

5 new clinical studies
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**Breakthrough in the
Japanese market**
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**Partnership with Nestlé
– a success in 19 countries**
page 4

BioGaia®

**Yet
another
year of
growth**
page 4



Annual report 2010

HIGHLIGHTS OF 2010

Net sales grew by 16% to SEK 236.0 million (203.5). Excluding foreign exchange effects, net sales were up by 27%.¹⁾

Operating profit increased by 18% to SEK 56.3 million (47.7). Excluding foreign exchange effects, operating profit improved by 51%.¹⁾

Profit after tax rose by 31% to SEK 47.2 million (36).

FIVE NEW STUDIES PUBLISHED

Lactobacillus reuteri Protectis reduced gastrointestinal symptoms and hospital stay in premature newborns

Lactobacillus reuteri Protectis reduced crying time in infants with colic

Lactobacillus reuteri Protectis is effective in infants with chronic constipation

Lactobacillus reuteri Prodentis is effective in the treatment of periodontitis

Lactobacillus reuteri Protectis reduced regurgitation and improved stomach emptying in infants

NEW AGREEMENTS WITH

Nippon Access – several products in Japan

Ferring – drops and tablets in Argentina

Interbat – drops in Indonesia

Asia United – drops in China

Collaboration agreement with SCA for new health-targeted products, such as intimate hygiene products and products for the elderly.

LAUNCH OF

Drops for infants in Turkey, Germany, Peru, Serbia, Russia, Denmark, Belarus, Armenia, Georgia, Azerbaijan and Israel

Digestive health tablets for adults in Turkey, Peru, Serbia, Russia, Denmark and Brazil

Oral rehydration solution (ORS) product with Reuteri in Italy

Oral health products in Japan

Digestive health tablets in a new flavour (strawberry) – mainly intended for children, in Finland and South Africa

Infant formula with Reuteri in Australia, the Baltic countries, Belgium, Chile, Costa Rica, Greece, Guatemala, Italy, Morocco, Mexico, Panama, Peru, Poland, Portugal, Romania, Spain, South Africa and Germany.

EVENTS AFTER THE END OF THE FINANCIAL YEAR

Decision to invest in a new production facility in Eslöv by BioGaia's 50%-owned company TwoPac

Agreement with Cube Pharmaceuticals regarding the sale of oral rehydration solution (ORS) with Reuteri in Greece.

¹⁾ Most of the company's sales are denominated in foreign currency, primarily EUR. With unchanged exchange rates, net sales would have been SEK 23.0 million higher and operating profit would have been SEK 15.7 million higher for the year.

This is BioGaia

BioGaia develops, markets and sells probiotic products with documented health effects and unique delivery systems. The products are primarily based on different strains of the lactic acid bacterium *Lactobacillus reuteri* in combination with delivery systems that make it possible to create probiotic products with a long shelf life. *Lactobacillus reuteri* has probiotic and health-enhancing effects.

FINANCIAL TARGETS

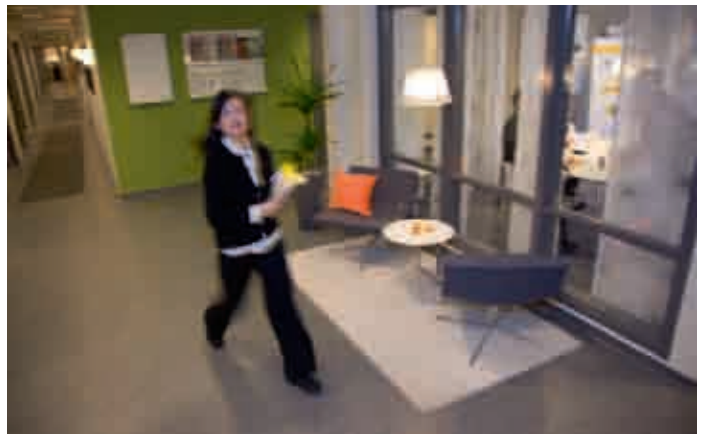
BioGaia's goal is to create strong value growth and a good return for the shareholders. This will be achieved through a greater emphasis on the BioGaia brand, increased sales to both existing and new customers and a controlled cost level.

The financial target is a sustainable operating margin (operating profit in relation to sales) of at least 30% 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 paid tax.

KEY RATIOS

	2010	2009	2008	2007	2006
Net sales, SEK M	236.0	203.5	145.2	106.6	86.8
Profit before tax, SEK M	69.7	53.1	24.0	10.7	2.7
Profit after tax, SEK M	47.2	36.0	36.1	19.7	2.7
Sales growth,%	16	40	36	23	46
Operating margin,%	24	23	18	8	2
Equity/assets ratio,%	82	90	86	86	82
Average number of employees	45	43	39	37	34



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VISION

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

BUSINESS CONCEPT

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

STRATEGY

BioGaia invests and participates in clinical studies, develops innovative new delivery systems and provides its partners with powerful marketing support. The company's products are sold under the BioGaia brand to the greatest possible extent.

BUSINESS MODEL

In BioGaia's business model, the company sells its products through a network of partners around the world.

These companies have sales representatives that visit physicians and other healthcare professionals to inform them about the published results of high quality clinical studies with BioGaia's products, and in this way convince the physicians to recommend the products to their patients. The products are sold mainly in pharmacies and similar retail outlets.



“Another year

How can I describe 2010? It was yet another year of solid growth when sales rose by 27%* and profit improved by 51%*, but it was also a year of continued challenges in Japan. The year’s growth came mainly from our relatively well-established markets in Europe. As usual, Finland, Spain and Italy contributed strong growth rates despite the fact that these are already our largest markets, but Eastern European countries like Ukraine, Slovakia and Poland are also starting to reach significant volumes.

We have seen particularly impressive development for the infant health drops and our digestive health tablets for children and adults. Several new products were launched in a number of countries during 2010. The new strawberry-flavoured tablets for children are selling well in Finland and South Africa and the new ORS product with Reuteri integrated in the same single-portion sachet (products of this type are normally sold in two separate packages and must be mixed by

the consumer) has been successful in Sweden and was also launched in Italy. Several additional countries are now in line. We also developed a new version of our oil drops, with vitamin D, and will launch this product during 2011.

NESTLÉ ONE OF THE LARGEST CUSTOMERS

Part of our sales growth in 2010 is due to the partnership with Nestlé, to which we supply bacterial cultures that are used in their infant formulas. The product is already on the market in 19 countries and both Nestlé and we are satisfied with how quickly and successfully the partnership has come together. After only a short time, Nestlé is on its way to becoming one of our largest customers. Our standard business model is otherwise to deliver our own dietary supplements under the BioGaia brand to local and exclusive distribution partners. Our network of partners, which now cover more than 60 countries, have sales forces that convince doctors and other healthcare professionals to recommend the products

to their patients, who in turn buy them from pharmacies and similar retail outlets. We are a leader in the infant probiotic area with our drops and have further advanced our position by delivering bacterial cultures to Nestlé and a few other producers of infant formula.

NEW PARTNER IN JAPAN

After searching for suitable local Japanese partners for several years, we opened a sales office in Hiroshima, Japan, in 2006 based on our conviction that a local presence is critical in gaining a firm foothold there. And although our assumption has proven correct, it has taken much longer than expected. The first few years were devoted to identifying the market’s product needs and exploring possible distribution channels. In 2010 we completely revised our marketing strategy in Japan by signing an agreement with one of the major wholesale companies, Nippon Access. This meant not only that we discontinued our sales directly to the retail chains but also that we phased out sales of

of solid growth”



Peter Rothschild
President
pr@biogaia.se

functional beverages with Reuteri to instead focus on dietary supplements. Together with Nippon Access and its subcontractors, our first move has been to primarily target dentists for the launch of our oral health lozenges. Today the products are sold directly in dental clinics, as well as in pharmacies and similar retail outlets. However, as an effect of the discontinued retail sales and lower purchases from Erina, our other partner in Japan, our sales in Japan fell sharply during 2010.

Sales of our oral health products have now started to gain momentum and we should start to see a positive development in 2011 and reach profitability through sales of these products alone. Later in 2011 we will also try to get started with the other products.

UNIQUE PRODUCTS

In general, we are not satisfied with the sales of our oral health products. Given the uniqueness of these and the fantastic results shown in our clinical studies on treatment of gingivitis and plaque, we should also be able to

achieve significant growth in this area. We have therefore decided to review our sales strategy for oral health products and will focus intensively on this area in 2011.

It is extremely satisfying to announce that TwoPac, BioGaia's 50%-owned associated company which manufactures our drops, straws and Life-Top Cap, is now profitable thanks to the effective and creative efforts of its employees under the leadership of its President Per Hjalmarsson.

STRONG AND STEADY GROWTH IN 2011

In 2011 we will continue the process of registering our products in a large number of countries. We are also providing ongoing support for our partners' sales in various ways, for example by holding seminars in connection with international medical congresses around the world. We launched three new products in the past 18 months and will now introduce these in a range of new markets. In addition, the more mature markets are show-

ing sustained positive development. What's more, we have now been active in a number of new markets for between two and three years, which is when we normally start to see dramatic growth. In all, I think this gives us a good reason to anticipate steady growth.

BioGaia's engine naturally consists of our knowledgeable and dedicated employees, who are truly the driving force for development. Our low rate of employee turnover means that we have succeeded in retaining the invaluable skills and knowhow that have been built up over the years. I am certain that this expertise will enable us to increase sales of our existing products and develop new and exciting products for the future. Against this background, I am optimistic that we can meet our ambitious goals to achieve a leading position in key markets and convinced that we have something very attractive to offer our consumers, employees and shareholders.

* Excluding foreign exchange effects.

BioGaia – a smarter company

BioGaia is characterised by innovation, flexibility and a high level of expertise among the employees. These qualities have led the company to a world-leading position.

BioGaia has 46 employees, of whom 18 are based in Stockholm, 20 in Lund, two in Raleigh, USA, five in Hiroshima, Japan, and one in Shanghai, China. The corporate management is located in Stockholm, which is also the base for the sales and marketing, accounting/finance and administration, quality assurance and regulatory affairs departments and the Senior Vice President of Research. Production planning, order and logistics, product development, parts of the research and quality departments and a laboratory are located in Lund. In the US, BioGaia has a laboratory for research and product development. In Japan there is a sales office for the Japanese market. Since the beginning of 2010 BioGaia has an employee based in Shanghai to cultivate the Chinese market.

The company collaborates with a large number of physicians and research scientists from universities and hospitals around the world.

The employees have a direct bearing on the company's capacity for growth, innovativeness and profitability. BioGaia's management strives to create an organisation where the employees can thrive and develop, which in turn enables the company to attract and retain competent staff.

BioGaia has a flat organisation with short decision-making paths. The ambition is to create a climate that fosters personal development and responsibility. All employees are given the opportunity to influence their work situation to maintain a good balance between work and leisure, and thereby avoid stress. In addition, the employees are encouraged to take a

holistic approach to health and carry values that is consistent with the company's vision.

EMPLOYEE TURNOVER AND AGE STRUCTURE

Five people were hired in 2010 and four employees left the company. Employee turnover has been low in recent years. The average term of service in the company is seven years and the average age is 43 years.

EDUCATION AND SKILLS

The level of expertise in the company is high: 29 employees have at least the equivalent of a university education and four of these hold a doctor's degree. The company promotes continuing education among its employees in order to meet future competence needs.

HEALTH AND FITNESS

BioGaia offers its employees a wellness contribution and regular health check-ups. Furthermore, all employees are encouraged to use Reuteri products in order to build and maintain their health. Sickness absence among the employees is low, with an average of three sick days in 2010.

EQUALITY

BioGaia's equality policy states that all employees have the same status and conditions. The company therefore strives to offer an attractive and

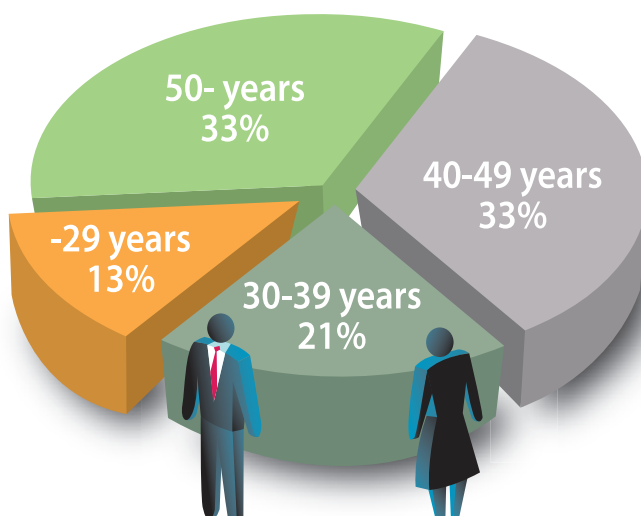
“All employees are given the opportunity to influence their work situation to maintain a good balance between work and leisure, and thereby avoid stress. In addition, the employees are encouraged to take a holistic approach to health and carry values that is consistent with the company's vision.”



“The much doubted bacteria grower, whose foremost impression ten years ago was a bacteria-patterned necktie that was ranked among the ugliest in corporate Sweden, has a market capitalisation of SEK 1.7 billion today.”

Excerpt from Tomas Linnala’s analysis of BioGaia’s development, www.e24.se, 12 April 2010

Number of employees by age group,%



BioGaia believes that:

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

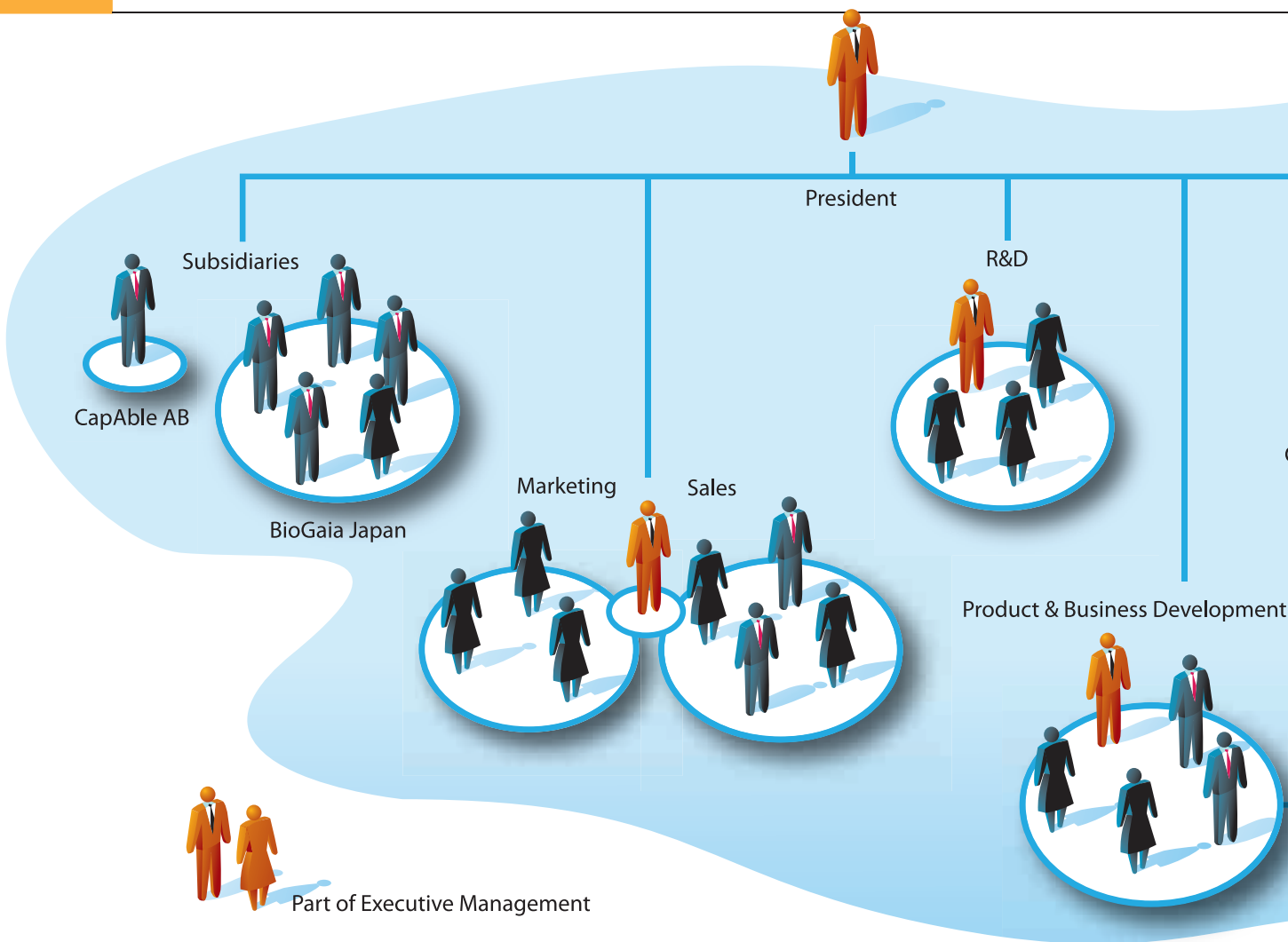
non-discriminatory workplace with equal opportunities and treatment for all employees regardless of their gender or ethnic origin. Given BioGaia’s values, equality is both natural and necessary, since diversity in terms of gender, age and ethnic origin results in a wider range of experience, new perspectives, creativity and innovative solutions. The company is committed to equality on all levels.

BioGaia’s staff currently consists of 29 women and 17 men. Of the senior executives, six are men and two are women.

Why BioGaia is smarter

- We are fast, innovative and unpretentious
- We build strong relationships with our customers
- We have ethical principles and are open and honest
- We strive for high quality and deliver on time
- We take personal responsibility for and are dedicated to the company’s success

ORGANISATION



At the office in Lund, Victor Engvall and Eva Pobiega work with logistics.



Margareta Hagman, Senior Vice President Accounting, Finance and Investor Relations.



Karin Karlsson and Isadora Nilsson work in the accounting and finance department.



BioGaia in 30 seconds

1990 Peter Rothschild and Jan Annwall acquire the rights for the probiotic use of *Lactobacillus reuteri* and found the company BioGaia Biologics. The duo also acquires the laboratory operations in Raleigh, USA, where BioGaia's former Research Director, Ivan Casas, continues development activities. The focus is on alternative animal feed products to reduce the use of antibiotics in the poultry industry. In Sweden, human health and so-called functional foods soon become interesting. The first brand for BioGaia's products is BRA milk and fermented milk.

1994 ICA acquires the BRA trademark and concept.

1996 Introduction on IM, Innovationsmarknaden.

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

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

2000 Price pressure and daunting regulatory hurdles lead to a decision to abandon activities in the animal health area. The main focus is now on probiotic dietary supplements for humans.

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

2006 The first year that the company makes a profit.

2008 CapAble is founded and is responsible for the development of caps with Reuteri.

2009 Net sales surpass SEK 200 million.

2010 BioGaia celebrates 20 years as a successful probiotics company.



Eva Nelson is Product Marketing Manager.



Senior Vice President Research, Eamonn Connolly.

Products that actively contribute to better health

Since 2000 BioGaia has gone from being a supplier of probiotic ingredients, primarily for the dairy industry, to developing its own finished products that are sold through partners on the global market. The core products are oil drops, digestive health tablets, oral health lozenges and oral rehydration solution (ORS).

The most common areas of use for BioGaia's different products are to alleviate infant colic, to avoid diarrhoea in connection with antibiotic treatment, to promote general digestive health and to reduce gum inflammation.

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

The incidence of diarrhoea is difficult to estimate, partly due to major differences between the developing and industrialised nations and partly because diarrhoea has many different causes. Rotavirus is one of the most

prevalent causes of acute diarrhoea in small children worldwide. By the age of five, it is estimated that all children, regardless of their homeland, have had one rotavirus infection. In the US, rotavirus is behind 45% of all cases of acute diarrhoea in children. Antibiotic-associated diarrhoea (AAD), i.e. diarrhoea as a side-effect of antibiotic therapy, affects up to 25% of all patients treated with antibiotics. The risk of AAD is increased by factors such as the intake of several different types of antibiotics over a long period of time, gastrointestinal surgery and long-term hospital stays.

The incidence of constipation among children varies between 7% and 30% depending on the country. A full 40% develop symptoms already during the first year of life and these

often persist for a long time. Many children with constipation have continued problems as teens and adults.

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

Inflammation of the gums, also known as gingivitis, is very common and is found in more than half of the adult population. In one third of all adults the inflammation has advanced to periodontitis, which is often chronic and can in many cases lead to loss of teeth.

BioGaia a world leader with unique solutions

2000 Launch of the world's first chewable probiotic tablet

2001 Introduction of the first probiotic infant formula

2002 Launch of the world's first probiotic straw

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

2005 Launch of the first probiotic oral health products for adults

2008 More than 50 studies carried out on over

4,000 individuals. Global agreement with Nestlé Nutrition for infant formula. BioGaia's products sold in more than 40 countries

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

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

FINISHED PRODUCTS

TABLETS

BioGaia Protectis chewable tablets for digestive health (children and adults) and BioGaia Prodentis lozenges for oral health.

DROPS

BioGaia Protectis oil drops, which have been developed specifically for infants and small children.

ORAL REHYDRATION SOLUTION (ORS)

BioGaia Protectis oral rehydration solution with zinc is the world's first probiotic ORS in which all ingredients are contained in the same single-portion sachet.

STRAW

BioGaia has developed a probiotic-containing drinking straw, LifeTop Straw, which is attached to the side of a beverage package. The ingredient, such as *Lactobacillus reuteri* Protectis, is released during consumption of the beverage. This makes it possible to also produce beverages that contain sensitive ingredients with long shelf life. The straw is patented by BioGaia.

CAP

BioGaia has also developed a bottle cap, LifeTop Cap, in which sensitive ingredients such as *Lactobacillus reuteri* Protectis can be stored in a foil blister. The ingredients are kept separate from the beverage until the time of consumption, ensuring a long shelf life even for beverages with probiotic and/or other sensitive ingredients. The cap is patented by BioGaia.

COMPONENT PRODUCTS

BioGaia also sells cultures of *Lactobacillus reuteri* Protectis that are used as ingredients in infant formula and infant cereal products.





Hello there, Kristina Silverio, manager of BioGaia's office in Lund; Why does BioGaia have an office in Lund when the headquarters are located in Stockholm?

"When BioGaia sold its fermentation facility BioGaia Fermentation in Lund eight years ago, we kept many of the employees because they had the specific expertise needed by the Parent Company. The alternative of trying to persuade these individuals to move to Stockholm wasn't considered realistic. From here we process all orders and deliveries, handle quality assurance and conduct intensive product development activities. Of course, those of us who work here feel that BioGaia's Lund office is the heart of the company!"

Lactobacillus reuteri

A *Lactobacillus* species that includes a number of different strains. BioGaia's research bank contains around 50 *Reuteri* strains that can be divided into two groups:

Strains with immuno-stimulatory attributes: such as *Protectis*, DSM 17938, for gut health and immune health connected to the GI tract.

Strains with anti-inflammatory attributes: such as ATCC PTA 5289, which in combination with DSM 17938 is called *Prodentis* and is used for oral health, and ATCC PTA 6475, which in combination with DSM 17938 is called *Gastrus* (in ongoing studies on *Helicobacter pylori*).

From order to delivery

Incoming product orders are received by BioGaia in Lund and then forwarded to the subcontractors in Sweden and other European countries that manufacture the actual products and to the suppliers that make the packages based on customer specifications, among other things with product texts in their respective languages. The period from order to delivery takes a maximum of 90 days. When the products are ready, a sam-

ple is sent to Lund for analysis. Before the goods are sent to the customer, the sample is examined to test its quality and ensure that a dose contains the right number of live bacteria, as a guarantee that there are at least 100 million live bacteria left on the final date of use. Reference samples are also saved in temperature-regulated cabinets under recommended conditions for a period equal to the shelf life of the product.

Research & Product Development

- *Delivery systems* – ways to administer probiotics to consumers, such as drops, chewable tablets and drinking straws.
- *Line extensions* – new flavours for the chewable tablets, drops with vitamin D, oral health drops, oral rehydration solution.
- *New products* – new strains and combinations of strains, new areas of use.



The discovery

In the mid-1980s the Swedish researcher Sven Lindgren and the American researcher Walter Dobrogosz discovered that when glycerol, a byproduct from saponification of fats, was added to pathogenic *E. coli* bacteria in the presence of *Lactobacillus reuteri*, a substance was formed that inhibited their growth. Closer studies showed that this artificially produced substance was the same as that secreted by the lactic acid bacterium *Lactobacillus reuteri*, and it was therefore given the name Reuterin. Together they continued to investigate how production of Reuterin could be used to improve human health. Their work also laid the foundation for the formation of BioGaia.

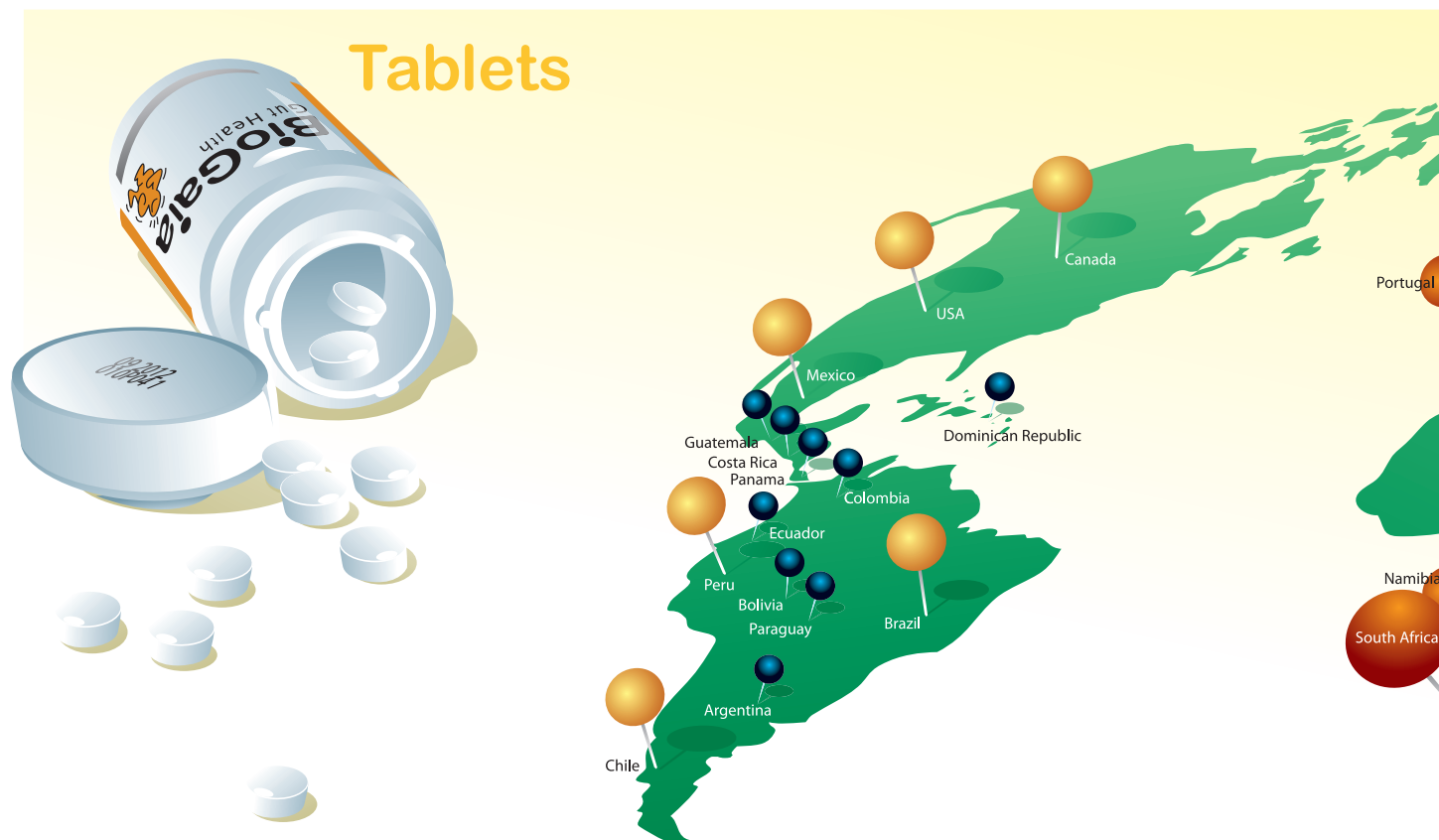


BioGaia's drops are available in more than 40 countries.

BioGaia's products in Swedish hospitals, a few examples

- The intensive care unit at Kristianstad Hospital, thoracic intensive care at Sahlgrenska University Hospital in Gothenburg and thoracic intensive care at Skåne University Hospital in Lund use the drops to prevent diarrhoea in tube-fed patients.
- The paediatric dieticians at Skåne University Hospital in Malmö recommend the drops for children with constipation.
- Karolinska University Hospital in Huddinge uses the drops for many paediatric patients with various GI tract conditions to prevent problems associated with antibiotic treatment.
- Umeå University Hospital uses the drops and tablets to alleviate GI tract problems associated with antibiotic treatment.

BioGaia now in over 60



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

Based on figures from IMS Health and BioGaia's own estimates, the global market for probiotic dietary supplements is worth between SEK 11 billion and SEK 13 billion in consumer sales. Broken down by region, North America accounts for SEK 2.1 billion, Europe for SEK 3.6 billion, Asia for SEK 2.4 billion, Southeast Asia and Australia for SEK 1.8 billion and South America for SEK 0.7 billion. North America and Eastern Europe are showing the fastest growth, at

between 20% and 25% annually, while growth in Western Europe is between 5% and 10%. BioGaia's share of the global market is just under 10%.

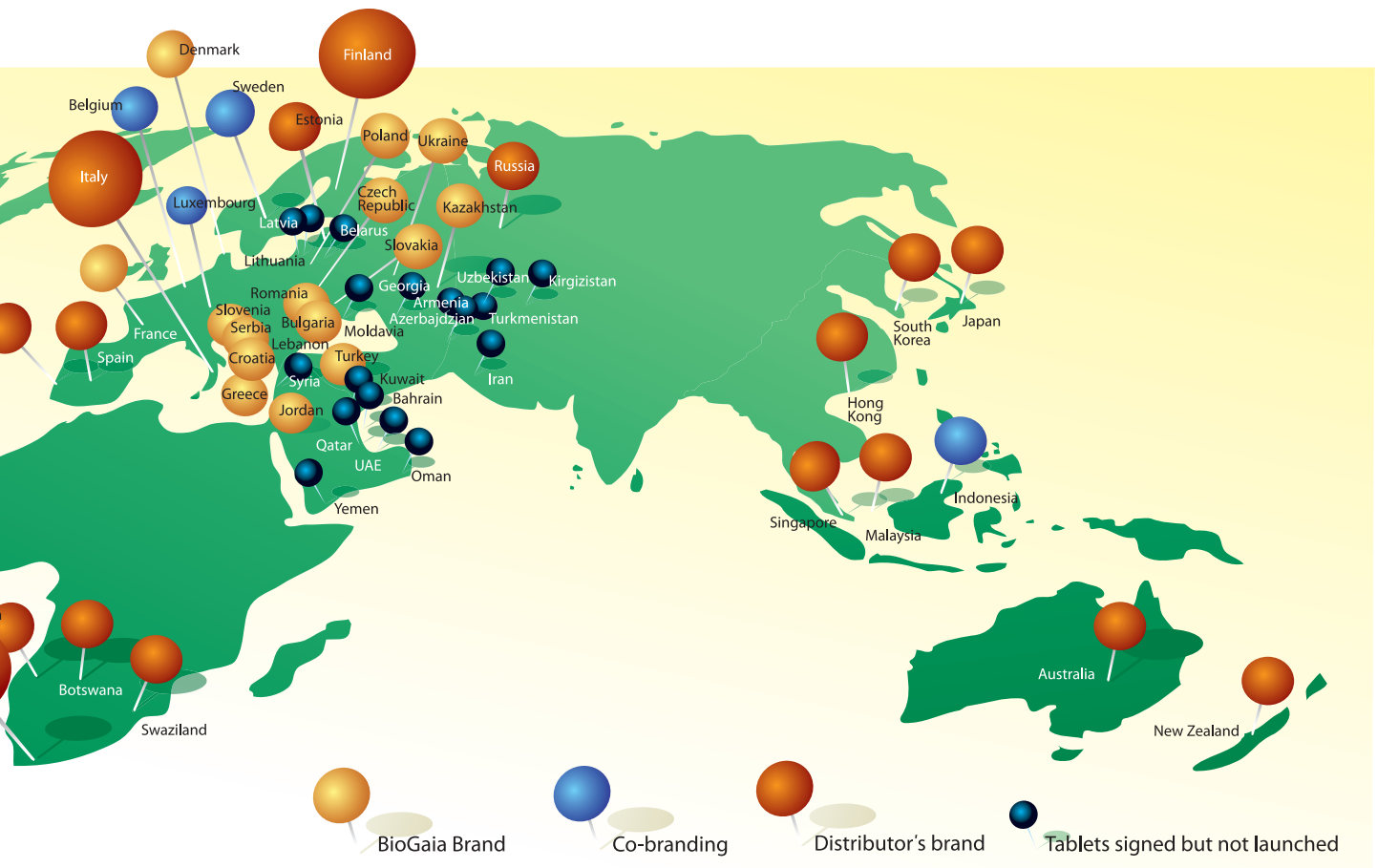
EUROPE THE LARGEST MARKET

In Europe, BioGaia's largest market, acceptance and understanding of probiotics is high among both consumers and healthcare professionals, although there are major differences between countries. Probiotics are most firmly established in Finland, Italy and Eastern European countries like Poland,

Slovakia and Bulgaria. These are all regarded as mature markets where probiotics are regularly prescribed and used.

In Italy, nine of 10 paediatricians prescribe the use of probiotics daily or several times a week. There are some 400 different brands in the Italian market, where the products are sold mainly in pharmacies but also in grocery stores. The majority of sales take place on the recommendation of a doctor but probiotics are also recommended by pharmacists. BioGaia has two part-

countries



Patents are of central importance

ISSUES RELATED TO PATENTS AND trademarks are of central importance for BioGaia. This is an area known as IPR (intellectual property rights), which includes patents, brands and trademarks, copyrights and other rights. An approved patent is normally valid for around 20 years.

In BioGaia's business model, the company functions as a hub in the network of researchers and licensees that together contribute to developing knowledge about and use of the company's probiotic strains and technology. The advantages of working with independent researchers is that this leads to a more creative research climate and enables BioGaia to form ties with the top experts in

each area. The only possible drawback is the time-consuming and continuous work surrounding administration of patents and contracts with different researchers.

There are no global patents. BioGaia applies for and holds patents in the countries where it is commercially relevant to do so and where there are functioning patent systems. Applying for patents is a cumbersome process that requires extensive documentation. BioGaia handles the fundamental aspects of the process and then uses representatives in each country where a patent is being sought for contacts with the country's patent authorities.

Thanks to BioGaia's cutting-edge knowledge in the field of probiotics,

it has been possible to patent specific new strains and indications/areas of use.

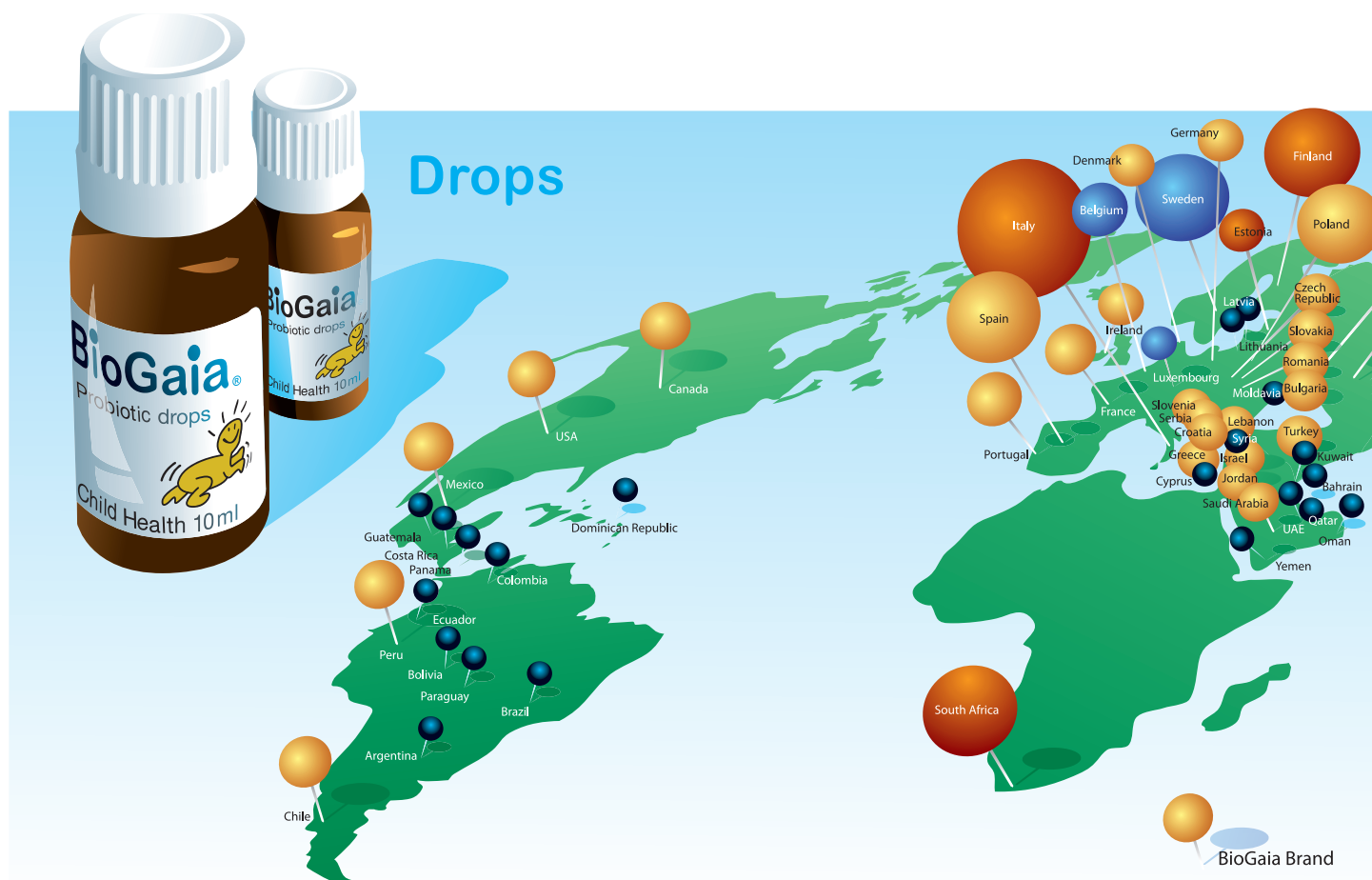
BioGaia also protects its delivery systems, which are developed to make the products more user-friendly. As a result of these factors and the rising share of products sold under the BioGaia brand, the company has a strong IPR portfolio with new patent families and protection in more countries than ever before.

FACTS

Patents: 31 patent families and 184 granted patents

Brands (™ and ®): 43 countries and the EU

Internet domains: 21



ners in Italy, Noos and Italchimici, which sell the products under their respective brands, Reuterin and Reuflor, which are among the best known probiotic brands in Italy.

In Finland BioGaia's products are sold by Verman under the Relax name, one of Finland's leading brands of OTC products, larger even than the leading paracetamol pain reliever. Probiotics are well established among the population and there are many competitors. The drops have been on the Finnish market since 2004 and in 2010, two packages of drops were sold for every newborn baby. The gut health tablets also have a strong position and in the autumn of 2010 the company launched the tablets in a new strawberry flavour that has been a sales success.

In 2007 BioGaia's partner Ewopharma launched drops and gut health

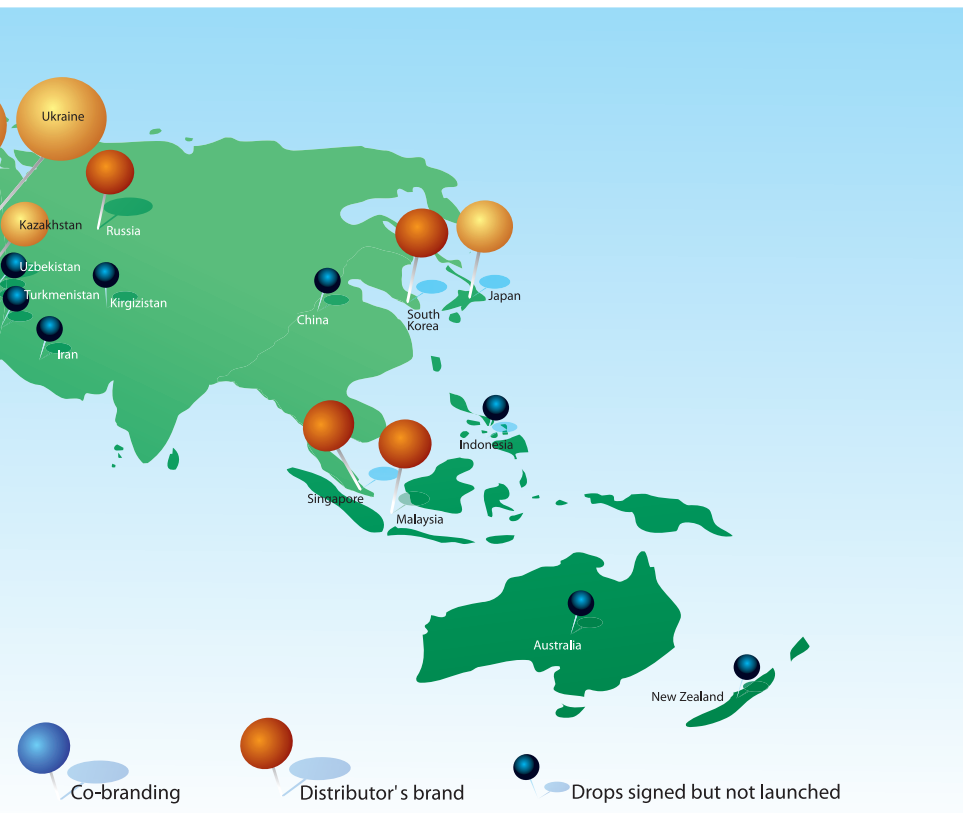
tablets under the BioGaia brand in Slovakia. Slovakia has a well developed probiotics market with more than 40 players in the dietary supplements

The drops have been on the Finnish market since 2004 and in 2010, two packages of drops were sold for every newborn baby.

segment. Sales take place mainly in the country's 1,800 pharmacies. Less than two years after the launch, BioGaia's products had attained a market share of 20% and moved up as the market-leader, a position that they still hold. The probiotics are marketed as "premium products" and sales are generated primarily by recommendation of doctors.

MAJOR GROWTH POTENTIAL IN GERMANY

The greatest growth potential for BioGaia in Europa is found in the large countries where products have been recently launched, such as Germany. Germany has the biggest population of all the European countries where BioGaia's products are sold, and BioGaia's partner InfectoPharm launched the drops here in the spring of 2010. InfectoPharm is a very well established company in the paediatric care area. It has no sales force and its marketing instead takes place through a large number of courses for paediatricians, participation in medical congresses and direct mail with opportunities for physicians to order product samples. The drops are registered as Food For Special Medical Purposes, which permits



“ The key products are the drops and gut health tablets, but the new probiotic oral rehydration solution is also a significant driver for growth. We are seeing very positive sales development especially in those countries where we market the entire product portfolio, consisting of gut health tablets, drops and oral rehydration solution. This not only strengthens our collaboration with these partners and their sales staff but also gives us more shelf space, contributing to positive development in sales.

JONAS WEIMER
VICE PRESIDENT MARKETING AND SALES
AT BIOGAIA

Unclear EFSA requirements

THERE IS A NEW regulation for approval in the EU of health claims on food products, which is handled by the EFSA (European Food Safety Authority). BioGaia welcomes strict rules that limit the ability of less serious players to act in the market. However, BioGaia and many other parties ranging from competitors to research organisations have objections to the new system. Firstly, in certain cases the EFSA requirements are more demanding than those applied to pharmaceuticals. And secondly, there is widespread uncertainty about how clinical studies should be conducted in order for the EFSA's panel to approve them as a basis for health claims. The rules state that the claimed effect must

be shown in an individual marker, for example that the addition of plant sterols to margarine lowers blood cholesterol, and not on the final health condition.

BioGaia markets its products directly to healthy consumers to only a small extent and instead works via partners. These companies have sales forces that visit physicians and other healthcare professionals to inform them about the published results of high quality clinical studies on BioGaia's products and convince them to recommend the products to their patients with various GI tract disorders. BioGaia's need for conspicuous health claims is therefore very limited.



“ The public is becoming increasingly familiar with probiotics and the current mega-trends indicate that demand will continue to rise.

Today many countries are struggling to reform their healthcare systems, as these collapse under the weight of an aging population and the escalating cost of medications and care.

Probiotics are a relatively inexpensive remedy that can prevent illness and even provide a reasonably priced alternative to costly pharmaceuticals. There is a growing awareness that there are effective alternatives to traditional medicine.

Another factor that is contributing to a greater interest in probiotics is the rising rate of antibiotic resistance that has rendered a number of antibiotics ineffective and is forcing us to seek other treatment methods.

In this context, I would like to say that I find it hard to understand why many countries have invested astronomical sums in vaccines for the relatively harmless swine flu instead of taking steps to reduce the use of antibiotics.

**Peter Rothschild
President of BioGaia**

the use of health claims about colic. There are a handful of competing products in the colic area, but no other probiotic drops.

In Turkey, probiotics are relatively unknown among both physicians and the public, but knowledge about and use of probiotics should increase markedly over the next few years as the market has shown rapid growth, from four products five years ago to 17 dif-

BioGaia's goal is to be one of three leading providers of probiotic dietary supplements in every market where the company's products are available.

ferent brands today. BioGaia's partner Eczacibasi is a large and highly reputable Turkish pharmaceutical company with an established sales organisation that targets the medical community. It launched the drops and tablets under the BioGaia brand at the beginning of 2010 and after only 10 months the products have already reached the number two position, with a market share of 5%. The market leader, a pharmaceutical-classified product that is used mainly for diarrhoea, is still completely dominant.

BioGaia's goal is to be one of three leading providers of probiotic dietary supplements in every market where the company's products are available. Of the 28 European countries where BioGaia's finished products are currently sold, this goal has been met in close to one third, of which the top positions are held in Bulgaria, Slovakia and Finland. Including only the 12 countries where the products have been sold for more than one year, the goal has been met in more than 50%.

EFFORTS IN JAPAN AND CHINA

In Asia BioGaia is continuing its efforts to find suitable sales partners and register the products. China, which together with Japan is the region's largest market, is a regulatory challenge where the focus is now

on getting the products approved. In Japan the concept of probiotics is fairly well known among physicians and the public, but the level of usage is low and physicians have little knowledge about how and why to prescribe probiotics. BioGaia's new partner Nippon Access launched the oral health tablets at the end of the year. The marketing is directed to dentists and dental hygienists and the product is sold directly in clinics and in pharmacies and similar retail outlets. So far, the competitors are comparatively few.

Physicians in Singapore sell pharmaceuticals and probiotics directly to their patients at the clinics. As a result, they are often sceptical about recommending products that are also sold in pharmacies. Probiotics are accepted and prescribed regularly, above all by paediatricians, but there are many different brands and the challenge for BioGaia's partner Age D'or is to differentiate its products from those sold by the competitors. It has succeeded well at this and thanks to a clear focus on paediatricians in its marketing, sales in Singapore have risen by 50% annually over the past few years. In the

span of three years, use of the drops per newborn baby has increased from every fifth newborn to more than every third. Aside from colic, the main areas of use are diarrhoea and general GI tract disorders.

The myth of the bacteria-free human

Our relationship with bacteria begins the moment we are born. On our way out into the world, we come in contact with a vast number of micro-organisms in our mother's body. By the age of two, nearly 1,000 different species have started to colonise our gut flora. Historically, the level of micro-organisms in the body has been maintained among other things by burying foodstuffs in the ground, where the subsequent process of fermentation lowered their pH value and acted as a preservative.

As bacteria began to be studied more closely in modern times, particularly the pathogens, all bacteria and micro-organisms were lumped into the same category and seen as dangerous and threatening. The resulting use of antibiotics, disinfectants and other anti-bacterial substances has decimated our natural gut flora and the idea that a human completely free from bacteria was a healthy human has been proven disastrously wrong. As a consequence of this misconception, certain pathogenic bacteria have grown so strong that they are now resistant to antibiotics and some infections are as difficult to treat today as they were before the discovery of penicillin. At the same time, our gut flora has been weakened by a lower intake of bacteria through our diet. Today a large share of the food we eat has been sterilised through boiling, frying and pasteurisation.

RESEARCH DIRECTOR ON LACTO HUNT

In 1991 BioGaia's former Research Director, Ivan Casas, took a trip to Peru in the hope of isolating human strains of *Lactobacillus reuteri* from a remote population living close to nature. He found what he was looking for high in the Andes, where he was allowed to take samples of breast milk from new mothers. Ivan Casas succeeded in transporting these samples home intact and they became the foundation for BioGaia's ongoing research activities.

NORTH AMERICA ON THE RISE

The USA and Canada are two markets with rigorous demands on documentation. And because the general public in the USA has had a negative attitude towards bacteria, probiotics are something Americans find difficult to accept. This is gradually changing, partly thanks to major launches by manufacturers of food products that contain probiotics and partly through targeting of healthcare providers by BioGaia's partner Everidis. The growing number of clinical studies conducted with BioGaia's products is also expected to contribute to greater usage of probiotics in these markets.

SUCCESSES ALSO IN THE REST OF THE WORLD

In 2010 BioGaia was able to begin reaping the rewards of its focus on Latin America that started in 2007. BioGaia's products have been well received by physicians, particularly paediatricians, following the launches in Mexico and Chile. BioGaia's partner in Chile, Recalcine, is one of seven

players in the market and has a market share of 10%. At the end of 2010 the gut health tablets were launched in Peru and Brazil. In Peru the drops were launched at the same time.

One of BioGaia's oldest markets is South Africa, where the gut health tablets were launched by Akacia (formerly Thebe) as early as 2001. The products are sold under the Reuterina brand and include the drops since 2004 and the strawberry-flavoured gut health tablets since mid-2010. Reuterina was one of the first probiotic dietary supplements

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

on the market, and despite fierce competition from a rising number of brands in recent years (there are currently 30 registered but many more on the market), it has succeeded in defending its leading position with a market share of around 30%. From having previously been a market driven by doctor recommendations, today 70% of sales are made at the recommendation of a pharmacist or on the consumers' own initiative. Marketing direct to consumers has therefore become more important in South Africa at the same time that Akacia is retaining its focus on physicians.

In Australia, BioGaia's partner Blackmores relaunched the chewable tablets at the end of 2010. There are numerous competitors in the market, of which the market-leader is a refrigerated capsule. Digestive Bio Balance, as BioGaia's tablets are known here, is the only chewable probiotic tablet and Blackmores' aim is to win back the number one position from the leading competitor. The probiotics market is growing by around 10% annually, but although consumer knowledge and acceptance is rising, the results of a recent survey show that only a small share uses probiotics for symptoms such as diarrhoea or constipation.

THE BRAND IS GROWING

BioGaia has had its own consumer brand since 2006 and its strategy is to successively raise the share of sales under this brand, which today accounts for 38% of finished product sales (or 48% including co-branded products). The target for 2014 is to achieve 60% of sales under the BioGaia brand. The most significant sales growth for finished products comes from markets where the BioGaia brand is used. This is because growth is normally highest in the second and third year after launch, and most of the markets with the BioGaia brand are currently at this stage. In countries where the products are sold under other brands, these have been on the market longer and therefore have a flatter growth curve.

THE FATHER OF PROBIOTICS

In the early 1900s the Russian zoologist and Nobel Prize winner Elie Metchnikoff coined the term "dysbiosis" to describe an undesired change in the intestinal microflora that could explain a number of illnesses. He had studied the Tatar people of Bulgaria, whose staple foods included sour milk, today known as yoghurt, which they stored in leather sacks. The Tatars also appeared to be unusually healthy compared to the rest of the population. At the Pasteur Institute, Metchnikoff studied these milk products and claimed that they could prolong life. The idea of dysbiosis lives on today in the form of the so-called hygiene hypothesis; that a number of disorders such as autoimmune diseases and allergies are caused by changes in the composition of the gut flora resulting from our modern lifestyle. It is this theory that gave birth to the concept of probiotics, providing the body with the healthy bacteria that modern man appears to lack.



A few of BioGaia's partners, such as Verman in Finland and Akacia in South Africa, have succeeded in communicating the probiotic message directly to consumers. Here, TV and other advertisements targeting end-users are part of the marketing strategy. As probiotics become increasingly well known, campaigns of this type will become more common and will provide valuable lessons for ongoing marketing of BioGaia's products.

In marketing to physicians and other healthcare professionals, BioGaia's products are positioned as high quality and well documented probiotic dietary supplements. It is a challenge to increase knowledge about probiotics in the healthcare sector, such as the fact that different probiotic strains have different attributes and therefore also different health-enhancing effects. In light of the relatively widespread unfamiliarity with probiotics, this is a prioritised area for BioGaia.

COMPLEX COMPETITION

BioGaia's competitors include research-driven probiotic companies with products in the dietary supplements segment. One such company is Finnish Valio, which licenses its well documented *Lactobacillus rhamnosus*

GG worldwide. As a result, the major food manufacturers that add probiotics primarily to yoghurt and other milk-based products do not compete directly with BioGaia.

Another way to look at the competition is by comparison to the most well documented probiotic bacterial strains in published literature. Of the 10 foremost strains, BioGaia's *Lactobacillus reuteri* Protectis is one of the top three. This complexity makes it difficult to determine who is the world leader in probiotics. However, it is clear that however you define the market, BioGaia is one of the world's leading probiotic companies.



Participation in international medical conferences

In order to support the company's partners and as an additional channel for communicating the results of studies on its products, BioGaia regularly holds scientific symposiums at international medical conferences. In 2010 BioGaia held symposiums at:

European Society for Paediatric Gastroenterology, Hepatology and Nutrition (ESPGHAN) in Istanbul, Turkey

American Academy of Pediatrics (AAP) in Washington DC, USA

Asian Pacific Digestive Week in Kuala Lumpur, Malaysia

Latin American Society of Paediatric Gastroenterology, Hepatology and Nutrition (LASPGHAN) in Puerto Varas, Chile

TRUE AND FALSE ABOUT PROBIOTIC BACTERIA

The more different probiotic bacteria a product contains, the better.

No, not necessarily. Although different bacteria have varying effects and live in different parts of the GI tract, the end result can be that they actually compete with each other. If several different probiotic bacteria are used in the same product, it is important that clinical studies have been performed on that exact composition.

All bacteria are either good or bad.

No, that is oversimplifying things. We all carry around close to two kilos of bacteria in our GI tract and most of these are

types that facilitate and strengthen the functions of the digestive tract and immune defence. Harmful bacteria, or pathogens, are either absent or found in such small numbers in the intestines that they are not capable of causing disease. If the balance between "healthy" and "harmful" is disrupted, the latter start to multiply and we can become sick.

All lactobacilli are equally healthy.

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

The bacteria in BioGaia's probiotic products are dead.

On the contrary. The *Lactobacillus reuteri* bacteria in the drops and tablets have been freeze-dried and put into a dormant state. When they come into contact with moisture and nutrients, both of which are abundant in saliva and the GI tract, they are reactivated and begin to consume the nutrients, multiply and exert their probiotic effects.

The bacteria used in dairy products are alive and active already when added to the product. As a result, these products have a significantly shorter shelf life than probiotics in other forms, such as tablets.



BioGaia is working on new probiotic strains that will be included in the future product range if the development work is successful. Pictured here are Jeanette Malmgren and Fatima Barakat at the laboratory in Lund.

BioGaia's research

To date, more than 5,000 individuals have participated in studies on BioGaia's products. But how are these studies organised, and what distinguishes them from pharmaceutical studies? Here is a brief description!

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

The research should generate publication of well founded and scientifically-based articles. As a result, BioGaia actively supports publication of the results in respected scientific journals. The journals set increasingly stringent quality requirements for studies in order to approve the results for publication and it is primarily these requirements that determine how clinical trials are carried out, not only for BioGaia's products but also dietary supplements and pharmaceuticals in general.

Pharmaceuticals, which must be approved by the regulatory authorities in order to be sold, are also subject to an international quality standard called "Good Clinical Practice" (GCP). This standard places even higher demands on documentation in connection with a clinical study, but does not necessarily mean that the study is of a higher quality. Because BioGaia's products are classified as dietary supplements, and therefore food products, the studies are not conducted in strict accordance with GCP.

FEWER PATIENTS

The number of patients used in a study is calculated based on the number needed to show significant differences in effect between the studied groups. Studies with BioGaia's products are of comparable size or larger than those



undertaken by other research-driven probiotic companies, although they are small compared to many pharmaceutical studies. One explanation for this is that the pharmaceutical industry is often seeking relatively small differences in efficacy, such as a reduction in blood pressure by 5 mmHg, and the smaller the anticipated differences are, the larger the number of patients required. In studies where several clinics participate, additional patients may also be needed to even

out any differences between the clinics and to adjust for so-called "confounders" (lifestyle factors that can contribute to a changed result, such as smoking). Yet another explanation for the large number of patients in studies particularly for pharmaceuticals in the prelaunch and launch phase is the market value – the many participating physicians and patients gain knowledge and experience of the new product, which can contribute to more rapid establishment in the market.

Lactobacillus reuteri is one of the world's most well researched probiotics, especially in the very young. 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 (November 2010).

Studies have been performed on:

- * Infant colic
- * Antibiotic-associated diarrhoea (AAD)
- * Acute diarrhoea
- * Oral health
- * General health
- * *Helicobacter pylori* (the gastric ulcer bacteria)

DIFFERENT RESEARCH MODELS

BioGaia's goal is for three similar studies to independently confirm a specific health benefit. Studies on BioGaia's products are initiated and conducted in different ways. One fourth of all studies are initiated by BioGaia itself, to investigate product safety and health benefits in a specific area, and are monitored by BioGaia's research supervisor. However, there is a widespread interest in research on *Lactobacillus reuteri* and another fourth of the studies are initiated and conducted by independent researchers. Aside from requesting the researcher's resumé and study protocol and requiring ethical approval (these criteria apply to all

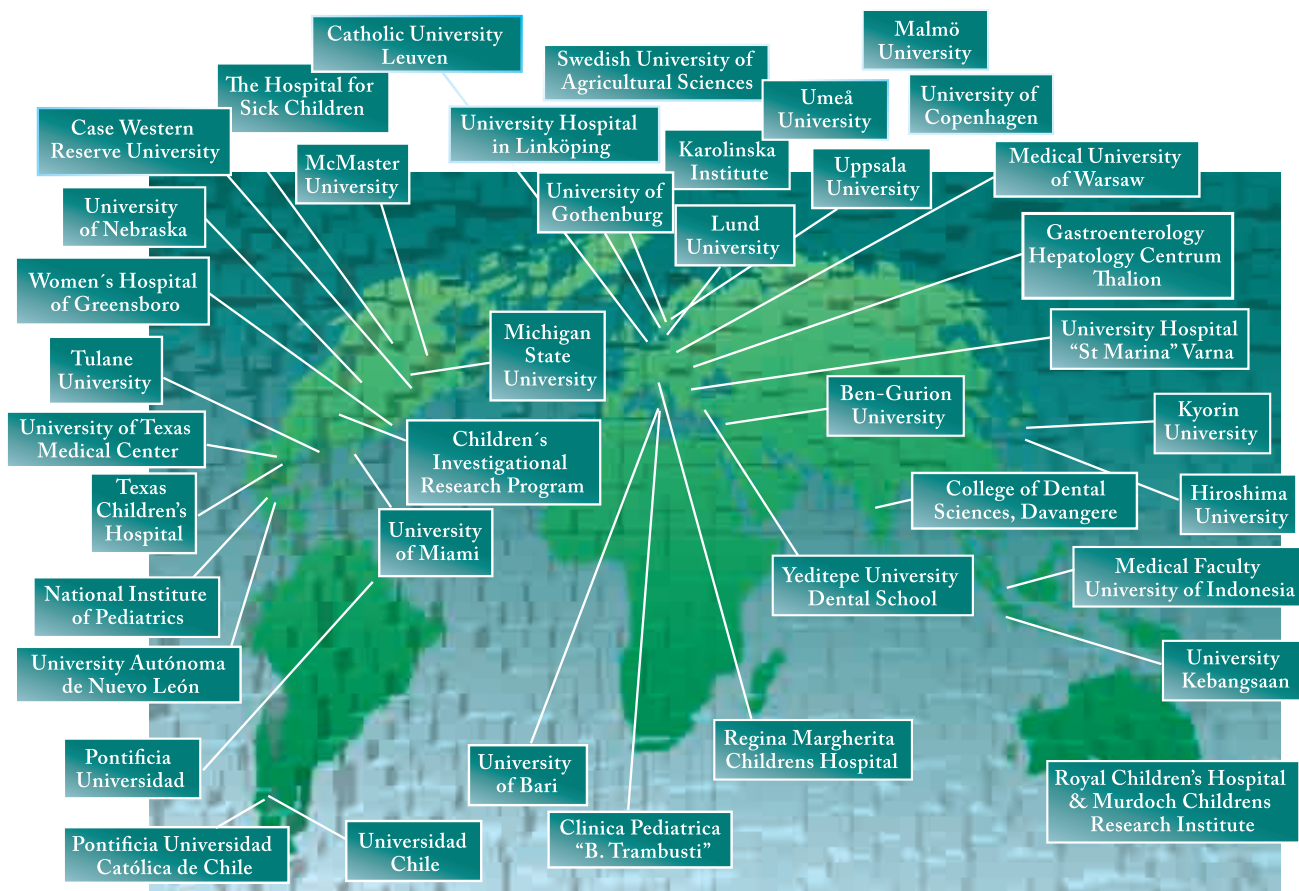
Many products sold falsely as probiotics

According to WHO/FAO 2001, only the lactobacilli and bifidobacteria with proven health effects in clinical trials may be called probiotics. Furthermore, the product in question must contain the same bacterial strain and the same dose that was used in the clinical trials where these effects were proven. There are many lactobacilli that have not been studied in clinical trials but are nonetheless marketed as probiotics.

Clinical studies are vital

Research on the interplay between humans and *Lactobacillus reuteri* is BioGaia's driving force. For the past 15 years, a wide range of medical professionals have been conducting clinical studies to investigate specific health effects of the strains of *Lactobacillus reuteri* for which BioGaia holds patents.

BioGaia's global research network



Since the company's formation, BioGaia has had a long-term commitment to establishing partnerships with selected researchers around the world. Today this network is larger than ever – consisting of around 40 clinics worldwide – and is growing continuously. This is contributing to greater knowledge about, and experience of, *Lactobacillus reuteri* and BioGaia's products.



In all types of studies BioGaia provides the study products, i.e. both active products and placebos. These are produced according to the same recipe and requirements at the facilities that also manufacture the commercial products. When needed, BioGaia also handles randomisation and labelling of the study products. Here we see Fatima Barakat and Anders Dahlqvist working in the laboratory.

studies), BioGaia has no insight into or influence over these studies.

ACTIVE ITALIAN PARTNER

Around half of all studies are initiated and conducted by one of BioGaia's partners. One of BioGaia's most active and longstanding partners with regard to clinical research on *Lactobacillus reuteri* is Nóos of Italy, which is one reason so many studies are carried out in that country. Probiotics are also well established among physicians and consumers in Italy, which makes the Italian market ideal for clinical studies on probiotics.

BioGaia is normally not involved in the partner-initiated studies, but the need for support varies from partner to partner. Nóos' ground-breaking

and highly successful research activities are a model that other partners are now also trying to emulate.

In all types of studies BioGaia provides the study products, i.e. both active products and placebos. These

are produced according to the same recipe and requirement at the facilities that also manufacture the commercial products. When needed, BioGaia also handles randomisation and labelling of the study products.

Reuteri mapped at the DNA level

For many years BioGaia has worked jointly with the research team for lactic acid bacteria at the Department of Microbiology at the Swedish University of Agricultural Sciences (SLU) in Uppsala, a collaboration that has led to significant advances in understanding the mechanisms behind *Lactobacillus reuteri*'s probiotic effects.

SLU has sequenced the genetic make-up, the genome, of BioGaia's first commercial strain, *Lactobacillus reuteri* ATCC 55730. This has created greater insight into how *Lactobacillus reuteri* reacts and adapts to specific growth conditions or environments, for example in the GI tract and the oral cavity.

5 new scientific studies



tation with either *Lactobacillus reuteri* Protectis or *Lactobacillus rhamnosus*, or no supplementation, after being admitted to the Neonatal Intensive Care Unit at the University of Catania in Italy. The study showed that infants supplemented with *Lactobacillus reuteri* Protectis had a significantly reduced number of gastrointestinal symptoms and a significantly shorter hospital stay than those in the two other groups. This is the second scientific clinical trial with *Lactobacillus reuteri* Protectis on preterm newborns and five additional studies are currently underway.

ALLEVIATED CONSTIPATION

In a double blind, placebo-controlled study, 44 infants with confirmed chronic constipation were randomly assigned to treatment with *Lactobacillus reuteri* Protectis drops or placebo drops for eight weeks. At week two the success rate, defined as equal to or more than three bowel movements per week, was 91% in the *Lactobacillus reuteri* Protectis group compared to 59% in the placebo group. At week four the figures were 100% and 68% respectively and at week eight 100% in the probiotic group and 73% in the placebo group. The study was carried out at the Department of Paediatrics, University Federico II, in Naples, Italy. This is the first scientific clinical trial of Protectis' efficacy on infants with chronic constipation.

DECREASED REGURGITATION

Regurgitation, defined as the passage of gastric content into the throat, is common among infants and aside from causing discomfort is also associated with a risk for complications such as breathing problems. In a double blind, placebo-controlled parallel-group trial performed for 30

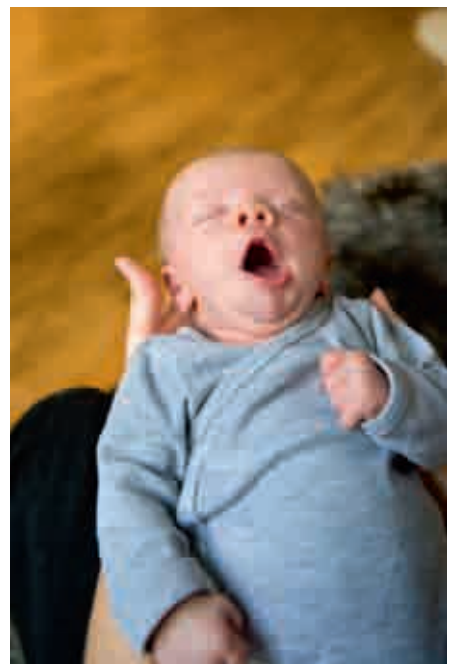
REDUCED CRYING TIME

Crying time in colicky infants was reduced by 84% after 21 days of supplementation with BioGaia's drops of *Lactobacillus reuteri* Protectis. The corresponding figure for the placebo group was 43%. These are the results of a study performed at the Department of Paediatrics, Regina Margherita Children's Hospital, at the University of Turin in Italy. This double blind, placebo-controlled study was performed on 50 infants with confirmed infantile colic. After only one week of supplementation the reduction in daily crying time was 74% among the infants receiving Reuteri, compared to

38% in the placebo group. The study is the second scientific clinical trial to significantly confirm Protectis' effect on infants with colic. Two additional studies on colicky infants are currently underway.

PRETERM NEWBORNS STRENGTHENED

Preterm newborns have underdeveloped digestive systems and are at greater risk for development of fungal infections like *Candida* and intestinal atrophy. In a prospective, randomised study, 249 premature newborns were consecutively assigned to supplement-



days at the Department of Paediatrics, University of Bari, in Bari, Italy, *Lactobacillus reuteri* Protectis was tested for the first time in infants with regurgitation.

A total of 42 infants were enrolled and 34 completed the study. Of the infants, 19 were supplemented with Protectis and 15 with a placebo. Episodes of regurgitation in the Protectis group were initially reduced by 80%, compared to 33% in the placebo group, and then levelled out to 75% in

the final week. Gastric emptying per week was also accelerated, which confirms the results of an earlier study.

EFFECTIVE IN TREATING PERIODONTITIS

A combination of *Lactobacillus reuteri* Prodentis lozenges and standard treatment (scaling and root planing, SRP) was proven to be significantly more effective than the compared treatment methods in reducing the degree of chronic periodontitis. These were the

results of a double blind, randomised and placebo-controlled study on 30 patients diagnosed with chronic periodontitis. The study was performed for a total of 42 days at the College of Dental Science in Davangere, India. BioGaia's Prodentis has previously shown favourable results in several scientific studies on reduction of both caries and periodontal diseases such as gum inflammation (gingivitis) and periodontitis.

TRUE AND FALSE ABOUT PROBIOTIC BACTERIA

A daily dose of probiotics must contain at least one billion bacteria.

No, there is no scientific consensus on the daily dose of probiotic bacteria needed to obtain positive health effects. The dose depends on which effect you want to achieve and which probiotic bacteria are used.

Clinical studies have shown that only 100 million *Lactobacillus reuteri* bacteria (1×10^8 CFU) per day are needed to achieve positive health

effects. One of BioGaia's chewable tablets or five drops, both with *Lactobacillus reuteri* Protectis, contain exactly 100 million beneficial bacteria.

Adults need a higher dose of *Lactobacillus reuteri* products than children.

No, *Lactobacillus reuteri* is a living organism that makes use of the available space. A larger digestive tract offers more nutrients and more room for the bacteria to colonise and grow.

One course of probiotics is enough for the beneficial bacteria to become established in my digestive tract.

No, not usually. Even though *Lactobacillus reuteri* is found naturally in the human digestive tract, studies have shown that they are normally depleted within one to two weeks after discontinuing use.

Congratulations to Gabriela Sinkiewicz at BioGaia in Lund!



Gabriela Sinkiewicz completed a doctoral dissertation on *Lactobacillus reuteri* in the autumn of 2010.

“Yes, it was previously said that the breast milk is completely sterile and that infants could ingest Reuteri that is present superficially in the milk ducts. We now know that it is most likely transported via the milk, which opens up interesting opportunities for women to take probiotics to strengthen their children’s gut flora from the start. In our study, pregnant women were supplemented with Reuteri for four weeks prior to giving birth and a higher level of lactobacilli was found in their colostrum than in the placebo group.”

In the dissertation you also report on a study about Reuteri’s efficacy in reducing gingivitis.

“The aim of the study was to see if patients diagnosed with moderate or severe bleeding gingivitis would benefit from daily use of BioGaia’s chewing gum with the lactobacilli combination Prodentis. It turned out that the patients administered with the chewing gum showed a significant improvement compared to the placebo group and the dental plaque index was also reduced. Earlier, it has been difficult to gain acceptance in the dental profession for the use of probiotics to treat these problems, but now there is so much scientific evidence that we are seeing a change of attitude.”

What do you do in your everyday life?

“I’m a microbiologist and have worked at BioGaia’s Lund office since 1998. At first I was laboratory supervisor and then I started working with quality assurance and follow-up of product returns. At the moment I am on maternity leave – I managed to finish my dissertation last autumn just in time before my second child was born!”

You have recently earned a Ph.D. with your dissertation “*Lactobacillus reuteri* in Health and Disease”, consisting of four scientific studies on Reuteri that you took part in conducting.

“Thank you! It feels wonderful to be finished. I worked on the dissertation at the Department of Biomedical Laboratory Sciences at Malmö University part-time for six years. It normally takes eight years to earn a Ph.D. part-time, so it has been an intense period!”

In order for a dissertation to be approved, it must be examined by an independent person or committee through a so-called defence. Who judged, or “opposed” your dissertation?

“It was Professor Peter Rådström from Lund University, who is among other things an expert on fermentation, the natural process in which health-promoting lactobacilli grow. He was very positive to the dissertation and we had a rewarding discussion. There was also a surprisingly large audience there, regular people who are interested in being able to influence their health in different ways.”

The most sensational part of the dissertation deals with a study in which you and your research colleagues found that Reuteri can be transferred via the breast milk of nursing mothers to a greater extent than previously believed.

A commitment to ecology and ethics

BioGaia has a fundamentally ethical vision, namely to improve human health. The company's health-enhancing products are clinically tested and its research is ethically conducted with consumer safety as the foremost priority. The company also works actively to develop eco-friendly product packages.

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

BioGaia contributes to a better environment by:

- Selecting packages that have the smallest possible environmental impact during their life cycle
- Ensuring that our packages are not unnecessarily large and bulky
- Choosing modes of transport with the smallest possible environmental impact for our goods and ourselves
- Urging our suppliers to always take environmental aspects into account in their decisions
- Weighing in environmental aspects every time a significant decision is made

At the same time that BioGaia works continuously with the above aspects, the company's overall mission must always be taken into consideration, namely to ensure that BioGaia's products reach consumers in perfect condition and with consistent high quality throughout their entire shelf life. With respect to these limitations, BioGaia always strives to make the best relative environmental choices.

BioGaia's commitment to high ethical values applies to both its attitude towards colleagues and partners and its responsibility for the earth and climate.

SUSTAINABLE DEVELOPMENT

BioGaia takes responsibility for sustainable development and works with a focus on ecology and biology. This is vital in winning and retaining the confidence of the company's stakeholders, and is also essential for successful business operations. BioGaia's stakeholders are:

- Customers, both BioGaia's partners and end consumers
- Physicians and other healthcare professionals
- Employees in the organisation
- Shareholders
- Suppliers

SETTING A GOOD EXAMPLE

BioGaia emphasises the importance of always setting a good example by acting ethically in all contexts. Ethical issues can be related to aspects such as which ingredients BioGaia's products contain or whether the company should permit the use of the main component Reuteri in products that have no clear health profile. BioGaia's executive management regularly discusses ethical issues and the President makes the final decision on issues of special complexity.

SOCIAL RESPONSIBILITY

Social responsibility is important to BioGaia, which works actively in this area. BioGaia has chosen to support the Scandinavian Children Mission (SCCM) in the Philippines, which assists children and their parents by taking care of malnourished children, operating a preschool and offering skills training to parents.

Life cycle analysis of packages

BIOGAIA IS COMMITTED to eco-friendly production methods and in 2008 decided to take a closer look at the environmental impact of its operations. As a result of this, the company established a collaboration with the Swedish Environmental Research Institute (IVL) in 2009. The first task was to calculate and compare the environmental effects of the company's different packages. The studied packages were:

1. BioGaia's probiotic tablets in blister pack, 10 tablets
2. BioGaia's probiotic tablets in blister pack, 30 tablets
3. BioGaia's probiotic tablets in a plastic bottle, 30 tablets
4. BioGaia's probiotic drops in a glass bottle with an outer package of cardboard, 25 doses
5. BioGaia's probiotic drops in a glass bottle, 25 doses

Packages 1–4 all contain a printed information leaflet and an outer package of cardboard, while 5 consists only of a primary package.

The study included neither the probiotic product's raw materials, the manufacturing process nor distribution to the customer – only the packages themselves were examined: manufacturing of the materials, transport to the factory, distribution of the package after packing the product, average emissions and so-called "avoided emissions" resulting from waste management of discarded packaging material in Europe.

STUDIED ENVIRONMENTAL ASPECTS

The environmental aspects covered in the study were climate change, acidification, nutrification and formation of ground-level ozone. Primarily energy consumption was also calculated.



Manufacturing of the various packaging materials is the process with the greatest impact on the environment. Distribution by truck contributes only marginally to the overall result, which is mainly due to the fact that only the weight of the package, and not the product, is included in the calculations. Distribution by air drastically increases the climate impact. Waste management results in an environmental impact that is less than zero for all categories of climate change, since the emissions from waste management are lower than the "gain" achieved through recycling of material and recovery of energy.

RESULTS FOR THE TABLETS

The tablets are sold both in bottles and blister pack. In a comparison between the two package types, as well as between the different package sizes (10 or 30 tablets), the results are as follows:

- The bottles consume more primary energy and have a greater climate impact than the blister pack with 30 tablets.
- From all environmental aspects, it is better to use the blister pack with 30 tablets than that with 10 tablets
- The blister pack with 30 tablets is significantly better than the bottle with 30 tablets in all environmental categories except acidification,

where the two package types are comparable.

Conclusions: From an environmental perspective, it is best to sell 30 tablets in a blister pack containing three blister cards with 10 tablets each. It is even better to sell a bottle with 60 tablets, where the package's environmental impact per dose is halved. This version was not included in the study but can be calculated since the package is the same as that for the 30-tablet bottle.

RESULTS FOR THE DROPS

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

The results of the environmental impact study will make it possible to evaluate new packaging systems from an environmental standpoint.

In the name of honesty...

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

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

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

In the EU, the use of health claims is regulated by the European Food Safety Authority (EFSA). The EFSA rules apply to food products that are marketed to consumers with various claims about preventative health effects, for example that the addition of plant sterols to a margarine lowers the cholesterol level and thereby reduces the risk for cardiovascular disease or claims about a food product's ability to improve the immune defence.

In the case of BioGaia's products, these are most often recommended to patients by doctors or other healthcare professionals because the patient in question is in more or less urgent need of the product's probiotic effect. As a result, the EFSA rules are not applicable to the majority of BioGaia's products.

Furthermore, because the products are recommended by healthcare pro-

fessionals, there is no need to make health claims in the marketing materials as would be the case if BioGaia were marketing a yoghurt or beverage directly to consumers.

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

DEPENDENCE ON REUTERI

BioGaia's products are based on the positive effects of using various different strains of *Lactobacillus reuteri* (Reuteri). This creates advantages for the company, since a large share of the

basic research is carried out jointly for all of the strains. However, it can be risky to rely on a single family of lactobacilli.

The company is working with new probiotic strains that will be part of the future product range if these efforts are successful.

BIOGAIA'S PARTNERS

BioGaia does not sell directly to end-users but instead sells its products to companies (partners) which then sell the products to consumers. This means that BioGaia is dependent on these partners to invest the resources necessary for marketing and sales. In order to reduce this dependence, BioGaia launched its own brand in 2006 and today a number of BioGaia's partners sell products wholly or partly under the BioGaia brand. BioGaia-branded products are currently sold in 33 countries.

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

THE JAPANESE VENTURE

BioGaia has had a subsidiary in Japan since 2006 and invested heavily in this venture during the period from 2007–2010. The process of becoming established in Japan has been time-consuming and complicated, but the company has now reached the launch phase. At the beginning of 2010 an agreement was signed with Nippon Access, one of Japan's largest wholesalers of food products and dietary supplements, for the sale of virtually all of BioGaia's products on the Japanese market.

Nippon chose to begin with the oral health products, which were launched in the third quarter of 2010. There is a risk that the venture in Japan will fail, which could lead to a decrease in BioGaia's involvement in Japan, but the company's current assessment is that these operations are moving in the right direction with growth in sales and improved profitability.

On the balance sheet date, assets in the Japanese subsidiary were reported at SEK 5.6 million. BioGaia's assessment is that there is no indication of impairment of these assets.

PRODUCT LIABILITY INSURANCE

BioGaia has a product liability insurance that provides coverage up to SEK 60 million per claim up to a maximum of SEK 120 million per year. The insurance is valid worldwide.

INTEREST RATE AND LIQUIDITY RISK

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

RESEARCH AND DEVELOPMENT

BioGaia invests considerable sums in research, clinical studies and product development with the aim of developing products with proven health benefits. Even after thorough pilot studies, there is always a risk that a project will be wholly or partly unsuccessful or that the finished products will not be attractive to potential customers.

INTELLECTUAL PROPERTY RIGHTS

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

There is always a risk for infringement of intellectual property. In 2010 BioGaia filed a lawsuit in the USA against one of the company's former licensees, Nature's Way. Although the agreement with Nature's Way expired in August 2007, the company has continued using Reuteri in its marketing and products despite repeated requests to cease.

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

EMPLOYEES

The company's most valuable resource is its employees. Its operations are dependent on their expertise, and consequently, it is vital for the company's development to attract and retain skilled and motivated employees in the future.

ASSOCIATED COMPANY

The shares in and receivables from the associated company (TwoPac AB) amount to a total of SEK 15.0 million in the Group and the Parent Company. TwoPac reported a profit of SEK 2.4 million for 2010. Its primary operations are development of production equipment and manufacturing of BioGaia's probiotic drops, straws and LifeTop Cap. BioGaia's assessment is that TwoPac will continue to show good profitability and that there was no indication of impairment on the balance sheet date. In 2011 TwoPac will build a new production facility in Eslöv, which will be financed through a loan from BioGaia. The cost is estimated at around SEK 20 million.

SHARES IN GROUP COMPANIES

The shares in and receivables from the subsidiary CapAble amount to a total of SEK 6.9 million in the Parent Company. CapAble reported a loss before tax of SEK 2.1 million for 2010. CapAble, which is 90.1%-owned by

BioGaia AB, was started in November 2008 to manufacture and sell the patented LifeTop Cap. BioGaia's assessment is that CapAble will generate good profitability, for which reason there was no indication of impairment on the balance sheet date.

BioGaia made a conditional shareholder contribution of SEK 3 million to CapAble in 2009 and an additional contribution of SEK 3 million in 2010.

CURRENCY RISK

BioGaia has revenue primarily in EUR (around 80% of net sales) and expenses primarily in SEK, EUR, JPY, USD and DKK.

In 2010 the company had a cash flow surplus of approximately EUR 14.0 million (10.2), a cash flow deficit of JPY 170.0 million (147.7), a cash flow deficit of USD 0.6 million (0.3) and a cash flow surplus of DKK 1.4 million (1.3.). The figures in brackets refer to 2009.

Growth in sales has also led to increased currency risks, for which reason the company has taken currency hedges in EUR. At 31 December 2010 the company had entered into forward exchange contracts for EUR 13.9 million at an average exchange rate of SEK 9.58. Forward exchange contracts amounting to EUR 9.6 million will mature in 2011 and the

remaining EUR 4.3 million in 2012. For more information see Notes 10 and 21.

A stronger Swedish krona rate against the Euro will decrease the value of BioGaia's sales and profit, but through profitable forward exchange transactions and by trying to reallocate a portion of expenses to Euros, the company should be able to minimise the impact on earnings.

CREDIT RISK

BioGaia's credit risks are attached to trade receivables and loans to the associated company, and for the Parent Company also loans to subsidiaries. When signing agreements with new customers, BioGaia always carries out an assessment of the customer's financial position. The company has routines for collection of past due

accounts receivable and additional evaluation of a customer's financial position is carried out when needed in order to minimise risks.

The loan to the associated company TwoPac AB has been used mainly to develop equipment for production of delivery systems (BioGaia's probiotic straw and LifeTop Cap). The company's assessment is that TwoPac will show good profitability and that the loan therefore entails no credit risk.

In 2011 TwoPac will build a new production facility in Eslöv, which will be financed by BioGaia. This will lead to increased credit risk for BioGaia.

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

PRICE RISK

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

CASH FLOW RISK

In 2010 BioGaia had a positive cash flow from operating activities before changes in working capital of SEK 66.0 million (52.6). After changes in working capital, cash flow was SEK 69.0 million (53.3). Total cash flow for the year was SEK 47.5 million (42.5). Because cash and cash equivalents at 31 December 2010 amounted to SEK 146.9 million (100.3) and cash flow is positive, no infusion of capital is necessary.



Annual report

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Administration report

Figures in brackets refer to the previous year

The Board of Directors and Managing Director of BioGaia AB (publ), corporate identification number 556380-8723, hereby submit their annual report and consolidated accounts for the financial year 2010.

The financial statements were approved for publication by the Board of the Parent Company on 22 February 2011.

BioGaia

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 manufactures no products directly but outsources manufacturing to a number of subcontractors that include BioGaia's 50%-owned associated company TwoPac.

BioGaia has 46 employees, of whom 18 are based in Stockholm, 20 in Lund, two in Raleigh, USA, five in Hiroshima, Japan, and one in Shanghai, China.

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

Business model

BioGaia's net sales consist mainly of revenue from the sale of finished consumer products (tablets, drops and oral health products) to partners, 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 *Semper Vätskeersättning*, *Probiomax* gut health tablets and *Gum PerioBalance* lozenges in the *Apoteket* pharmacy chain, as well as *Semper* whole grain cereal and infant formula with *L. reuteri* *Protectis* 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 them under their own brand names. On these products, the BioGaia brand is sometimes 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 end of 2005 BioGaia launched its own consumer brand and today there are a number of partners 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

BioGaia's research is focused on selection of different probiotic strains for gut health, the immune system and oral health. Extensive clinical studies have shown that BioGaia's various probiotic products:

- reduce infantile colic,
- reduce the risk of infection and improve gastrointestinal function in preterm and term newborns,
- reduce gum inflammation, plaque and the risk for dental caries,
- alleviate the side effects of antibiotic treatment,
- reduce the level of *H. pylori* infection,
- protect against GI tract and respiratory tract infections,
- stimulate the human immune system.

Agreement with Nippon Access

After a long period of trial sales through various distribution channels and discussions with a number of possible distributors in Japan, BioGaia has chosen to sign an agreement with one of Japan's largest wholesalers, Nippon Access Group, a subsidiary of the major trading house Itochu Corporation. Aside from distribution of food products through Nippon Access Group, Itochu also handles distribution of pharmaceuticals to pharmacies via two different subsidiaries. The agreement covers food products with Reuteri, infant formula with Reuteri and BioGaia's primary products such as drops, oral health lozenges and LifeTop Straw. Sales will be handled through BioGaia's Japanese subsidiary, which will also support Nippon Access's marketing of the products through training of doctors, sales representatives and marketing staff and participation in negotiations with companies that are interested in selling products with Reuteri. Under the agreement, it is BioGaia's hope that the products will be launched on the Japanese market on a large scale via a number of distribution channels that were difficult to reach through the earlier business model. The launch took place in the third quarter.

Key events 2010

SALES AGREEMENT

Launches in 2010

Distributor/licensee	Product	Country
Delta Medical	Drops	Belarus, Armenia, Georgia and Azerbaijan
Eczacibasi	Tablets and drops	Turkey
Ewopharma	Tablets and drops	Serbia
Ewopharma	Tablets (new flavour)	Bulgaria
Ferring	Drops	Israel
Ferring	Tablets	Brazil
InfectoPharm	Drops	Germany
Nestlé	Infant formula with Reuteri	Australia, Baltic countries, Belgium, Chile, Costa Rica, Greece, Guatemala, Italy, Morocco, Mexico, Panama, Peru, Poland, Portugal, Romania, Spain, South Africa and Germany
Nippon Access	Dental product (lozenges)	Japan
Noos and Italchimichi	ORS product with Reuteri	Italy
Pharma Nord	Tablets and drops	Denmark
Recalcine	Tablets and drops	Peru
Akacia	Tablets (new flavour)	South Africa
Verman	Tablets (new flavour)	Finland
Verman	Tablets and drops	Russia

The length of time between contract and launch varies between countries owing partly to the differing amounts of time needed for the regulatory process. The products are normally registered as dietary supplements and in certain cases as pharmaceuticals.

Agreement with Ferring Pharmaceuticals

In March BioGaia signed an agreement with Ferring Pharmaceuticals for the sale of BioGaia's Probiotic drops and tablets in Argentina under BioGaia's own brand. The launch is expected to take place in the first half of 2011.

At the same time that the agreement with Ferring Pharmaceuticals for Argentina was signed, BioGaia discontinued the agreement relating to Egypt. This agreement was signed in 2008, but due to regulatory difficulties no products have been launched. BioGaia has therefore chosen to terminate the agreement with Ferring for Egypt.

Agreement with Interbat

At the end of March BioGaia signed an agreement with the Indonesian pharmaceutical company Interbat for the sale of BioGaia's Probiotic drops in Indonesia under the BioGaia brand. The launch is planned for the first half of 2011.

Agreement with Asia United (China)

At the beginning of June BioGaia signed an agreement with the pharmaceutical and biotechnology company Asia United (China) Medical Co. Limited for exclusive rights to sell BioGaia's Probiotic drops in Mainland China.

The product is expected to be launched at the end of 2011 following the necessary local registration, which will be handled by Asia United. The drops will be sold under the BioGaia brand.

CLINICAL STUDIES

Publication of study showing that Protectis reduced gastrointestinal symptoms and hospital stay in premature newborns

The study, which was published in *Journal of Perinatology*, showed that premature infants supplemented with *L. reuteri* Protectis had a significantly reduced number of gastrointestinal symptoms compared to those supplemented with *L. rhamnosus* (LGG) and the control group. The duration of hospital stay was also significantly reduced among those receiving *L. reuteri* Protectis. LGG is used in many of BioGaia's competitor products.

Publication of study showing that Protectis reduced crying time in infants with colic

At ESPGHAN in Istanbul in June, Dr Francesco Savino from Regina Margherita Children's Hospital, University of Turin, Italy, presented a new study confirming that crying time in infants with colic is reduced with supplementation of BioGaia's probiotic drops. After only one week of supplementation the reduction in daily crying time was 74% among the infants receiving Reuteri, compared to 38% in the placebo group. At the end of the study, after 21 days, a significant difference was noted between the two groups. The study was published in *Journal of Pediatrics* in August.

Publication of study showing that Protectis is effective in infants with chronic constipation

The study was published in *Journal of Pediatrics* and was conducted on 44 infants with confirmed chronic constipation. In the study, which ran for 8 weeks, three different parameters were measured and the Reuteri group performed better with regard to two of these parameters, of which one significantly better. The results of the study once again show

the positive effect of Reuteri on infant gut function.

Publication of study showing that Prodentis is effective in treatment of periodontitis

The study shows that *L. reuteri* Prodentis acts synergistically with standard treatment (scaling and root planing, SRP) to significantly reduce probing pocket depth and clinical attachment level, which are the two most important parameters to assess the severity of periodontitis. Furthermore, *L. reuteri* Prodentis was shown – as the first probiotic ever – to significantly reduce of three different pathogens in patients with chronic periodontitis. The study also confirms the anti-inflammatory effects of *L. reuteri* Prodentis on gum inflammation (gingivitis).

Publication of study showing that Protectis reduced regurgitation and improved stomach emptying in infants

The study showed that infants with recurrent regurgitation supplemented with *L. reuteri* Protectis had a significantly reduced frequency of regurgitation by 80%. Gastric emptying was also significantly accelerated compared to placebo.

"These results confirm those from our earlier study in preterm infants and therefore strengthen the evidence for positive effects of *L. reuteri* in infants with uncomplicated regurgitation," says Doctor Flavia Indrio from the Department of Paediatrics at University of Bari, Italy.

OTHER EVENTS IN 2010

Agreement with SCA

At the end of September BioGaia signed a collaboration agreement with SCA. The aim of the agreement is to develop new health-targeted products utilising BioGaia's probiotic bacteria and application technologies combined with SCA's expertise in the field of hygiene products. The objective is to develop products specifically suited to BioGaia's and SCA's distribution networks. The areas of interest are intimate hygiene products and products for the elderly.

Redemption of warrants

The redemption of warrants on 31 May and 31 August led to an increase in BioGaia's share capital by SEK 63,400 to SEK 17,270,962. The number of shares has increased by 63,400 class B shares to a total of 16,530,294, with an unchanged number of class A shares, i.e. 740,668. The total number of shares is thus equal to 23,936,974 votes.

The redemption price for the share was SEK 76.70, which means that the company increased its equity by SEK 4,862,780.

With the completion of this warrant programme, BioGaia now has no ongoing warrant programmes.

Events after the end of the financial year

Agreement with Cube Pharmaceuticals

At the beginning of 2011 BioGaia signed an agreement with Cube Pharmaceuticals giving the company exclusive rights to distribute BioGaia's new Oral Rehydration Solution (ORS) in Greece. The launch is planned for the summer 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 Life Top Cap, a bottle cap which contains sensitive ingredients, for BioGaia. Due to growing volumes and increasing quality demands from the authorities and customers, the current facilities are no longer suitable. TwoPac has therefore decided to build its own facility in Eslöv where the company presently rents premises.

The investment is estimated at approximately SEK 20 million and will be financed with TwoPac's own operating profit and through a loan from BioGaia.

Until 31 December 2010, TwoPac was reported as an associated company. As a result of the financing arrangement described above, BioGaia will gain a controlling influence over TwoPac, which will thus be 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 will arise.

The consolidation of TwoPac will affect the Group's operating profit but will have no impact on profit attributable to owners of the Parent Company. The balance sheet total will be marginally affected. Cash flow will be affected by TwoPac's cash flow. If TwoPac had been consolidated for the full financial year in 2010, the Group's net sales would have been unchanged at SEK 236.0 million and operating profit would have been SEK 57.6 million rather than SEK 56.3 million.

Financial performance in 2010

Sales

Consolidated net sales reached SEK 236.0 million (203.5), an increase of 16% compared to the previous year. Most of the company's sales are denominated in EUR. The EUR rate was lower in 2010 than in 2009. If the EUR rate had been the same, net sales would have been SEK 23.0 million higher. Excluding foreign exchange effects, net sales increased by 27%.

Exchange rate fluctuations have reduced both income and expenses. Operating profit would have been SEK 15.7 million higher in the event of unchanged exchange rates.

Sales of both component products and finished products in Europe accounted for most of the increase in sales compared to last year. This is partly due to large deliveries of cultures to Nestlé, and partly to sales of drops and tablets. However, end sales of Nestlé's products also take place outside Europe, see under launches above.

The contract gives Nestlé an option to produce the Reuteri cultures itself in return for compensation in the form of royalties. Thanks to a change in the contract with Nestlé, it is unlikely that Nestlé will use this option.

Sales in Asia fell sharply compared to the previous year, among other things since earlier sales in Japan via the retail trade were discontinued following the decision to distribute the company's products through Nippon Access. Other factors be-

hind the decrease in Asia were that no straws were delivered to Yili in China during the year and that Friesland, Erina and Purmil (formerly Lotte) cut back their purchasing volumes. Nippon Access launched oral health products at the end of July and sales started to gain momentum in the fourth quarter.

Negotiations are underway with Purmil and Yili regarding compensation for failure to meet the contracted volumes. Due to ongoing negotiations the compensation has not been recognised in revenue for 2010.

BioGaia has filed a lawsuit in the USA against one of the company's former licensees, Nature's Way. Although the agreement with Nature's Way expired in August 2007, the company has continued using Reuteri in its marketing and on product packaging despite repeated requests to cease.

Of total finished consumer products, 38% (31) were sold under the BioGaia brand.

Gross profit

Gross profit amounted to SEK 158.9 million (135.3), an improvement of SEK 23.6 compared to the previous year.

Other operating expenses

Selling expenses rose by SEK 8.4 million over the previous year, which is mainly due to higher costs of SEK 5.2 million in Japan but also higher personnel costs, consisting partly of SEK 2.0 million in non-recurring costs, as well as increased marketing activities. Total selling expenses in Japan amounted to SEK 17.0 million (11.8). Around SEK 3.0 million of the expenses in Japan are of a non-recurring nature.

R&D expenses amounted to SEK 29.4 million (27.0), which is equal to 16% (17) of total operating expenses and 12% (13) of net sales. The amortisation component of R&D expenses was SEK 1.4 million (3.0). Investments in capitalised development expenses totalled SEK 0 million (0).

Operating profit

Operating profit was SEK 56.3 million (47.7), which is SEK 8.6 million (18%) better than in the previous year. Excluding foreign exchange effects (see above under "Sales") operating profit increased by 51%.

Financial items and profit before tax

Profit before tax was SEK 69.7 million (53.1), which is an improvement of SEK 16.6 million over the previous year. Net financial items include an unrealised foreign exchange gain of SEK 6.3 million (4.5) on forward exchange contracts in EUR. At 31 December 2010 the company had entered into forward exchange contracts for EUR 13.9 million at an average exchange rate of SEK 9.58. Forward exchange contracts amounting to EUR 9.6 million will mature in 2011 and the remaining EUR 4.3 million in 2012. The actual foreign exchange gain/loss depends on the exchange rate on the maturity date of the contracts. If the EUR rate on the maturity date is lower/higher than that at 31 December 2010 (9.00), an exchange gain/loss will be recognised in the future.

Profit after tax

Profit after tax was SEK 47.2 million (36.0), which represents an increase of SEK 11.2 million over the previous year.

This figure includes a reported tax expense of SEK

4.1 million pertaining to a change in the deferred tax asset and an actual tax expense of SEK 18.4 million owing to the fact that the company's former cumulative loss carryforwards in the Swedish companies have now been expended.

Earnings per share

Earnings per share amounted to SEK 2.74 (2.11).

The redemption of warrants in 2010 led to an increase of 63,400 B in the number of class B shares, whereby the number of class B shares thereafter amounts to 16,530,294 with an unchanged number of class A shares, i.e. 740,668. The total number of shares is thus 17,270,962, which is equal to 23,936,974 votes.

In June 2007 BioGaia carried out the warrant programme that was approved by the Annual General Meeting the same year. The employees subscribed for a total of 128,950 warrants. Each warrant granted the holder the right to subscribe for one class B share for SEK 76.70 during the period from 15 May 2010 to 31 August 2010. A total of 63,400 warrants were exercised during the period. After the completion of this programme, BioGaia now has no ongoing warrant programmes.

Cash flow

The Group's cash and cash equivalents at 31 December 2010 totalled SEK 146.9 (100.3).

Cash flow for the year was SEK 47.5 million (42.5), an increase of SEK 5.0 million compared to the previous year. Cash flow from financing activities was SEK -20.9 million (-6.9), which is due to the payment of SEK 25.8 million (6.9) in dividends at the same time that the company increased its equity by SEK 4.9 million through the new shares issued in connection with the redemption of warrants. Tax of SEK 18.4 million attributable to 2010 was paid at the beginning of 2011.

Cash flow from operating activities before changes in working capital was SEK 66.0 million (52.6).

Equity

Consolidated equity amounted to SEK 187.3 million (161.1) and the equity/assets ratio was 82% (90).

Capital expenditure

Capital expenditure on property, plant and equipment totalled SEK 0.6 million (2.9).

Parent Company

The Parent Company's net sales are reported at SEK 234.0 million (198.6) and profit before tax was SEK 71.4 million (53.8). 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 16.9 million (13.4), which has had a negative impact on profit. Profit after tax was SEK 48.3 million (36.2). Cash flow in the Parent Company amounted to SEK 45.4 million (41.3). Cash flow from investing activities includes a loan of SEK 14.3 million (12.2) to the Japanese subsidiary.

Research and development activities

BioGaia has an extensive research network and collaborates with numerous universities and hospitals around the world, such as the Swedish University of Agricultural Sciences in Uppsala,

Sweden, the Karolinska Institute in Stockholm, Texas Children's Hospital in the USA, University Hospital of Bari, Italy, and University Hospital of Turin, Italy. Current areas of research include studies related to mapping of the Reuteri genome and how it is linked to the bacterium's function and effects. In addition, the company is engaged in research on new probiotic lactic acid bacteria with a potential effect in a number of human applications and is conducting clinical trials on its existing products and new probiotics.

Several studies on *Lactobacillus reuteri* were published in 2010 – see above under "Key events in 2010".

The year's R&D expenses amounted to SEK 29.4 million (27.0), which is equal to 16% (17) of total operating expenses and 12% (13) of net sales. The amortisation component of R&D expenses was SEK 1.4 million (3.0). Investments in capitalised development expenses totalled SEK 0 million.

For more information see Note 14.

Reporting of clinical studies

Publication of clinical trial results is a key success factor for BioGaia. The International Committee of Medical Journal Editors has initiated a policy requiring clinical investigators to deposit information about trial design into an accepted clinical trials registry before the onset of patient enrolment, and 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.

Environmental information

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

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

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

BioGaia contributes to a better environment by:

- Selecting packages that have the smallest possible environmental impact during their life cycle
- Ensuring that the packages are not unnecessarily large and bulky
- Choosing modes of transport with the smallest possible environmental impact for its goods and its staff
- Urging the suppliers to always take environmental aspects into account in their decisions
- Weighing in environmental aspects every time a significant decision is made

Business risks and uncertainties

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

The Japanese venture

The business model previously used in Japan was found to be unsuccessful. Measures have now been taken to change the business model (see above). On the balance sheet date, assets in the Japanese subsidiary were reported at SEK 5.6 million. BioGaia's assessment is that there is no indication of impairment of these assets.

Shares in and receivables from the associated company

The shares in and receivables from the associated company (TwoPac AB) amount to SEK 15.0 million in the Group and in the parent company. TwoPac reported a profit of SEK 1.1 million for 2009 and SEK 2.4 million for 2010. TwoPac has previously reported a loss, but has shown a profit since 2009. BioGaia's assessment is therefore that there was no indication of impairment on the balance sheet date.

Shares in subsidiary

The shares in the subsidiary CapAble amount to a total of SEK 6.9 million. CapAble reported a loss SEK 2.3 million for the financial year 2009 and a loss before tax of SEK 2.1 million for 2010. CapAble, which is 90.1% owned by BioGaia AB, was started in November 2008 to manufacture and sell the patented LifeTop Cap. BioGaia made a conditional shareholder contribution of SEK 3 million to CapAble in 2009 and an additional contribution of SEK 3 million in 2010. BioGaia's assessment is that CapAble will generate good profitability, for which reason there was no indication of impairment on the balance sheet date.

Regulatory situation

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

There is always a risk that the rules will be changed in the different markets with a resulting

negative impact on sales, at least for a limited period of time.

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

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

Dependence on *Lactobacillus reuteri*

BioGaia's products are based on the positive effects of using various different strains of *Lactobacillus reuteri* (Reuteri). This creates advantages for the company, since a large share of the basic research is carried out jointly for all of the strains. However, it can be risky to rely on a single family of lactobacilli. To avoid this risk, the company is developing new probiotic strains from other lactobacillus families that will be part of the future product range if these efforts are successful.

BioGaia's partners

BioGaia does not sell directly to end-users but instead sells its products to companies (partners) which then sell the products to consumers. This means that BioGaia is dependent on these partners to invest the resources necessary for marketing and sales. In order to reduce this dependence, BioGaia launched its own brand in 2006 and today a number of BioGaia's partners sell products wholly or partly under the BioGaia brand. BioGaia-branded products are currently sold in 32 countries.

Research and development

BioGaia invests considerable sums in research, clinical studies and product development with the aim of developing products with proven health benefits. Even after thorough pilot studies, there is always a risk that a project will be wholly or partly unsuccessful or that the finished products will not be attractive to potential customers.

Intellectual property

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

There is always a risk for infringement of intellectual property. In 2010 BioGaia filed a lawsuit

in the USA against one of the company's former licensees, Nature's Way. Although the agreement with Nature's Way expired in August 2007, the company has continued using Reuteri in its marketing and product packaging despite repeated requests to cease.

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

Employees

The company's most valuable resource is its employees. Its operations are dependent on their expertise, and consequently, it is vital for the company's development to attract and retain skilled and motivated employees in the future.

Product liability insurance

BioGaia has product liability insurance that provides coverage up to SEK 60 million per claim up to a maximum of SEK 120 million per year. The insurance is valid worldwide.

Financial risk management

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

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

Currency risk

BioGaia has revenue primarily in EUR (around 75-80% of net sales) and expenses primarily in SEK, EUR, JPY, USD and DKK.

In 2010 the company had a cash flow surplus of approximately EUR 14.0 million (10.2), a cash flow deficit of JPY 170.0 million (147.7), a cash flow deficit of USD 0.6 million (0.3) and a cash flow surplus of DKK 1.4 million (1.3).

Growth in sales has also led to increased currency risks, for which reason the company has taken currency hedges in EUR. At 31 December 2010 the company had entered into forward exchange contracts for EUR 13.9 million at an average exchange rate of SEK 9.58. Forward exchange contracts amounting to EUR 9.6 million will mature in 2011 and the remaining EUR 4.3 million in 2012. For more information see Notes 10 and 21.

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

Interest rate risk

The Group has no loans and therefore no interest rate risks.

Credit risk

BioGaia's credit risks are attached to trade receivables and loans to the associated company, and

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

The loan to the associated company TwoPac AB has been used mainly to develop equipment for production of delivery systems (BioGaia's Probiotic straw and LifeTop Cap). TwoPac's primary operations are development of production equipment and manufacturing of BioGaia's Probiotic drops, straws and LifeTop Cap on behalf of BioGaia. The company's assessment is that TwoPac will show good profitability and that the loan therefore entails no credit risk.

In 2011 TwoPac will build a new production facility in Eslöv, which will be financed by BioGaia. This will lead to increased credit risk for BioGaia.

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

Liquidity risk

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

Cash flow risk

In 2010 BioGaia had a positive cash flow from operating activities before changes in working capital of SEK 58.9 million (52.6). After changes in working capital, cash flow was SEK 69.0 million (53.3). Total cash flow for the year was SEK 47.5 million (42.5). Because cash and cash equivalents at 31 December 2010 amounted to SEK 146.9 million (100.3) and cash flow is positive, no infusion of capital is necessary.

Price risk

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

Employees

The number of employees in the Group at 31 December 2010 was 46 (45), consisting of 29 women and 17 men. The management team includes 6 men and 2 women. In 2010, five new employees were hired and four employees left the company.

BioGaia's incentive scheme for the employees

Now that the warrant programme from 2007 has been completed (see above), BioGaia has no warrant programmes currently in progress.

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.

Product launches are planned in a number of countries in the coming 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.

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

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

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

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

Variable remuneration – The amount of variable remuneration shall not exceed 10% of the total remuneration.

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

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

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

Terms of notice and termination benefits – On termination of employment, the President and the company have a mutual notice period of 18 months. If employment is terminated by the company, the President is entitled to salary during a notice period of 18 months. The company's Vice Presidents have a corresponding notice period of six months. For other senior executives, the notice period is three months.

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

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

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

The most recently adopted guidelines correspond to those that are proposed to the AGM (see above).

Corporate governance

BioGaia has issued a separate corporate governance report.

Share information

The total registered share capital of BioGaia AB consists of 740,668 class A shares and 16,530,294 class B shares, for a total of 17,270,962 shares. One class A share grants entitlement to 10 votes and one class B share to 1 vote.

The number of shareholders at 31 December 2010 was 6,985 (7,328).

Annwall & Rothschild Investment AB is the largest shareholder and controls 11.6 % of the share capital and 36.2% of the votes.

For further information see page 60-61.

Proposed appropriation of profits

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

Retained profit:	33,308,727
Profit for the year:	48,352,167

Together amounting to: **81,660,894**

The Board of Directors proposes that the earnings be disposed of as follows:

To be paid as a dividend to the shareholders:	34,541,924 ^{*)}
To be carried forward to new account:	47,118,970

Total: **81,660,894**

^{*)} The proposed dividend consists of an ordinary dividend of SEK 0.92 per share and, in view of the company's good liquidity and strong balance sheet, an extraordinary dividend of SEK 1.08, amounting to a total dividend of SEK 2.00 per share.

Group

Income statements

SEK 000s	Note	2010	2009
Net sales	2, 3	236,033	203,461
Cost of goods sold		-77,150	-68,151
Gross profit	2	158,883	135,310
Selling expenses	4	-61,336	-52,906
Administrative expenses	4, 5	-9,849	-8,996
Research and development expenses	4, 14	-29,386	-27,000
Other operating income	6	-	750
Other operating expenses	7	-3,242	-
Share in profit of associated company	8	1,200	590
Operating profit	9	56,270	47,748
Financial income	10	13,517	5,428
Financial expenses	11	-100	-63
Net financial items		13,417	5,365
Profit before tax		69,687	53,113
Tax	12	-22,519	-17,068
PROFIT FOR THE YEAR		47,168	36,045
Other comprehensive income			
Gain/losses arising on translation of the financial statements of foreign operations:		-15	-464
Comprehensive income for the year		47,153	35,581
Profit for the year attributable to:			
Owners of the Parent Company		47,250	36,310
Non-controlling interests	13	-82	-265
		47,168	36,045
Comprehensive income for the period attributable to:			
Owners of the Parent Company		47,235	35,846
Non-controlling interests		-82	-265
		47,153	35,581
Earnings per share			
Basic earnings per share, SEK		2,74	2,11
Diluted earnings per share, SEK		2,74	2,09
Number of shares, thousands		17,271	17,208
Average number of shares, thousands		17,230	17,208
Number of outstanding warrants, thousands		-	129
Number of outstanding warrants with a dilutive effect, thousands		-	129
Average number of shares after dilution, thousands		17,271	17,337

Cash flow statements

SEK 000s	Note	2010	2009
Operating activities			
Operating profit		56,270	47,748
<i>Adjustments for non-cash items</i>			
Depreciation/amortisation		2,836	4,144
Capital gains/losses on the sale of non-current assets		22	-
Share of profit of associated company		-1,200	-590
Other non-cash items		964	208
		58,892	51,510
Realised forward exchange contracts		6,144	-
Interest received		1,091	1,186
Interest paid		-96	-60
Cash flow from operating activities before changes in working capital		66,031	52,636
<i>Cash flow from changes in working capital</i>			
Inventories		-779	5,799
Current receivables		-5,870	-6,944
Trade payables		1,629	2,124
Current interest-free operating liabilities		7,954	-325
Cash flow from operating activities		68,965	53,290
Investing activities			
Purchase of intangible assets	14	-	-
Purchase of tangible assets	15	-640	-2,895
Sale of tangible assets	15	107	-
Purchase of financial assets	16	-	-1,000
Net change in non-current receivables		11	14
Cash flow from investing activities		-522	-3,881
Financing activities			
New share issue warrants		4,863	-
Dividend		-25,811	-6,883
Cash flow from financing activities		-20,948	-6,883
CASH FLOW FOR THE YEAR		47,495	42,526
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		100,327	58,127
Exchange difference in cash and cash equivalents		-919	-326
CASH AND CASH EQUIVALENTS AT END OF YEAR		146,903	100,327

Balance sheets

SEK 000s	Note	31 Dec. 2010	31 Dec. 2009
ASSETS			
Non-current assets			
Intangible assets	14	1,173	2 285
Tangible assets	15	4,216	5 424
Participations in associated company	16, 30	10,641	9 441
Receivables from associated company	17, 20, 24, 30	4,400	4 400
Deferred tax asset	12	-	4 100
Deposits		18	31
Total non-current assets		20,448	25 681
Current assets			
Inventories	18	14,028	13 177
Trade receivables	19, 24	33,574	28 721
Other receivables	21	9,442	5 648
Deferred expenses and accrued income	22	3,347	6 180
Short-term investments	23, 24	80	80
Cash and cash equivalents	24	146,903	100 327
Total current assets		207,374	154 133
TOTAL ASSETS		227,822	179 814

Balance sheets

SEK 000s	Note	31 Dec. 2010	31 Dec. 2009
EQUITY AND LIABILITIES			
Equity			
	25		
Share capital		17,271	17,208
Other contributed capital		77,701	77,701
Reserves		932	947
Retained profit		44,071	29,118
Profit for the year attributable to owners of the Parent Company		47,250	36,310
Total equity attributable to owners of the Parent Company		187,225	161,284
Non-controlling interests	13, 16	98	-166
Total non-controlling interests		98	-166
Total equity		187,323	161,118
Liabilities			
<i>Current liabilities</i>			
Prepayments from customers	24	1,054	432
Trade payables	24	9,373	8,100
Liabilities to associated company	20, 24	1,029	664
Other liabilities	26	18,880	864
Accrued expenses and deferred income	27	10,163	8,636
Total current liabilities		40,499	18,696
Total liabilities		40,499	18,696
TOTAL EQUITY AND LIABILITIES		227,822	179,814
Pledged assets and contingent liabilities in the Group			
	28		

Statement of changes in equity

SEK 000s	Share capital	Other contributed capital	Translation reserve	Retained profit incl. profit for the year	Equity attributable to owners of the Parent Company	Non-controlling interests	Total equity
Opening balance, 1 January 2009	17 208	77 701	1 411	36 001	132 321	99	132 420
Dividend				-6 883	-6 883		-6 883
Total transactions with owners	0	0	0	-6 883	-6 883	0	-6 883
Profit for 2009				36 310	36 310	-265	36 045
<i>Other comprehensive income</i>							
Gain/losses arising on translation of the financial statements of foreign operations			-464		-464		-464
Comprehensive income for the year	0	0	-464	36 310	35 846	-265	35 581
Closing balance, 31 December 2009	17 208	77 701	947	65 428	161 284	-166	161 118
New shares issue (warrants)	63			4 800	4 863		4 863
Dividend				-25 811	-25 811		-25 811
Total transactions with owners	63	0	0	-21 011	-20 948		-20 948
Profit for 2010				47,250	47,250	-82	47,168
<i>Other comprehensive income</i>							
Gain/losses arising on translation of the financial statements of foreign operations			-15		-15		-15
Comprehensive income for the year	0	0	-15	47 250	47 235	-82	47 153
Change in non-controlling interest				-346	-346	346	0
Closing balance, 31 December 2010	17 271	77 701	932	91 321	187 225	98	187 323

Parent Company

Income statements

SEK 000s	Note	2010	2009
Net sales	2, 3	233,988	198,567
Cost of goods sold		-76,698	-63,793
Gross profit	2	157,290	134,774
Selling expenses	4	-42,355	-38,870
Administrative expenses	4, 5	-9,743	-8,918
Research and development expenses	4, 14	-29,497	-27,278
Other operating income	6	-	750
Other operating expenses	7	-3,242	-
Operating profit	9	72,453	60,458
<i>Result from financial investments</i>			
Result from participations in associated company	16	1,200	590
Write-down of receivable from subsidiary	17	-16,928	-13,446
Interest income and similar profit/loss items	10	14,760	6,263
Interest expense and similar profit/loss items	11	-95	-59
Net financial items		-1,063	-6,652
Profit before tax		71,390	53,806
Tax	12	-23,038	-17,610
PROFIT FOR THE YEAR		48,352	36,196

Cash flow statements

SEK 000s	Note	2010	2009
Operating activities			
Operating profit		72,453	60,458
<i>Adjustments for non-cash items</i>			
Depreciation/amortisation		2,369	3,792
Capital gains/losses on the sale of non-current assets		4	-
Other non-cash items		964	208
		75,790	64,458
Realised forward exchange contracts		6,144	-
Interest received		1,083	1,179
Interest paid		-95	-58
Cash flow from operating activities before changes in working capital		82,922	65,579
<i>Cash flow from changes in working capital</i>			
Inventories		-785	4,874
Current receivables		-6,070	-5,459
Trade payables		701	1,837
Current interest-free operating liabilities		7,385	-108
Cash flow from operating activities		84,153	66,723
Investing activities			
Purchase of intangible assets	14	-	-
Purchase of tangible assets	15	-446	-2,323
Sale of tangible assets	15	5	1,022
Purchase of financial assets	16	-3,000	-4,000
Payment of loan to subsidiary	17	-14,339	-13,245
Cash flow from investing activities		-17,780	-18,546
Financing activities			
New share issue warrants		4,863	-
Dividend		-25,811	-6,883
Cash flow from financing activities		-20,948	-6,883
CASH FLOW FOR THE YEAR		45,425	41,294
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		96,379	55,293
Exchange difference in cash and cash equivalents		-964	-208
CASH AND CASH EQUIVALENTS AT END OF YEAR		140,840	96,379

Balance sheets

SEK 000s	Note	31 Dec. 2010	31 Dec. 2009
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Balanserade utgifter för utvecklingsarbeten	14	1,173	2,285
Total intangible assets		1,173	2,285
<i>Tangible assets</i>			
Production equipment	15	303	367
Office equipment and computers		2,731	3,488
Total tangible assets		3,034	3,855
<i>Financial assets</i>			
Participations in group companies	16	10,469	7,469
Participations in associated company	16, 30	10,641	9,441
Receivables from group companies	17, 30	1,022	1,022
Receivables from associated company	17, 20, 24, 30	4,400	4,400
Deferred tax asset	12	–	3,050
Total financial assets		26,532	25,382
Total non-current assets		30,739	31,522
Current assets			
Inventories	18	13,143	12,357
Current receivables			
Trade receivables	19	31,600	26,624
Receivables from group companies	20	–	884
Other receivables	21	8,657	4,972
Deferred expenses and accrued income	22	2,950	5,995
Total current receivables		43,207	38,475
Short-term investments	23	80	80
Cash and cash equivalents		140,840	96,379
Total current assets		197,270	147,291
TOTAL ASSETS		228,009	178,813

Statement of changes in equity

SEK 000s	Share capital	Statutory reserve	Retained profit incl. profit for the year	Total equity
Opening balance, 1 January 2009	17,208	77,700	29,472	124,380
Dividend			–6,883	–6,883
Profit for 2009			36,196	36,196
Closing balance, 31 December 2009	17,208	77,700	58,785	153,693
New share issue warrants	63		4,800	4,863
Group contributions paid			–6,058	–6,058
Tax on group contributions paid			1,593	1,593
Dividend			–25,811	–25,811
Profit for 2010			48,352	48,352
Closing balance, 31 December 2010	17,271	77,700	81,661	176,632

Balance sheets

SEK 000s	Note	31 Dec. 2010	31 Dec. 2009
EQUITY AND LIABILITIES			
Equity			
<i>Restricted equity</i>			
Share capital		17,271	17,208
Statutory reserve		77,700	77,700
		94,971	94,908
<i>Non-restricted equity</i>			
Retained profit		33,309	22,589
Profit for the year		48,352	36,196
		81,661	58,785
Total equity		176,632	153,693
Liabilities			
<i>Current liabilities</i>			
Prepayments from customers		1,054	432
Trade payables		8,086	7,751
Liabilities to associated company	20	1,029	664
Liabilities to group companies	20	12,793	8,504
Other liabilities	26	18,843	660
Accrued expenses and deferred income	27	9,572	7,109
Total current liabilities		51,377	25,120
Total liabilities		51,377	25,120
TOTAL EQUITY AND LIABILITIES		228,009	178,813
Pledged assets and contingent liabilities for the Parent Company			
Floating charges	28	2,000	2,000
Contingent liabilities		None	None

Notes to the financial statements and accounting policies

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

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■ Note 1 Accounting principles

Compliance with norms and laws

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) established by the International Accounting Standards Board (IASB) and the interpretations published by the IFRS Interpretations Committee as endorsed by the European Commission for application in the EU. Furthermore, the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Rules for Consolidated Financial Statements, has been applied.

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

Standards, interpretations and amendments applied as of 1 January 2010

Amendments to IAS 27, Consolidated and Separate Financial Statements, and IFRS 3, Business Combinations, are effective for annual periods starting on or after 1 January 2010. For 2010 the amendments have only resulted in changes in terminology and have not had an impact on profit or financial position. The other revised IFRS standards and interpretations have not had any significant impact on the Group's profit, financial position or disclosures.

IFRS 3 Business Combinations - amendments (approved 3 June 2009)

The amendments are effective for annual periods beginning on or after 1 July 2009 and entail significant changes compared to the earlier norms.

The main changes are:

- * If the acquirer increases its equity interest sufficiently to achieve control (business combination achieved in stages), it must re-measure its previously-held equity interest in the acquiree at fair value. The resulting gain or loss is recognised in the statement of comprehensive income.
- * Subsequent acquisitions once control has been achieved are regarded as transactions with owners and are recognised directly in equity.
- * For acquisitions of non-controlling interests there are two alternatives for recognition of goodwill, full goodwill or partial goodwill. The choice of method is made on an acquisition-by-acquisition
- * Contingent consideration is recorded at fair value at the acquisition date. If the contingent consideration is a liability, it is remeasured at fair value through the statement of comprehensive income at each reporting date.

* All acquisition-related costs are expensed. *IAS 27 Consolidated and Separate Financial Statements - amendment (approved 3 June 2009)*

The amendment is effective for financial years starting on or after 1 July 2009 and specify the circumstances under which an entity should prepare consolidated financial statements, how the parent company should account for changes in its equity interest in subsidiaries and how losses in a subsidiary should be divided between controlling and non-controlling interests.

The other new, revised or amended standards (see below) have not had any impact on the company's profit or financial position.

IFRIC 12, Service Concession Arrangements – interpretation (approved on 25 March 2009)

IFRIC 16, Hedges of a Net Investment in a Foreign Operation – interpretation (approved on 4 June 2009)

IFRIC 15, Agreements for the Construction of Real Estate – interpretation (approved on 22 July 2009)

Amendment to IAS 39/IFRS 7, reclassification of financial assets – effective date and transitional provisions (approved 9 September 2009)

IAS 39 Financial Instruments: Recognition and Measurement, exposures qualifying for hedge accounting – amendment (approved 15 September 2009)

IFRS 1 First-time Adoption of International Financial Reporting Standards – amendment (approved 25 November 2009)

IFRIC 17, Distributions of Non-cash Assets to Owners – interpretation (approved 26 November 2009)

IFRIC 18, Transfers of assets from Customers – interpretation (approved 27 November 2009)

IFRS 2, Share-based Payment – amendment (approved 23 March 2010)

IFRS 1, First-time Adoption of International Financial Reporting Standards – amendment (approved 23 June 2010)

Standards, interpretations and amendments applied as of 1 January 2011

IAS 32, Financial Instruments: Presentation, classification of rights issues - amendment (approved 23 December 2009)

The amendment is effective for annual periods beginning on or after 1 February 2010. The amendment specifies how certain rights issues should be classified if the issues are denominated in a currency other than the issuer's functional currency.

IFRS 1, First-time Adoption of International Financial Reporting Standards - amendment (approved 30 June 2010)

The amendment is effective for annual periods beginning on or after 1 July 2010 and gives first-time adopters limited scope exemption from the comparative disclosure requirements in IFRS 7.

IFRIC 14, Prepayments of a Minimum Funding Requirement - amendment (approved 19 July 2010)

The amendments are effective for annual periods beginning on or after 1 January 2011. According to the amendment, the prepayment of a minimum funding requirement should be treated as an asset just like any other prepayment.

IAS 24, Related Party Disclosures - revision (approved 19 July 2010), consequential amendments to IFRS 8

Effective for annual periods beginning on or after 1 January 2011. The changes are aimed at clarifying the definition of related party, eliminating certain internal inconsistencies and giving government-related entities partial exemption from the disclosure requirements for related party transactions.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments - interpretation (approved 23 July 2010), consequential amendments to IFRS 1

The interpretation is effective for annual periods beginning on or after 1 July 2010 and clarifies the reporting requirements when a debtor renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the debtor's equity instruments to settle the financial liability fully or partially

Basis of presentation

The financial statements have been prepared according to the cost method of accounting unless otherwise stated.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 30.

Scope of consolidation

The consolidated financial statements include those companies in which the Parent Company has a controlling influence. Control is achieved

where the Company directly or indirectly has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

Foreign currencies

Functional currency

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

Transactions

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

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

Financial statements of foreign operations

Assets and liabilities in foreign operations are translated from the foreign operation's functional currency to the Group's presentation currency, SEK, at the closing day rate of exchange. Income and expenses in foreign operations are translated to SEK at an average rate that is a reasonable approximation of actual rates on the respective transaction dates. An average rate is calculated quarterly. Translation differences arising on translation of foreign operations are recognised in other comprehensive income.

Net investments in foreign operations

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

Investments in associates

Associated companies are all entities over which the Group has a significant but not controlling influence.

Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost on the acquisition date and are subsequently adjusted to reflect the Company's share of fair value changes in the net assets of the associated company.

Segment reporting

The Group has applied IFRS 8, Operating Segments, since 1 January 2009. The Executive Management has analysed the Group's internal reporting and determined that the Group's operations are steered and evaluated based on the following segments:

- Finished consumer products: Sales of tablets, drops and oral health products, etc.
- Input products: Sales of cultures as an ingredient in licensee products (such as baby formula and dairy products), royalties for the use of Reuteri and sales of LifeTop Straw and Life Top Cap
- Other products: Animal Health, etc.

Revenue

BioGaia's net sales consist primarily of revenue from the sale of finished consumer products (tablets, drops and oral health products) to distributors, but also revenue from the sale of component products such as royalties for the use of Reuteri in licensee products (such as baby formula and dairy products), revenue from the sale of Reuteri cultures for use in licensee products (such as baby formula and dairy products) and revenue from the sale delivery systems such as straws and caps.

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

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

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

Leases

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

Pensions

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

Income tax expense

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

Research and development

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

Individual assessment is made of all ongoing research and development projects to deter-

mine which costs for the respective project are capitalisable and to look for any indications of impairment.

The Company has a number of projects that meet the criteria for capitalisation and are recognised in the balance sheet. In 2010 no development costs were assessed to meet these criteria, for which reason all costs were expensed.

Intangible and tangible assets

Intangible and tangible assets are recognised at cost with a deduction for accumulated amortisation/depreciation and impairment.

The following depreciation/amortisation schedules are applied:

Intangible assets	Parent	
	Group	Company
Capitalised development expenditure	5-10 yrs	5-10 yrs
Licenses	5 yrs	5 yrs
Brands	5 yrs	5 yrs
Tangible assets		
Production equipment	5 yrs	5 yrs
Equipment and computers	3-5 yrs	3-5 yrs

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

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

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

Inventories

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

Cash and cash equivalents

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

Financial assets and liabilities

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

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

liabilities and equity include trade payables and prepayments from customers.

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

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

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

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

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

Note 2 Segment reporting

Starting on 1 January 2009 the Group has implemented IFRS 8, Operating Segments. The Executive Management, which is BioGaia's chief operating decision-maker, has analysed the Group's internal reporting and determined that the Group's operations are steered and evaluated based on the following segments:

- Finished consumer products: Sales of tablets, drops and oral health products, etc.
- Input products: Sales of cultures as an ingredient in licensee products (such as baby formula and dairy products), royalties for the use of Reuteri and sales of LifeTop Straw and Life Top Cap
- Other products: Animal Health, etc.

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

Revenue by segment	Group		Parent Company	
	2010	2009	2010	2009
Finished consumer products	165,590	147,673	163,575	142,918
Component products	68,559	53,814	68,529	53,675
Other products	1,884	1,974	1,884	1,974
	236,033	203,461	233,988	198,567

Gross profit by segment	Group		Parent Company	
	2010	2009	2010	2009
Finished consumer products	109,476	94,804	107,901	94,281
Component products	47,680	38,816	47,663	38,803
Other products	1,727	1,690	1,727	1,690
	158,883	135,310	157,291	134,774

Trade receivables by segment	31-dec		31-dec	
	2010	2009	2010	2009
Finished consumer products	21,040	23,448	19,183	21,406
Component products	12,323	4,929	12,207	4,874
Other products	211	344	211	344
	33,574	28,721	31,601	26,624

In 2010, SEK 100.4 million, or 42.6% of the revenue, was related to three customers, two in the Finished Consumer Products segment and one in the Component Products segment (2009: SEK 76.3 million or 37.5%)

Net sales by geographical market	Group		Parent Company	
	2010	2009	2010	2009
Europe	183,858	138,430	183,858	138,423
USA and Canada	13,879	14,571	13,849	14,437
Asia	19,564	37,386	17,549	32,633
Rest of world	18,732	13,074	18,732	13,074
	236,033	203,461	233,988	198,567

More than 90% of the Group's total assets, amounting to SEK 227,822 thousand (179,814) are located in Europe.

Of the Group's capital expenditure on tangible and intangible assets, totalling SEK 640 thousand (2,895), more than 90% pertained to Europe.

Sales in Sweden amounted to SEK 11.9 million (9.2) or 5.0% (4.5%).

The Group's fixed assets amount to SEK 20.4 million, of which SEK 20.2 million are located in Sweden and SEK 0.2 million in other countries (USA and Japan).

Note 3 Revenue

	Group		Parent Company	
	2010	2009	2010	2009
Product revenue	228,995	195,700	226,950	190,806
Royalties	7,038	7,761	7,038	7,761
	236,033	203,461	233,988	198,567

Note 4 Employees and personnel expenses, remuneration to senior executives

Average number of employees by country

Parent Company	2010 of whom, men		2009 of whom, men	
Sweden	38	12	35	13
Subsidiaries				
Sweden	1	1	1	1
Japan	4	3	4	3
USA	2	0	3	1
Total subsidiaries	7	4	8	5
Total Group	45	16	43	18

The number of employees in the Group on 31 December 2010 was 46 (45).

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

Parent Company	2010		2009	
	Board and President	Board and President	Other employees	Other employees
Sweden	3,296	3,380	19,265	16,703

Subsidiaries

	2010		2009	
	Board and President	Board and President	Other employees	Other employees
Sweden	869	886	-	-
Japan	1,804	1,804	2,828	2,105
USA	-	-	1,082	2,484
Total subsidiaries	2,673	2,690	3,910	4,589
Total Group	5,969	6,070	23,175	21,292

Total salaries and social security expenses	Group		Parent Company	
	2010	2009	2010	2009
Salaries and other remuneration	29,144	27,362	22,561	20,083
Pension expenses for the Board and President	418	1,703	204	1,455
Pension expenses for other employees	2,226	1,969	1,916	1,709
Other social security expenses	7,975	7,178	7,227	6,551
Total	39,763	38,212	31,908	29,798

Sickness absence in the Parent Company as

a percentage of total number of working hours	2010	2009
Total sickness absence	1%	4%
Of which, long-term	0%	75%
Sickness absence for men	1%	1%
Sickness absence for women	2%	6%
Employees 29 years or younger	*)	*)
Employees aged 30-49 years	1%	6%
Employees 50 years and older	1%	1%

*) Not reported because of an exception in the legislation which says that the information shall not be reported if the number of employees in a class does not exceed 10.

Pensions and insurances

All employees are subject to mandatory retirement in accordance with Swedish law, currently at the age of 65 years. The Company has no pension commitments other than payment of annual pension insurance premiums. For all employees over the age of 28 years, the following pension insurance premiums are paid in relation to salary:

Pensionable salary within the range:	0-7.5 base amounts		7.5-20 base amounts		20-30 base amounts	
Premium:		6%		15%		6%

All employees aside from the President are covered by health insurance, with benefits, in addition to compensation from the Social Insurance Office according to the following: Each individual is entitled to benefits in the following amounts:

Salary in range of:	0-7.5 base amounts		7.5-20 base amounts		20-30 base amounts	
Sickness benefits after 3 months		0%		65%		33%
Disability retirement		15%		65%		33%

Remuneration to senior executives

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

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

In the event of termination by the company, the President is entitled to full salary during an 18-month period of notice. For Vice Presidents, the corresponding period is six months. Other senior executives have a statutory notice period of at least 3 months in the event of termination by the Company. For the President and Vice President, the company made extra pension payments in 2009 of SEK 600,000 and SEK 480 thousand, respectively. In addition, for the President the company pays the cost of health insurance that provides sickness benefits equal to 75% of salary after a qualifying period of 3 months. In other respects, the President has the same benefits as other employees.

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

Remuneration and other benefits during the year

	Director's fees	Basic salary	Variable remuneration	Pension insurance including health insurance	Other remuneration	Total
Board Chairman						
David Dangoor	300					300
Board member						
Jan Annwall	150	506		27		683
Board member						
Stefan Elving	150					150
Board member						
Thomas Flinck	150					150
Board member						
Inger Holmström	150					150
Board member						
Jörgen Thorball	150					150
Board member						
Paula Zeilon	150					150
Managing Director						
Peter Rothschild		1,590		177		1,767
Other senior executives (7 persons)		5,392		651	2,119	8,162
	1,200	7,488	0	855	2,119	11,662

Comments on the table

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

BioGaia's incentive scheme for the employees

In June 2007 BioGaia carried out a warrant programme that was approved by the AGM the same year. This warrant programme was completed in 2010. Additional information about this warrant programme is provided in the administration report.

Gender distribution

	2010 Women	2009 Women	2010 Men	2009 Men
Board members	2	2	5	5
Management including President	2	2	6	8

Note 5 Auditing fees

	Group 2010	2009	Parent Company 2010	2009
Grant Thornton Sweden AB				
Audit assignments	488	406	485	406
Audit services in addition to audit	120	120	120	120
Tax advice	31	39	31	39
Other assignments	14	180	13	180
Cherry, Bekaert & Holland, L.L.P.				
Audit assignments	67	66	-	-
Other assignments	123	156	-	-
Nakashima Accounting Firm				
Audit assignments	17	17	-	-
Other assignments	-	-	-	-

Audit assignments refer to examination of the consolidated financial statements, the accounts and the administration of the Board of Directors and the President of the Company, other tasks incumbent on the Company's auditor, and advice or other assistance prompted by observations from such audits or the performance of other such tasks.

Note 6 Other operating income

	Group 2010	2009	Parent Company 2010	2009
Exchange gains on operating receivables/liabilities	-	750	-	750
	-	750	-	750

Note 7 Other operating expenses

	Group 2010	2009	Parent Company 2010	2009
Exchange losses on receivables/liabilities	3 242	-	3 242	-
	3 242	-	3 242	-

Note 8 Share in profit of associated company

	2010	2009
Share in profit of TwoPac AB	1,200	590

See also information in Note 16.

Note 9 Operating expenses allocated by type of cost

	Group 2010	2009	Parent Company 2010	2009
Raw materials and consumables	78,111	62,224	77,594	58,984
Change in inventories of finished products	-961	5,941	-896	4,809
Personnel expenses	39,887	38,331	32,032	29,917
Depreciation/amortisation	2,836	4,134	2,369	3,792
Other operating expenses	61,090	46,662	50,436	41,356
	180,963	157,052	161,535	138,858

Operating expenses include lease payments of SEK 177 thousand (89). Total minimum future lease payments fall due as follows:

Within one year: 138
Within two to five years: 283

The Group's future payment commitments for rents amount to SEK 10.6 million, of which SEK 9.9 million refers to the Parent Company. The Group's rents fall due for payment in an amount of SEK 3.6 within one year and SEK 7.0 million within two to five years.

Note 10 Financial income

	Group		Parent Company	
	2010	2009	2010	2009
Interest income	1,091	878	2,334	1,713
Exchange gains on forward exchange contracts	12,426	4,550	12,426	4,550
	13,517	5,428	14,760	6,263

The Parent Company and the Group have entered into forward exchange contracts in EUR for a total of EUR 13.9 million (7.8) at an average exchange rate of SEK 9.58 of which EUR 9.6 million will mature in 2011 and EUR 4.3 million in 2012.

The unrealised foreign exchange loss is reported as a financial income/expense.

Note 11 Financial expenses

	Group		Parent Company	
	2010	2009	2010	2009
Other financial expenses	100	63	95	58
	100	63	95	58

Note 12 Tax on profit for the year

	Group		Parent Company	
	2010	2009	2010	2009
Current tax	-18,419	-68	-18,395	-
Tax on group contributions paid	-	-	-1,593	-
Deferred tax	-4,100	-17,000	-3,050	-17,610
	-22,519	-17,068	-23,038	-17,610

Deferred tax expense/tax income

Deferred tax expense attributable to utilisation of previously capitalised loss carryforwards	-4,101	-17,597	-3,049	-17,608
Deferred tax income attributable to loss carryforwards capitalised during the year	-	608	-	-
Deferred tax related to temporary differences	1	-11	-1	-2
	-4,100	-17,000	-3,050	-17,610

	Group		Parent Company	
	2010	2009	2010	2009

Reconciliation of nominal tax and actual tax expenses

Reported profit before tax	69,687	53,113	71,390	53,806
Nominal tax rate 26.3%	-18,328	-13,969	-18,776	-14,151
Tax effect of non-capitalised loss carryforwards	-4,382	-3,187	-	-
Tax effect of other non-deductible and non-taxable items	191	235	-4,261	-3,457
Tax effect of group adjustments	4	-136	-	-
Tax effect of temporary adjustments	-4	-11	-	-2
	-22,519	-17,068	-23,038	-17,610

	Group		Parent Company	
	2010	2009	2010	2009
Deferred tax asset	4,100	21,100	3,050	20,660
Opening balance, 1 January	4,100	21,100	3,050	20,660
The year's tax income	-4,100	-17,000	-3,050	-17,610
Closing balance, 31 December	0	4,100	0	3,050

The Group's loss carryforwards amounted to a total of SEK 46,441 thousand (45,368) at 31 December 2010.

Loss carryforwards of SEK 0 thousand (15,590) are attributable to the Swedish companies.

No deferred tax has been recognised on loss carryforwards amounting to SEK 46,441 thousand (29,779).

These carryforwards are attributable to the Japanese subsidiary and, SEK 2,210 thousand will expire in the financial year 2013, SEK 7,768 thousand in 2014, SEK 7,686 thousand in 2015, SEK 12,115 thousand 2016 and SEK 16,662 thousand 2017.

Note 13 Non-controlling interests

	2010	2009
Opening balance, 1 January	-166	99
Share of group contributions received	346	-
Non-controlling interests' share in result for the year	-82	-265
Closing balance, 31 December	-248	-166

The minority interest refers to 9.9% own by the managing Director of the subsidiary Capable AB.

Note 14 Intangible assets

	Group and Parent Company			
	Capitalised development expenditure	Licenses and brands	Total intangible assets	
Accumulated cost				
Opening balance, 1 January 2009	26,875	2,528	29,403	
Purchases	-	-	-	
Closing balance, 31 December 2009	26,875	2,528	29,403	
Opening balance, 1 January 2010	26,875	2,528	29,403	
Purchases	-	-	-	
Closing balance, 31 December 2010	26,875	2,528	29,403	
Accumulated amortisation				
Opening balance, 1 January 2009	21,825	2,528	24,353	
The year's amortisation	2,765	-	2,765	
Closing balance, 31 December 2009	24,590	2,528	27,118	
Opening balance, 1 January 2010	24,590	2,528	27,118	
The year's amortisation	1,112	-	1,112	
Closing balance, 31 December 2010	25,702	2,528	28,230	

Carrying amounts

At 1 January 2009	5,050	0	5,050
At 31 December 2009	2,285	0	2,285
At 31 December 2010	1,173	0	1,173

Capitalised expenses include internally generated and externally acquired assets.

Amortisation is recognised on the following lines in the income statement

	Group		Parent Company	
	2010	2009	2010	2009
Research and development expenses	1,112	2,765	1,112	2,765
	1,112	2,765	1,112	2,765

Amortisation begins when a project has been completed and product sales have been started. The amortisation period varies between 5–10 years depending on the estimated useful life of the project. Amortisation has been started for all projects. These refer mainly to Animal Health products and LifeTop Cap. These projects will be fully amortised in 1–2 years.

Total research and development expenditure

	Group 2010	2009	Parent Company 2010	2009
Total R&D expenditure	27,930	23,949	28,054	24,250
The year's capitalisation of development expenses	–	–	–	–
Uncapitalised R&D expenditure	27,930	23,949	28,054	24,250
Amortisation/depreciation recognised in R&D expenses	1,456	3,051	1,443	3,028
R&D expenses with an effect on income	29,386	27,000	29,497	27,278

■ Note 15 Tangible assets

Group	Production equipment	Office equipment and computers	Total tangible assets
Accumulated cost			
Opening balance, 1 January 2009	3,693	9,327	13,020
Purchases	826	2,072	2,898
Translation difference	–	–137	–137
Closing balance, 31 December 2009	4,519	11,262	15,781

Opening balance, 1 January 2010	4,519	11,262	15,781
Purchases	22	618	640
Sales and disposals	–	–319	–319
Translation difference	–	–58	–58
Closing balance, 31 December 2010	4,541	11,503	16,044

Accumulated depreciation

Opening balance, 1 January 2009	2,588	6,496	9,084
Depreciation	309	1,068	1,377
Translation difference	–	–104	–104
Closing balance, 31 December 2009	2,897	7,460	10,357

Opening balance, 1 January 2010	2,897	7,460	10,357
Depreciation	86	1,638	1,724
Sales and disposals	–	–200	–200
Translation difference	–	–53	–53
Closing balance, 31 December 2010	2,983	8,845	11,828

Carrying amounts

At 1 January 2009	1,105	2,831	3,936
At 31 December 2009	1,622	3,802	5,424
At 31 December 2010	1,558	2,658	4,216

Parent Company

	Production equipment	Office equipment and computers	Total tangible assets
Accumulated cost			
Opening balance, 1 January 2009	3,693	7,632	11,325
Purchases	316	2,007	2,323
Sales and disposals	–1,716	–	–1,716
Closing balance, 31 December 2009	2,293	9,639	11,932

Opening balance, 1 January 2010	2,293	9,639	11,932
Purchases	22	424	446
Sales and disposals	–	–31	–31
Closing balance, 31 December 2010	2,315	10,032	12,347

Accumulated depreciation

Opening balance, 1 January 2009	2,588	5,156	7,744
Depreciation	32	995	1,027
Sales and disposals	–694	–	–694
Closing balance, 31 December 2009	1,926	6,151	8,077

Opening balance, 1 January 2010	1,926	6,151	8,077
Depreciation	86	1,172	1,258
Sales and disposals	–	–22	–22
Closing balance, 31 December 2010	2,012	7,301	9,313

Carrying amounts

At 1 January 2009	1,105	2,476	3,581
At 31 December 2009	367	3,488	3,855
At 31 December 2010	303	2,731	3,034

Depreciation is recognised on the following lines in the income statement

	Group 2010	2009	Parent Company 2010	2009
Cost of goods sold	–	–	–	–
Selling expenses	1,209	931	756	602
Administrative expenses	171	162	171	162
Research and development expenses	344	285	331	263
	1,724	1,378	1,258	1,027

■ Note 16 Financial assets

Participations in group companies	2010	2009
At beginning of year	7,469	4,469
Conditional shareholder contribution CapAble AB	3,000	3,000
Book value at end of year	10,469	7,469

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

Subsidiary/corp.reg.no./ Domicile	No. of shares	Holding, %	Book value
BioGaia Biologics Inc. /-/Raleigh, NC, USA	100,000	100	0
TriPac AB /556153-2200/Lund	10,000	100	3,568
CapAble AB /556768-3601/Stockholm	90,100	90,1	6,901
BioGaia Japan Inc. /-/Hiroshima, Japan	180	100	0
			10,469

The assets and liabilities of the American subsidiary BioGaia Biologics Inc. have been translated at the closing day rate of exchange, SEK 6.78 (7.19). All items in the income statement have been translated at the average exchange rate during the year, SEK 7.21 (7.65). The assets and liabilities of the Japanese subsidiary BioGaia Japan Inc. have been translated at the closing day rate of exchange, SEK 0.083 (0.078). All items in the income statement have been translated at an exchange rate of SEK 0.082 (0.081). The resulting translation differences have been recognised in consolidated comprehensive income.

CapAble AB was formed in the autumn of 2008. BioGaia owns 90.1% of the company. CapAble's President, Staffan Pålsson, owns 9.9% of the company. Non-controlling interests' share in profit amounts to SEK 98 thousand.

Of total purchases made by the Parent Company 1.6% (3.3) was attributable to group companies. Of total sales made by the Parent Company, 0.6% (0.2) was attributable to group companies.

Participations in associated companies

	Group 2010	2009	Parent Company 2010	2009
At beginning of year	9,441	7,851	9,441	7,851
Conditional shareholder contribution	–	1,000	–	1,000
Share in profit for the year	1,200	590	–	–
Reversal of previous impairment loss on participation in associated company	–	–	1,200	590
Book value at end of year	10,641	9,441	10,641	9,441

The previous impairment loss on participations in the associated company was reversed to the consolidated value in the Parent Company.

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

TwoPac AB/556591-9767/Eslöv	2010	2009
Assets	14,612	11,877
Liabilities	6,432	6,104
Equity	8,180	5,773
Revenue	16,189	13,440
Profit	2,407	1,078
Number of shares	5,000	5,000
Holding, %	50	50
Value of equity share in Group	10,641	9,441
Book value in Parent Company	10,641	9,441

Until 31 December 2010, TwoPac was reported as an associated company. As a result of the financing arrangement described above, BioGaia will gain a controlling influence over TwoPac, which will thus be 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 will arise. The consolidation of TwoPac will affect the Group's operating profit but will have no impact on profit attributable to owners of the Parent Company. The balance sheet total will be marginally affected. Cash flow will be affected by TwoPac's cash flow. If TwoPac had been consolidated for the full financial year in 2010, the Group's net sales would have been unchanged at SEK 236.0 million and operating profit would have been SEK 57.6 million rather than SEK 56.3 million.

Note 17 Non-current receivables from subsidiaries and associated company

Non-current receivables from subsidiaries

	Parent Company 2010	Parent Company 2009
At beginning of year	1,022	–
Loan to subsidiary	14,340	13,245
Product sales	1,364	405
Interest income	1,224	818
Provisions for receivables ¹⁾	-16,928	-13,446
	1,022	1,022

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

The remaining receivable of SEK 1,022 thousand as of December 31, 2010 refers to the subsidiary CapAble AB.

Receivables from associated companies

	Group 2010	2009	Parent Company 2010	2009
At beginning of year	4,400	4,400	4,400	4,400
Closing balance at end of year	4,400	4,400	4,400	4,400

The company has issued a loan to the associated company TwoPac AB. The loan is being used primarily for development of equipment for manufacturing of drops and LifeTop products.

Note 18 Inventories

	Group 2010	2009	Parent Company 2010	2009
Raw materials and consumables	95	205	95	205
Finished goods and goods for resale	13,933	12,972	13,048	12,152
	14,028	13,177	13,143	12,357

The company's provisions for obsolescence amounted to SEK 17 thousand (266) at 31 December 2010. An individual assessment of the obsolescence reserve has been carried out. The entire inventory value is recorded at cost with a deduction for obsolescence.

Note 19 Trade receivables

The Group and the Parent Company have recorded a loss of SEK 0 thousand (0) on the write-down of trade receivables in 2010.

Provisions for bad debt losses amounted to SEK 150 thousand (199) at 31 December 2010. At 31 December 2010, trade receivables of SEK 2,026 thousand (3,792) were overdue without any assessed grounds for impairment.

Of the overdue receivables, SEK 1,852 thousand had been recovered as of the closing date.

An age analysis of overdue trade receivables is shown below:

	Group 2010	2009	Parent Company 2010	2009
Less than 3 months	1,910	3,458	1,910	3,458
13-6 months	116	334	–	297
	2,026	3,792	1,910	3,755

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

	Group 2010	2009	Parent Company 2010	2009
SEK	3,906	3,035	3,903	3,035
EUR	26,184	22,489	26,105	22,489
USD	897	499	862	444
DKK	605	656	605	656
NOK	125	–	125	–
JPY	1,857	2,042	–	–
	33,574	28,721	31,600	26,624

Note 20 Related party transactions

The Group owns 50% of TwoPac AB and reports this holding as an associated company.

The following transactions have been carried out with TwoPac AB:

	Group 2010	2009	Parent Company 2010	2009
Interest income	119	116	119	116
Conditional shareholder contributions paid	–	1,000	–	1,000
Purchase of goods	15,974	13,052	15,959	12,976

Goods are purchased at cost plus profit margin.

The closing balances were as follows:

	Group and Parent Company	
Non-current receivables from related parties	2010	2009
Non-current receivables from TwoPac AB	4,400	4,400
	4,400	4,400

For long-term receivables from TwoPac AB, see also Note 16 and Note 23.

	Group 2010	2009	Parent Company 2010	2009
Current balance from related parties				
Current receivables from TwoPac AB	37	24	37	24
Current liabilities from TwoPac AB	-1,066	-704	-1,066	-688
	-1,029	-680	-1,029	-664

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 transaction that took place during 2010 is a dividend of SEK 1.50 per share. No other transactions have taken place between BioGaia and Annwall & Rothschild Investment AB. For further information, see Note 4, Employees and personnel expenses.

RELATED PARTY TRANSACTIONS – PARENT COMPANY

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

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

The Parent Company and the Group own 50% of TwoPac AB, which is reported as an associated company. Starting from the first quarter report for 2011, TwoPac will be consolidated in the BioGaia Group. For further information, see Note 16.

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

The following transactions have taken place with BioGaia Japan

	2010	2009
Interest income	1,224	818
Loan paid	14,339	12,223
Sale of goods	1,364	405

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

The following transactions have taken place with BioGaia Biologics Inc.

	2010	2009
Purchase of services	2,443	4,542

The following transactions have taken place with CapAble AB

	2010	2009
Interest income	27	23
Sale of machinery	–	1,022
Loan from parent company	–	1,022
Conditional share holder contribution	3,000	3,000
Sales of services	209	308
Group contribution paid	3,499	–

The following transactions have taken place with TriPac AB

	2010	2009
Group contribution paid	966	–

The closing balance were at follows:

	31 Dec 2010	31 Dec 2009
Non-current receivables, related parties		
Non-current receivables, CapAble AB	1,022	1,022
Current receivables, related parties		
Current receivables, CapAble AB	–	884
Current liabilities, related parties		
Current liabilities, BioGaia Biologics Inc	–328	–927
Current liabilities, BioGaia Japan	–4,241	–4,241
Current liabilities, Tripac AB	–4,647	–3,336
Current liabilities, CapAble AB	–3,575	–
	–12,791	–8,504

Note 21 Other receivables

	Group 2010	2009	Parent Company 2010	2009
VAT refund	1,675	1,813	1,662	1,781
Tax asset	125	482	85	461
Foreign exchange contracts	6,277	2,701	6,277	2,701
Other receivables	1,365	652	633	29
	9,442	5,648	8,657	4,972

Note 22 Deferred expenses and accrued income

	Group 2010	2009	Parent Company 2010	2009
Accrued income	1,586	4,617	1,586	4,617
Prepaid rents	738	604	738	604
Other deferred expenses	1,023	959	626	775
	3,347	6,180	2,950	5,996

Note 23 Short-term investments

	Group and Parent Company	
	2010	2009
Opening balance	80	80
Closing balance	80	80

This item refers to listed securities. The shares have been valued at the quoted market price on the balance sheet date.

The intention is to sell the shares when an appropriate occasion arises.

Note 24 Financial assets and liabilities

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

Financial assets measured at fair value through profit or loss

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

	Fair value 31 Dec 2010	Fair value 31 Dec 2009	Carrying amount 31 Dec 2010	Carrying amount 31 Dec 2009
Assets (SEK 000s)				
Cash and cash equivalents in SEK	135,703	90,956	135,703	90,956
Cash and cash equivalents in EUR	7,918	7,579	7,918	7,579
Cash and cash equivalents in USD	1,696	407	1,696	407
Cash and cash equivalents in JPY	1,485	1,164	1,485	1,164
Cash and cash equivalents in DKK	101	221	101	221
Short-term investments	80	80	80	80
Total assets	146,983	100,407	146,983	100,407

Held-to-maturity investments

The Group has no held-to-maturity investments.

Loans and receivables

The Group's holdings of loans refer to the associated company. The loan to the associated company is valued at amortised cost. The loan is a revolving credit facility that is extended by periods of 12 months at a time. The loan is expected to be repaid within three years.

	31 Dec 2010 Carrying amount ¹⁾	31 Dec 2009 Carrying amount ¹⁾
Loan to associated company	4,400	4,400
Trade receivables	33,574	28,721
Total loans and receivables	37,974	33,121

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

Interest rate risks

Interest rate risks for the loans and receivables are illustrated below:

Interest conversion/maturity

	< 1 yr from sheet date	> 1 yr but < 5 yrs from sheet date	> 5 yrs from sheet date	Interest free	Total
Loan to associated company		4,400			4,400
Interest rate to associated company		Stibor 3 m. +1,75%			

Other financial liabilities

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

	Fair value 31 Dec 2010	Fair value 31 Dec 2009	Carrying amount 31 Dec 2010	Carrying amount 31 Dec 2009
Trade payables	9,373	8,099	9,373	8,099
Liability to associated company	1,029	664	1,029	664
Prepayments from customer	1,054	432	1,054	432
Total other financial liabilities	11,456	9,195	11,456	9,195

Note 25 Share capital

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

Other contributed capital consists of a statutory reserve and a share premium reserve.

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

Retained profit consists of accumulated profits and transfers from the share premium reserve and statutory reserve. The Parent Company's dividend for 2010 was SEK 25.8 million, equal to SEK 1.50 per share. The Board and President propose that the company shall pay an ordinary dividend of SEK 0.92 per share and an extraordinary dividend of SEK 1.08, amounting to a total of SEK 2.00 per share in 2011. This is equal to total dividends of SEK 34.5 million.

As a result of the exercise of warrants in 2010, BioGaia's share capital increased by SEK 63,400 and an equal number of shares. The exercise price was SEK 76.70 per share, which means that the company raised proceeds of SEK 4.9 million.

Non-controlling interests account for 9.9% of equity in the subsidiary CapAble.

Equity in the BioGaia Group consists of the sum of equity attributable to owners of the Parent Company and equity attributable to non-controlling interests. At 31 December 2010, consolidated equity amounted to SEK 187.3 million (161.1).

Dividend policy

The ambition is to pay a shareholder dividend equal to 30% of profit after tax.

Key ratios

	2010	2009
Number of shares at 31 Dec., thousands	17,271	17 208
Average number of shares, thousands	17,230	17 208
Number of outstanding warrants, thousands	-	129
Number of outstanding warrants with a dilution effect, thousands	-	129
Number of outstanding shares including outstanding warrants with a dilution effect, thousands	17,271	17 337
Earnings per share, SEK	2,74	2,11
Earnings per share after dilution, SEK	2,74	2,09
Equity per share, SEK	10,84	9,37
Equity per share after dilution, SEK	10,84	9,30
Return on equity, %	27	25
Share price on closing day, SEK	96,00	80,00
Dividend per share, SEK	2,00 ¹⁾	1,50

¹⁾ Dividend proposed but not yet approved. The board and Managing Director propose that the Company shall in 2011 pay an ordinary dividend of SEK 0.92 per share and an extra dividend of SEK 1.08 per share giving a total dividend of SEK 2.00 per share.

Note 26 Other liabilities

	Group 2010	2009	Parent Company 2010	2009
Employee withholding tax	696	687	667	660
Tax liabilities	18,184	-	18,176	-
Other current liabilities	-	177	-	-
	18,880	864	18,176	660

Note 27 Accrued expenses and deferred income

	Group 2010	2009	Parent Company 2010	2009
Accrued holiday pay	3,699	3,394	3,515	3,187
Accrued social security expenses	648	608	625	586
Other accrued expenses	5,816	4,634	5,432	3,336
	10,163	8,636	9,572	7,109

Note 28 Pledged assets and contingent liabilities

	Group 2010	2009	Parent Company 2010	2009
Pledged assets				
Floating charges	2,000	2 000	2,000	2 000
Contingent liabilities	None	None	None	None

Note 29 Policy for financial risk management

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

Currency risk

BioGaia has revenue primarily in EUR (around 75-80% of net sales) and expenses primarily in SEK, JPY, EUR, USD and DKK. In 2010 the company had a cash flow surplus of approximately EUR 14.0 million (10.2), a cash flow deficit of JPY 170.0 million (147.7), a cash flow deficit of USD 0.6 million (0.3) and a cash flow surplus of DKK 1.4 million (1.3). Growth in sales has also led to increased currency risks, for which reason the company has taken currency hedges in EUR. At 31 December 2010 the company had entered into forward exchange contracts for EUR 13.9 million at an average exchange rate of SEK 9.58. Forward exchange contracts amounting to EUR 9.6 million will mature in 2011 and the remaining EUR 4.3 million in 2012. A stronger Swedish krona rate against the euro will decrease the value of BioGaia's sales and profit, but through profitable forward exchange transactions and by trying to reallocate a portion of expenses to euros, the company should be able to minimise the impact on earnings.

Interest rate risk

The Group has no interest rate risks. Excess liquidity is invested at bank interest rates or in fixed-income securities with a high credit rating.

Credit risk

BioGaia's credit risks are attached to trade receivables and loans to the associated company, and for the Parent Company also loans to subsidiaries. When signing agreements with new customers, BioGaia always carries out an assessment of the customer's financial position. The company has routines for collection of past due accounts receivable and additional evaluation of the customers' financial position is carried out when needed in order to minimise risks. The loan to the associated company TwoPac AB has been used mainly to develop equipment for production of delivery systems (BioGaia's probiotic straw and LifeTop Cap). TwoPac's primary operations are development of production equipment and manufacturing of BioGaia's probiotic drops, straws and LifeTop Cap on behalf of BioGaia. The company's assessment is that TwoPac will show good profitability and that the loan

Audit Report

To the general meeting of shareholders in BioGaia AB (publ.) Corp.
reg. no. 556380-8723

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of BioGaia AB (publ) for the financial year 2010. The company's annual report and consolidated financial statements are included on pages 34-55 in the printed version of this document. These accounts and the administration of the Company as well as the application of the International Financial Reporting Standards (IFRS) adopted by the EU and the Annual Accounts Act when preparing the annual accounts and the consolidated accounts are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the liability, if any, to the

Company of any Board member or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the Company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, 22 February 2010
Grant Thornton Sweden AB

Lena Möllerström Nording
Authorised Public Accountant

Five-year summary

Key ratios

	2010	2009	2008	2007	2006
Net sales, SEK M	236.0	203.5	145.2	106.6	86.8
Operating profit, SEK M	56.3	47.7	25.8	8.9	1.7
Profit before tax, SEK M	69.7	53.1	24.0	10.7	2.7
Profit after tax, SEK M	47.2	36.0	36.1	19.7	2.7
Profit after tax attributable to owners of the Parent Company, SEK M	47.3	36.3	36.1	19.7	2.7
Growth, %	16	40	36	23	46
Operating margin, %	24	23	18	8	2
Profit margin, %	30	26	17	10	3
Current ratio, times	5.1	8.2	5.1	5.1	4.1
Equity/assets ratio, %	82	90	86	86	82
Capital employed, SEK M	187.3	161.1	132.4	94.9	74.5
Return on capital employed, %	40	36	25	13	4
Return on equity, %	27	25	32	23	4
Average number of employees	45	43	39	37	34

Data per share

Number of shares at 31 Dec., thousands ¹⁾	17,271	17,208	17,208	17,208	17,208
Average number of shares, thousands	17,230	17,208	17,208	17,208	17,208
Number of outstanding warrants, thousands	–	129	129	129	–
Number of outstanding warrants with a dilution effect, thousands	–	129	–	–	–
Number of outstanding shares including outstanding warrants with a dilution effect, thousands	17,271	17,337	17,208	17,208	17,208
Basic earnings per share, SEK	2.74	2.11	2.10	1.14	0.16
Diluted earnings per share, SEK	2.74	2.09	2.10	1.14	0.16
Basic equity per share, SEK	10.84	9.37	7.69	5.52	4.33
Diluted equity per share, SEK	10.84	9.30	7.69	5.52	4.33
Share price on the balance sheet date, SEK	96.00	80.00	33.10	27.80	40.50
Dividend per share, SEK	2.00²⁾	1.50	0.40	–	–

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

²⁾ Dividend proposed but not yet approved.

Definitions

Basic earnings per share

Profit after tax plus/minus non-controlling interests, divided by the number of shares.

Capital employed

Balance sheet total less interest-free liabilities.

Current ratio

Total current assets divided by current liabilities.

Diluted earnings per share

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

Earnings per share

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

Earnings per share after dilution

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

Equity/assets ratio

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

Equity per share

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

Equity per share after dilution

Shareholders' equity divided by the number of shares plus the number of outstanding warrants with a dilutive effect.

Growth

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

Operating margin

Operating profit in relation to net sales.

Profit margin

Profit before tax in relation to net sales.

Return on capital employed

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

Return on equity

Profit after tax, divided by average shareholders' equity.

Corporate governance report

Corporate governance in BioGaia

BioGaia is a Swedish public limited company whose class B shares are listed on the small caps list of the NASDAQ OMX Nordic Exchange Stockholm. The company's operations are governed by the General Meeting of Shareholders, the Board of Directors and the President in accordance with the Swedish Companies Act, the Articles of Association and the Swedish Code of Corporate Governance.

Articles of Association

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

General Meeting of Shareholders

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

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

2010 AGM

BioGaia's AGM was held on 6 May 2010 and was attended by shareholders representing 48.1% of the total number of votes in the company. The AGM was also attended by the company's President, the Board members elected by the previous AGM and all of the Board members elected by the year's AGM, aside from Jörgen Thorball, as well as the company's outgoing auditor and the auditor elected by the year's AGM.

2011 AGM

The 2011 AGM will be held at 4:00 p.m. on Tuesday, 10 May 2011, at Lundqvist och Lindqvist, Klara Strand Konferens, Klarabergsviadukten 90, in Stockholm.

Notice of the AGM

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

Nominating Committee

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

The 2010 AGM resolved that the Nominating Committee would be appointed according to the

following: "The Board Chairman shall convene the three largest shareholders in the company in terms of voting power, each of which has the right to appoint a member to the Nominating Committee together with the Board Chairman. In determining the composition of the Nominating Committee, the largest shareholders in terms of voting power shall be based on the ownership conditions on 30 June 2010. The Nominating Committee shall be chaired by the member representing the largest shareholder at that time. If any of the three largest shareholders should waive their right to appoint a member to the Nominating Committee, the shareholder next in order of size shall be given the opportunity to appoint a member. The names of the three shareholder representatives shall be made public as soon as they have been appointed, but no later than six months before the 2011 Annual General Meeting. The term of office shall extend until a new Nominating Committee has been appointed.

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

In accordance with the AGM's resolution, the Nominating Committee was appointed and consists of Per-Erik Andersson, representing Annwall & Rothschild Investment AB, the company's largest shareholder, Board Chairman David Dangoor, the fourth largest shareholder, and Sven Zetterqvist, representing Livförsäkringsaktiebolaget Skandia, the sixth largest shareholder. All three members of the Nominating Committee are independent in relation to the company and its management.

The Nominating Committee will prepare recommendations for the following matters to be put before the 2011 AGM for resolution:

- appointment of the Chairman of the AGM
- election of the Board of Directors
- election of the Board Chairman
- fees for members of the Board
- fees for the auditors
- appointment of the Nominating Committee ahead of the 2012 AGM.

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

The Nominating Committee presents a written motivation to the Annual General Meeting for election of Board members.

Board of Directors

According to BioGaia's Articles of Association, the Board shall consist of at least five and at most eight members with no more than three deputies. The Board is elected yearly by the AGM to serve for the period until the end of the following AGM. In 2010 the Board consisted of seven members elected by the AGM, with no deputies. One Board member, Jan Annwall, has been a member of the Board since 1990 and is a major shareholder in the company. Jan Annwall was previously employed by

the company as CFO and Executive Vice President but retired on 1 April 2010. However, Jan Annwall works to a limited extent as a consultant to the company. The six remaining members are independent in relation to both the company and its management. A presentation of the Board is provided on page 62.

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

The Board decides on matters related to the Group's overall strategy, organisation and management. The Board approves both interim reports and the annual report before these are published. The Board held six minuted meetings and one strategy seminar in 2010. At these meetings the Board has discussed budgetary matters, business plans, financial accounts, investments, financial reports and major agreements. At the strategy seminar, TwoPac's operations and proposals for expansion of the production facility in Eslöv were presented, after which the Board dealt with strategic issues. Jörgen Thorball was absent from two meetings and Stefan Elving was absent from one meeting. The other Board members attended all meetings.

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

Board fees

The 2010 AGM resolved that Board fees would be paid in an amount of SEK 300,000 to the Board Chairman and SEK 150,000 to each of the other Board members not employed by the company.

Board Chairman

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

President

The President is responsible for overseeing the company's business development and for supervising and coordinating its day-to-day operations. The Board has established instructions for the President that among other things regulate his management and development of the company and the provision of reports and decision data to the Board. The President prepares the requisite information and decision data such as reports on the company's

finances, the order situation, significant business matters and strategic issues prior to Board meetings, as well as presenting reports and motivating proposals for decision. Furthermore, the President continuously informs the Board Chairman about the company's financial and business situation. Every year the Board carries out an evaluation of the President's performance in which no member of the Executive Management is present.

Executive Management

BioGaia's Group Executive Management consists of the eight individuals who are presented on page 64. The Group Executive Management is headed by the President and is responsible for planning, supervising and monitoring the company's day-to-day operations. Minuted meetings are normally held once a month. The responsibilities and powers of the President are regulated by the Swedish Companies Act and by the instructions that are adopted by the Board. The responsibilities and powers of the Group Executive Management are defined in the established job descriptions and authorisation instructions.

Remuneration Committee

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

Auditors

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

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

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

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

In addition, Grant Thornton has provided certain tax-related advice and performed other audit-related services. Information about remuneration to the auditors can be found in Note 5 of the annual report. Due to the fact that independent Board members have accounting expertise and in view of the Board's ongoing examination of the financial reporting and the company's limited size and transaction volume, the Board has decided not

to set up any audit committee. Instead, the entire Board of Directors meets with the auditors at least once a year without the presence of the President or other members of the Executive Management.

The Board's report on internal control over financial reporting for the 2010 financial year

Introduction

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

Financial reporting

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

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

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

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

BioGaia's values

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

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

BioGaia's values

BioGaia and BioGaia's employees

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

Risk assessment

The company works continuously with risk assessment and risk management to ensure that the risks to which the company is exposed are handled with the limits ultimately established by the Board. The executive management continuously analyses the company's business processes

with regard to efficiency and risks.

This work includes the identification of significant risks for errors and deficiencies in the financial reporting. To limit risks, suitable processes and controls are built into the company's operations.

The most critical business processes and the absolutely largest values, in terms of both assets and business/product development, are found in the Parent Company. In addition, the bulk of sales take place in the Parent Company. Processes that are deemed to be of special importance to BioGaia are sales including quality assurance, R&D and manufacturing.

Control activities

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

Information and communication

BioGaia has information and communication paths that are designed to promote the completeness and accuracy of the financial reporting. Authorisation instructions and policies are distributed to all employees and can be viewed on the company's intranet. Once or twice a year, all of BioGaia's employees meet to increase their knowledge about the company's processes and goals and to exchange information and experiences. In 2010 the company's employees met for three days in May.

Monitoring

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

The company has no separate internal audit function. In view of the company's size and the volume of transactions, the Board of Directors' has determined that there is no reason to set up a formal internal audit function.

Stockholm, 22 February 2011

Styrelsen i BioGaia AB

Auditors' statement on the corporate governance report

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

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

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

Stockholm, 22 February 2011
Grant Thornton Sweden AB

Lena Möllerström Nording
Authorised Public Accountant

The BioGaia share

Figures in brackets refer to the preceding year

Trading volume

BioGaia AB's class B share has been quoted on the Small Cap list of the OMX Nordic Exchange Stockholm since May 1998. In 2010 the trading volume reached just over SEK 524 million (710), corresponding to approximately 6 million (11) shares.

The number of shareholders at 31 December 2010 was 6,985 (7,328).

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

Share price development

In 2010 the share price increased from SEK 80.00 to SEK 96. The highest closing price

during the year was SEK 91.00 and the lowest was SEK 75. Market capitalisation at 31 December 2010 was approximately SEK 1,660 million (1,375).

Dividend policy

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

BioGaia's incentive scheme for the employees

In June BioGaia carried out a warrant programme that was approved by the AGM. A total of 128,950 warrants were subscribed for by the employees. Each warrant granted the holder the right to subscribe for one class B share for SEK 76.70 during the period from 15 May 2010 to 31 August 2010.

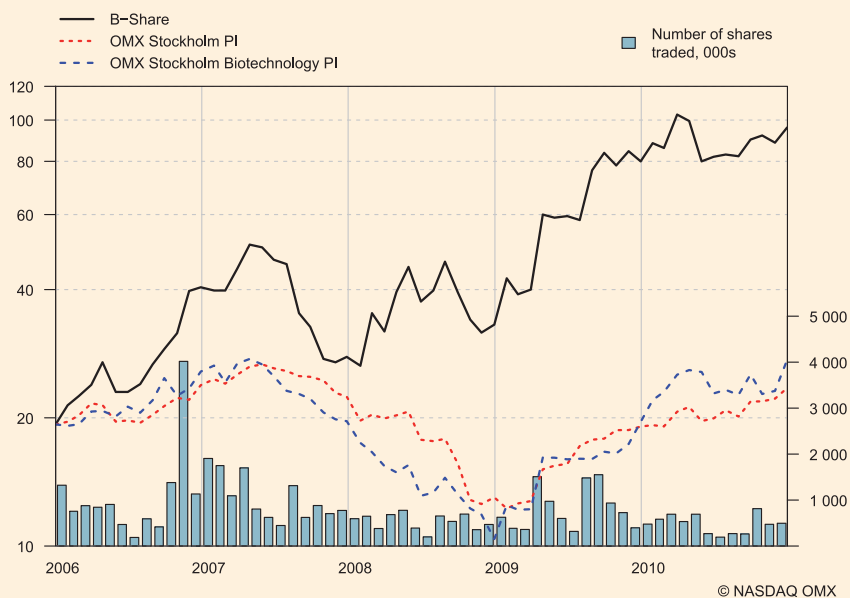
In total 63,400 warrants were exercised during the period which means that the company increased its equity by SEK 4,862,780. The number of shares has increased by 63,400 class B shares to a total of 16,530,294, with an unchanged number of class A shares, i.e. 740,668. The total number of shares is thus equal to 17,270,962 shares and 23,936,974 votes.

With the completion of this warrant programme, BioGaia now has no ongoing warrant programmes.

Distribution of ownership (30 Dec.)

Total number of shareholders 31 December		
Number of shares	2010	2009
1-500	5,331	5,221
501-1,000	1,063	927
1,001-5,000	706	621
5,001-10,000	90	86
10,001-15,000	23	24
15,001-20,000	21	18
20,001-	94	88
Total number of shareholders:	7,328	6,985

BioGaia



Major shareholders in BioGaia at 30 December 2010

	A shares 000's	B shares 000's	Share capital SEK 000's	No. of votes 000's	Capital procent	Votes procent
Annwall & Rothschild Inv. AB	741	1,259	2,000	8,666	11.6	36.2
Banque Öhman S.A		925	925	925	5.4	3.9
SIX SIS AG		640	640	640	3.7	2.7
David Dangoor (inkl bolag)		569	569	569	3.3	2.4
Pictet & CIE		557	557	557	3.2	2.3
Futuris		530	530	530	3.1	2.2
Livförsäkringsaktiebolaget Skandia		511	511	511	3.0	2.1
Skandinaviska Enskilda Banken S.A., NQI		362	362	362	2.1	1.5
AMF Aktiefond småbolag		361	361	361	2.1	1.5
Försäkringsaktiebolaget Avanza Pension		340	340	340	2.0	1.4
Credit Agricole Suisse SA		300	300	300	1.7	1.3
Caroline Hamilton		293	293	293	1.7	1.2
Hanvad Invest Aktiebolag		268	268	268	1.5	1.1
Swedbank Robur Ny Teknik BTI		246	246	246	1.4	1.0
JPM Chase NA		245	245	245	1.4	1.0
Tangent		244	244	244	1.4	1.0
Lars Thunberg		236	236	236	1.4	1.0
Banque Carnegie Luxembourg SA		227	227	227	1.3	1.0
Swedbank Robur småbolagsfond Europa		170	170	170	1.0	0.7
Sten Irwe		158	158	158	0.9	0.7
Incore bank AG		152	152	152	0.9	0.7
Subfund Ruffer European FD		150	150	150	0.9	0.6
Nordnet pensionsföräkring AB		142	142	142	0.8	0.6
Lärostandens Brandförsikring GE		130	130	130	0.7	0.5
Ingvar Kristensson		115	115	115	0.7	0.5
Other shareholders		7,400	7,400	7,400	42.8	30.9
Total	741	16,530	17,271	23,937	100.0	100.0

Changes in share capital since the Company's formation

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

*Excluding underwriting costs

BioGaia's Board of Directors

David Dangoor

Born in 1949.

Chairman of the Board.

Elected to the Board 2003.

M.B.A. Marketing and PR consultant. President of Innoventive Partners LLC.

Former Vice President and Marketing Director at Philip Morris USA and Philip Morris International. Other board assignments for Life-time Brands, Inc., New York, Ballet Inc., School of Creative Leadership, Berlin University and Swedish-American Chambers of Commerce (SACC NY). Holds 518,918 class B shares and 50,000 class B shares via private company.



Inger Holmström

Born in 1948

Elected to the Board in 2007.

M.A. in Literary History.

Communication and relationships Director in Paf.

Former Corporate Communications Director at Coop Norden, Posten and Vattenfall. Other board assignments for

Star Management AB.

Holds 500 class B shares



Jan Annwall

Born in 1950.

Elected to the Board 1990.

M.B.A.

Former Executive Vice President of BioGaia AB. Founder and principal shareholder in BioGaia AB.

Holds 370,334 class A shares and 629,666 class B shares via Annwall & Rothschild Investments AB.



Paula Zeilon

Born in 1962.

Elected to the Board 2003.

M.Sc.Eng.

Partner in Conlega Conlega affärskonsultbolag. Former Marketing Director, Amersham Biosciences.

Other board assignments for Hansa Medical AB.

Holds 0 shares.





Thomas Flinck
Born in 1948.
Elected to the Board 1996.
M.B.A. Managing
Director and partner in
Centrecourt AB.
Other board assignments
for Centrecourt AB and
Briggen Tre Kronor AB.
Holds 57 class B shares.



Jörgen Thorball
Born in 1962,
Elected to the Board 2008.
Physician.
Managing Partner
XOventure Aps. Former
international senior
positions in for example
Novozymes, BioGaia,
Aventis and Pharmacia.
Other board assignments
in Pergamum AB, ViroGates
A/S, Lina-Medical A/S,
YourGlobalEye Aps, Immu-
dex A/S and Devenz AB.
Holds 0 shares.



Stefan Elving
Born in 1941.
Elected to the Board 2001.
Former Marketing
Director and Executive Vice
President ICA Handlarnas AB.
Other board assignments
for Arcus AS, Macks
AS, Svanströms and
Cervera AB.
Holds 0 shares.

BioGaia's Executive Management



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



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



Jonas Weimer
Born in 1971, M.B.A.
Vice President Marketing and Sales.
Employed by the Company since 1998, in current position since 2008.
Holds 11,000 class B shares.



Eamonn Connolly
Born in 1957, Ph.D.
Senior Vice President Research.
Employed by the Company since 2000, in current position since 2002.
Holds 1,000 class B shares



Bo Möllstam
Born in 1952, M.B.A.
Director of Intellectual Property.
Employed by the Company since 1990, on a consulting basis since 2003.
Holds 80,500 class B shares.



Urban Strindlöv
Born in 1964,
Mechanical engineer.
Executive Vice President
Projects and Product
Development.
Employed by the
Company since 2004, in
current position since 2010.
Holds 0 shares.



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



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

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

The 2011 Annual General Meeting will be held on Tuesday, 10 May 2011 at 4:00 pm, at Lundqvist och Lindqvist, Klara Strand Konferens, Klarabergsviadukten 90, in Stockholm.

Notice of the AGM is given through an announcement in the Official Gazette (Post- och Inrikes Tidningar) and on the company's website.

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