillnadsgatan 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 |
| 21 August 2012 | Interim report 1 January – 30 June 2012 |
| 23 October 2012 | 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, 10 February 2012**

**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**

**Review report**

We have reviewed the interim financial information (interim report) for BioGaia AB (publ), corporate identity number 556380-8723, at 31 December 2011 and for the financial year then ended. The Board of Directors and Managing Director are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim financial information based on our review.

We conducted our review in accordance with the Standard on Review Engagements SÖG 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by FAR. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISA (International Standards on Auditing) and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion based on an audit.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not, in all material aspects, prepared in accordance with IAS 34 and the Swedish Annual Accounts Act for the Group and in accordance with the Swedish Annual Accounts Act for the Parent Company.

**Stockholm, 10 February 2012**

**Grant Thornton Sweden AB**

**Lena Möllerström Nording**
**Authorised Public Accountant**

**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) in combination with unique delivery systems 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 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 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 60 countries worldwide.

BioGaia holds patents for the use of *Lactobacillus reuteri* and certain packaging solutions 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 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.

***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 5,500 individuals of all ages. The results have been published in 49 articles in scientific journals.

Studies have been performed on:

- Infantile colic and pediatric gut health
- 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 trials results of significance to the company's business do become available, BioGaia will report these through press releases.

**Latest press releases from BioGaia:**
2011-11-10 BioGaia Gastrus in Helicobacter pylori infected patients
2011-10-25 BioGaia AB Interim report 1 January – 30 September 2011
2011-10-17 BioGaia signs new exclusive distribution agreement with Victus

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**Margareta Hagman, Executive Vice President, BioGaia AB, telephone +46 8-555 293 00**



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