



### Active network for researchers

More research projects than ever before are working to understand how Reuteri contributes to better health.

*Read more on pages 3-5*

### 20th anniversary

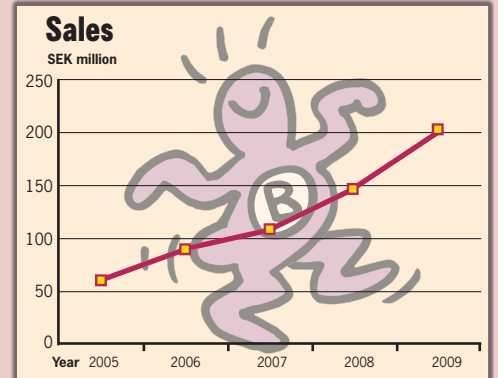
It would have been impossible to predict BioGaia's development twenty years ago. One thing is certain, things never turn out the way you expect.

*Read more on pages 12 and 13*

### BioGaia in brief

This year we have gathered significant data and facts about the company on the last page of the newspaper section.

# BioGaia®



A magazine from BioGaia about the past year

Annual report 2009



## The future is OURS

We are still a small company in the early stages of development and in a relatively new market. The so-called megatrends remain positive for BioGaia. The market for our natural products without side-effects that are suitable for "self-medication" is expected to show continued strong growth.

### Continued strong growth

Operating profit for 2009 was SEK 47.7 million and net sales amounted to SEK 203.5 million. Sales grew by 40% and operating profit by more than 80%. All in all, this proves the effectiveness of the "model" – to achieve higher sales without a proportionate increase in costs.

*Read more in the annual report and in the magazine*



### BioGaia brand growing stronger

More and more partners are choosing to work with the BioGaia brand. Today it is found alone or on co-branded products in more than half of the markets where BioGaia is represented.

*Read more on page 11*

### New probiotic oral rehydration solution

BioGaia's product range has been expanded with an oral rehydration solution for infants. First on the market was Swedish Semper.

*Read more on page 9*

### BioGaia Academy on home ground

Stockholm and its surroundings showed themselves from their best side when BioGaia's partners and researchers gathered to exchange experiences. These meetings contribute effectively to strengthening the company's position around the world.

*Read more on pages 6 and 7*

# “Another successful year”

**ANOTHER FANTASTIC YEAR** has passed and we have essentially met all our high internal goals.

Sales increased by 40%, profit before tax more than doubled and we achieved a net margin of over 25%. However, our annual growth and in particular growth per quarter have varied, and I therefore feel obliged to warn against assessing the company's development on the basis of such short periods.

We are naturally pleased, but can we keep up a rapid growth rate?

There is a lot that suggests it may be possible. We are still a small company in a market that is relatively new, and the so-called megatrends remain favourable for BioGaia's products – natural products without side-effects that are suitable for “self-medication” are expected to continue growing strongly.

Resistance to antibiotics is a serious and growing problem. In the EU, 25,000 people died in 2009 because no antibiotics worked on the pathogenic bacteria they had been infected with. Otto Cars, Chairman of Strama (the Swedish strategic programme against antibiotic re-

sistance) estimates that the real figures are even higher, perhaps as much as five times higher. How can we handle this gigantic problem that is in the process of pushing us 60 to 70 years back in time?

I can't understand how authorities around the world can invest enormous sums in an influenza vaccine while the antibiotics question arouses only lukewarm interest.

It takes 10 to 12 years to develop new antibiotics, but there is no guarantee that this will solve the resistance problem. Strama and other organisations are working to reduce the use of antibiotics in both human beings and animals. Obviously, this is a critical task and it must be tackled globally since the spread of infection today is borderless.

BioGaia's products don't solve the resistance problem, but they do indicate a part of the solution, i.e. to improve our health by building up our immune defence. We can then avoid the overuse of antibiotics and save them for the more serious cases. In studies on children, we have shown that the need for antibiotics decreases if BioGaia products are taken



Peter Rothschild, Managing Director of BioGaia.

for preventive purposes. The new products against the gastric ulcer bacterium *Helicobacter pylori* that we are now being tested in clinical trials may well be a first alternative to the heavy triple therapy consisting of a proton pump inhibitor such as Losec and two different antibiotics.

Although we have a large market share in countries like Italy and Finland, I believe there is still considerable potential there. In many important countries, such as Germany, France, Brazil, Japan and the USA, we are just getting started. We are planning to launch our products in 20 countries over the next 12 months. In China and England we still have no distributor for our tablets or drops.

In the past year we launched two unique new products, an oral rehydration solution with Reuteri and our oil drops with vitamin D, which can make a good contribution to our growth within a year or so.

Our focus on the BioGaia brand is continuing and approximately 30% of our finished products are now sold under our own brand. In the long term this is very important for us and we are trying to persuade several of our distributors to change over to the BioGaia brand completely or to some form of “co-branding”.

For two years we have been working to adapt our business model to conditions in Japan, where distribution is complicated. The solution to this problem is an agreement with Nippon Access, one of Japan's largest wholesalers, which is owned by the major Japanese trading house Itochu. Through this agreement, our products can be offered via the retail trade, pharmacies, home deliveries, etc. Now, Japan could

become a key market for BioGaia.

Through our cooperation with Nestlé, in which they add *Lactobacillus reuteri* to infant and baby formula, the first products are now available on the French market. In 2010 a number of launches will follow around the world and Nestlé could become one of BioGaia's largest customers.

On the oral health side, we have concentrated on conducting additional clinical studies. Today there are seven studies which show that our products have significant effects on bleeding gums, dental plaque and caries, and with the help of these studies we will be able to increase sales of our oral products, which have not quite kept up with the rapid development of our other products.

**GIVEN OUR GROWTH** in established markets, launches in newly contracted markets and contracts for new markets, new products and indications, it is highly probable that we can continue to maintain a high rate of growth.

Since our fixed costs are not increasing at the same rate as our sales and our gross margins are relatively stable, there is good potential to attain high net margins.

We have a successful model and in my opinion, BioGaia's shareholders can therefore look to the future with confidence. □

A handwritten signature in black ink, appearing to read "Peter Rothschild".

Peter Rothschild,  
Managing Director of BioGaia

## BioGaia glossary

**Antibiotics:** Compounds that kill or inhibit the growth of microorganisms.

**Biotechnology:** Technical application of natural processes.

**Clinical research:** Research on humans.

**Functional Foods:** Food products that contain ingredients with documented health benefits.

**Gingivitis:** Inflammation of the gingival tissues, characterised by bleeding gums.

**Lactobacilli:** Lactic acid bacteria, i.e. bacteria that are able to ferment various types of sugar and convert them into lactic acid.

**Lactobacillus reuteri:** BioGaia's patented probiotic lactic acid bacterium with the brand name Reuteri®.

**Lactobacillus reuteri Prodentis:** Name of a combination of Reuteri strains used in oral health products.

**Lactobacillus reuteri Protectis:** Name of the Reuteri strain used in BioGaia's gut health and immuno-enhancing products.

**Nutrition:** The science or study that deals with food and nourishment, especially in humans.

**Partner:** BioGaia uses the word partner instead of customer for companies that distribute and sell the company's products.

**Periodontal disease:** Inflammation of the gums leading to tooth loss.

**Premature:** Born after a shorter than normal gestational period.

**Probiotics:** Live microorganisms which when given in adequate amounts confer a health benefit on the host.

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# High activity at all levels

For every year that passes we are gaining more and more knowledge about *Lactobacillus reuteri* and how it interacts and functions in humans. One of the year's most significant findings is that there are clearly human Reuteri strains that have evolved together with humans and are living in symbiosis with us.

**RESEARCH RELATING TO** *Lactobacillus reuteri* spans over a vast area, particularly with regard to the basic research currently underway. For Research Director Eamonn Connolly, one goal is to stay informed about the projects that are contributing to an increased knowledge and understanding of Reuteri both at the fundamental level and in the clinical studies being carried out with lactic acid bacteria. In addition, he is involved in initiating new research.

In the past year, a number of new clinical results were presented at different congresses. Perhaps the most important discovery has been Reuteri's influence on various forms of diarrhoea.

One study has shown that Reuteri reduces the occurrence of antibiotic-associated diarrhoea in adults, and another open pilot study showed that Reuteri could be used together with chemotherapy to reduce the occurrence of diarrhoea in the patients.

Dr. Flavia Indrio presented a new study confirming the effects of Reuteri on the intestinal function of pre-term newborns.

Eamonn Connolly says that there have never been so many clinical studies in progress as at present and that we can look forward to many exciting results and projects in the future.

Clinical studies over the years have clearly shown that Reuteri has a positive effect on human health and that it helps in a good way to strengthen and balance various functions in our bodies.

"The microbiology of the human body is an extensive and largely unexplored area," says Eamonn Connolly. "When we see the effects we can achieve with the help of Reuteri, we naturally want to know everything about how and why this takes place. This applies not only to

"Reuteri and humans have evolved together and this is big news in the research world."

EAMONN CONNOLLY

us at BioGaia; many researchers around the world are seeking to understand the relationships between our health and the occurrence of different bacteria in the body."

During the year, Thomas Abrahamsson defended his doctoral thesis at Linköping University Hospital which included work on clinical material from a large allergy study in Sweden. The study shows that Reuteri in the GI tract affects the balance in the immune system, which has been possible to see in the breast milk and blood.

Furthermore, Professor Vito Miniello at the Department of Pediatrics, University of Bari, has shown that Reuteri influences the immune balance in the lungs of allergic school children. These findings show that Reuteri not only affects GI function, which is often talked about, but also lives in symbiosis and can influence the functions of other parts of our body.

**AT THE UNIVERSITY OF MICHIGAN,** research scientist Jens Walter is working to identify the similarities and differences between different strains of *Lactobacillus reuteri*. With the help of modern DNA technology, each strain can be studied down to the smallest detail. There are

hundreds of strains and they occur not only in humans but also in other mammals and in birds.

Eamonn says that Jens Walter and his colleagues have found several clusters of strains, based on the species from which they are derived. One conclusion that can be drawn is that strains of Reuteri have developed and become adapted to their different "hosts", which means that it is easy to see which are human strains.

"This suggests that Reuteri is indeed a natural part of the human bacterial flora," says Eamonn Connolly.

"Reuteri and humans have evolved together and this is big news in the research world. As a result, it is not so strange that we benefit from this symbiosis and that the truly human Reuteri strains are probiotic. Nonetheless, Reuteri does not occur in everyone and even if Reuteri is introduced into an individual, it eventually disappears unless it is replenished."

This gives rise to many questions. Is it our lifestyle, our diet or the environment that is to blame? Were things different a couple thousand years ago? Is there any primitive culture re-



PHOTO: ULF LODIN

For every year there is a growing volume of research on *Lactobacillus reuteri*, which means a wider field of activity for Research Director Eamonn Connolly to keep track of.

maintaining where everyone has Reuteri in their bacterial flora?

"We will be looking into this!" says Eamonn Connolly. □

## REPORTING OF CLINICAL STUDIES

Publication of clinical trial results is a key success factor for BioGaia. The International Committee of Medical Journal Editors has initiated a policy requiring clinical investigators to deposit information about trial design into an accepted clinical trials registry before the onset of patient enrolment, and this is now becoming 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 does not take any 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 if such results are of significant importance to its operations.



PHOTO: CHATARINA ANDERSSON

Researchers from around the world meet regularly to learn about each other's research on *L. reuteri*. These inspiring and interesting encounters are important for the exchange of new research findings.

# An increasingly strong research network

**Research on *L. reuteri* is spread all over the world. For BioGaia, it is vital both to stay in contact with and inspire the research scientists and ensure access to the results they obtain. Research Director Eamonn Connolly functions as both a link and an engine in this context.**

**ON 31 AUGUST 2009** a Research Day was held at the head office in Stockholm, where our own staff had the opportunity to listen to and meet a number of research scientists who are working with new discoveries about Reuteri and probiotics.

But these meetings also have another important function in that they give the research scientists an opportunity to meet and exchange experiences. Since there is so much research underway on Reuteri, with BioGaia as the common denominator, a stable network of research scientists is developing. Not least

among those engaged in basic research, which was the subject of this year's Research Day.

"We have a lot to gain if we can contribute to a greater interplay among those conducting research in our area," explained Eamonn Connolly already in his introductory presentation, during which he also showed the scope of research currently in progress.

To a large extent, the day dealt with the progress made in mapping *L. reuteri* in its smallest genetic components and the role it plays in our bacterial flora.

The first speaker was Jens Walter from the University of Nebraska, who has studied the origins of the bacteria and seen how different strains both resemble each other and differ genetically. He has also explored the symbiotic relationships we humans have with beneficial bacteria. (See also interview on the next page.)

Rob Britton from Michigan State University described his studies on how Reuteri influences our health. We already know that it has a positive effect from the clinical studies that have been carried out, but a lot re-

mains to be done before we can explain exactly what happens in different parts of the body.

In addition, there are considerable differences between the various strains. By comparing the genetic compositions of different strains, it is possible to get a better picture of their probiotic properties. This was the theme of a lecture by Dr. Delphine Saulnier from Texas Children's Hospital, where a great deal of research has been done on Reuteri.

At the Agricultural University in Uppsala, Stefan Roos and Hans Jonsson have devoted the past 15 years to mapping the large jigsaw puzzle that our microbiological flora can be likened to. Stefan Roos has shown that we are dealing with a bacterium that is exceptionally stable, with very small mutations over the years. Among other

things, their work means that attempts are being made to remove "unknown" factors from their explanatory models in order to better explain the effects of *L. Reuteri*.

After sitting and listening for an entire day and trying to follow the complicated reasoning of microbiology and genetics, BioGaia's staff went home and tried to digest their impressions.

For the research scientists, it was time for the highpoint of the visit. Throughout the evening they sat together and discussed their findings and theories, new ideas and future plans, cooperation with each other and with BioGaia, at a whole different level where there was no need to take their audience into account.

What such an evening can lead to remains to be seen, but it is all very exciting. □



# Jens Walter searches for Reuteri's roots

***Lactobacillus reuteri* is found not only in humans but also in a large number of animal species. Professor Jens Walter is in the process of studying similarities and differences between a number of strains, mainly to identify what characterises the “human” strains.**

**TO PUT IT SIMPLY**, you could say that Jens Walter's research is focused on understanding the microbiological ecosystem in our GI tract and how it is linked to our health. He is looking at the lactic acid bacteria that can be found there, what role they play and how they have developed evolutionarily. In addition, their genetic and functional attributes are being characterised in relation to how they colonise the GI tract.

Jens Walter is interested in developing technologies that can show how these organisms interact with humans and how they affect our intestinal microflora.

Reuteri's “family tree” shows how different Reuteri strains have developed in different hosts. The genetic similarities form clear clusters. Research scientists have also been able to see the strategies that have enabled the bacteria to survive in symbiosis with their environment. The results indicate a very stable relationship between Reuteri and us humans. It has also been possible to ascertain that the Reuteri strains have been very



Jens Walter is searching for Reuteri's origins.

genetically stable throughout the long evolutionary process.

One conclusion to be drawn from this is that Reuteri has both a common evolutionary goal and a stable relationship with its host. Reuteri's health-promoting qualities are perhaps the result of this interaction, an intimate symbiotic relationship that benefits both parties.

How will Jens Walter's results

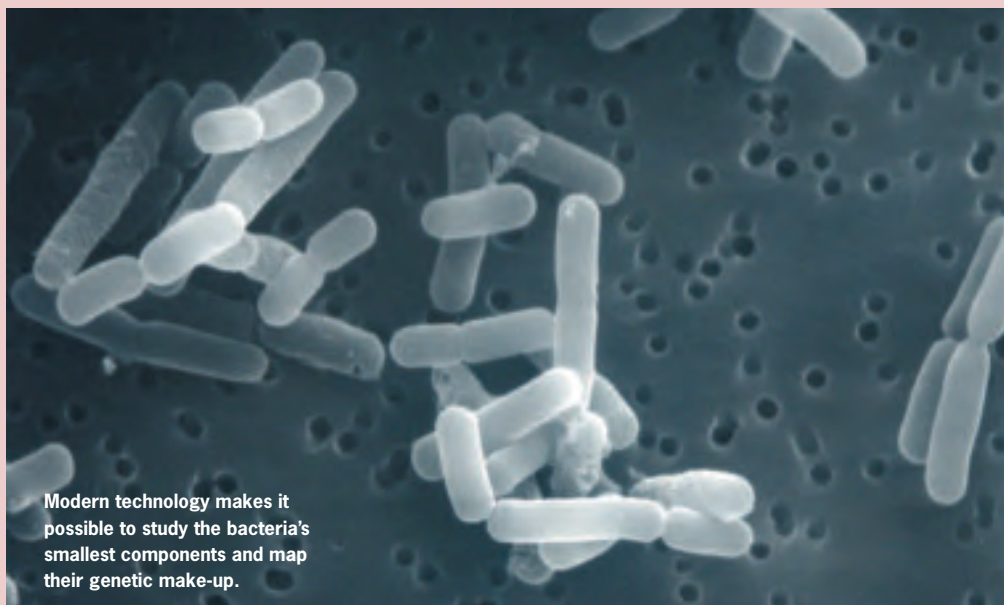
influence the future direction of his research?

“An important practical use,” he replies, “is that we can concentrate on the strains that have developed in humans. Our findings are creating a framework for further genetic studies of which properties of Reuteri are important for the bacterium itself and for humans.”

Another question is whether there is an original Reuteri strain, and Jens Walter believes that there was at one time, but we don't know in which animal it first existed and how it has later continued to spread in the animal kingdom.

It is absolutely clear that Reuteri is a naturally occurring bacterium in humans, but that it is not found in everyone.

“We can't expect to find it in every human,” says Jens Walter. “Several studies have shown that there is no single bacterium that occurs in everyone; each individual has significant variations in his or her bacterial flora. At present, we don't know why it is so unusual in humans, but we are very interested in finding the explanation.” □



Modern technology makes it possible to study the bacteria's smallest components and map their genetic make-up.

## News updates

### Reuteri effective in decreasing antibiotic-associated diarrhoea

**AN IMPORTANT CLINICAL** study showed that BioGaia's chewable tablets effectively reduced the incidence of diarrhoea in hospitalised adults being treated with antibiotics.

This double-blind, placebo-controlled study was conducted at University Hospitals Case Medical Center in Cleveland, Ohio. The results were presented by Lisa Cimperman and her colleagues at Clinical Nutrition Week in New Orleans.

It is well known that treatment with antibiotics severely disrupts the bacterial flora in the intestine, often leading to side-effects like diarrhoea and nausea. This is a significant problem that often leads to longer hospital stays and therefore also higher costs.

In the study, which was conducted on hospitalised patients receiving antibiotics for infections like pneumonia and bronchitis, one group was given BioGaia Probiotic chewable tablets and the other group was given an identical placebo for a period of four weeks.

The patients' stools were examined and various gastrointestinal symptoms were registered during the four weeks of the study and for an additional two weeks afterwards.

The results were clear. The incidence of diarrhoea among the patients given Reuteri was 7.7%, compared to 50% in the placebo group. However, no difference was seen in the incidence of nausea, vomiting, constipation and other common side-effects.

The researchers' conclusion was that Reuteri significantly decreased antibiotic-associated diarrhoea.

### New partner in Japan

**FINDING THE RIGHT** way into the Japanese market has long been a top priority for BioGaia. Japan was one of the first non-Swedish markets targeted by BioGaia and today the company also has a local subsidiary and an office in Japan.

Different solutions have been tested with varying results and the search for the ideal partner has been underway for many years.

Now BioGaia has signed an exclusive dealership agreement with Nippon Access Group, the country's largest food and dietary supplement wholesaler with annual sales of SEK 104 billion. Nippon Access is a subsidiary of Japan's fifth largest trading company, ITOCHU Corporation.

Nippon Access will distribute all of BioGaia's products, except for the chewable tablets, under the BioGaia brand. In addition, they will develop and launch dairy and functional food products, beverages, infant formula, baby food and food for the elderly in collaboration with BioGaia Japan.

Keitaro Nomura, President of BioGaia Japan, sees Nippon Access as the best partner for reaching the Japanese market under the BioGaia brand. It has the necessary resources for marketing and distribution and has focused on preventative medical care by building a distribution chain in collaboration with convenience stores, daycare centres and hospitals.

BioGaia has invested considerable resources to find the optimal business model in Japan. Under the agreement with Nippon Access, it will be possible to reach consumers with virtually all of its products through all possible distribution channels without affecting BioGaia's existing customers in Japan.

### BioGaia expanding into the Balkans

**THE SWISS COMPANY** Ewopharma has achieved impressive results with BioGaia's products in Central and Eastern Europe and through an extended agreement is now expanding these sales into Serbia and Croatia. As earlier, Ewopharma is working with the BioGaia brand and will launch the probiotic drops and tablets.

In light of the successful establishment of BioGaia' products in the neighbouring countries, Ewopharma is highly confident about the launch.

# BioGaia Academy – A v

It is difficult to overstate the importance of BioGaia Academy. During two intensive days, research scientists meet, business partners gather together and BioGaia's staff is the hub of the network that makes up the company's business model. This year's BioGaia Academy was held on its own home turf.

**HAVING THE HEAD** office in Stockholm, it is a pleasure to be able to show the guests the city and its surroundings – everything from the Old Town, Stockholm's medieval city centre, to the archipelago with its tens of thousands of islands and rocky islets to the east. Fifteen minutes to the south-east of the city lies Saltsjöbaden, a classic bathing resort full of magnificent 19<sup>th</sup> century mansions. There, at the Vår Gård conference centre, with a breathtaking view over Baggens Bay, around 80 people from all corners of the world gathered to share their experience and knowledge – with *Lactobacillus reuteri* and BioGaia as the common denominator.

Already on Wednesday evening, those who had arrived early were offered a guided bus tour and Salme Portinson from BioGaia held an introductory presentation about *Lactobacillus reuteri*.

The seminar opened on Thursday, 11 June, and the entire morning was devoted to research, where several scientists presented the results of their clinical studies.

Dr. Claudio Romano of the University of Messina, who has worked with Reuteri for many years, has studied and found that Reuteri can significantly reduce abdominal pain in children.

In addition, Professor Alison Steiber of Case Western Reserve University in Cleveland, Ohio, described a study on how Reuteri affects antibiotic-associated diarrhoea. The study was carried out on hospitalised adults and continued for four weeks.

The results were clear compared to the group that had received a placebo. Half of this group still suffered from diarrhoea after the test period, while only 8% of those who had received Reuteri twice a day suffered from diarrhoea.

The presentation that perhaps aroused the greatest interest was Dr. Ruggerio Francavilla's study on how Reuteri can be included in the treatment of patients with serious infections who are prescribed antibiotics. The treatment of *Helicobacter pylori*, the pathogenic bacteria that often causes gastric ulcers, is one such example.

Dr. Francavilla works at the University of Bari and is eager to introduce probiotics into the ongoing debate on the overuse of antibiotics and the danger of resistance, which is increasingly seen as a serious threat in the near future.

When antibiotics are used in the treatment of e.g. *H. pylori*, much of the bacterial flora in the GI tract is eliminated and it can take up to six months before the balance is restored. The result is that the patient can suffer a number of side-effects such as diarrhoea, abdominal pain, etc.

However, if *L. reuteri* is administered to the patient together with the antibiotics, this helps to retain equilibrium in the mi-

croflora and alleviate the side-effects that otherwise occur.

Dr. Francavilla sees major benefits, not only for the patient, but also for the healthcare sector and society in general as result of a more rapid recovery, particularly if this can help to reduce the use of antibiotics and thus prevent the development of antibiotic resistance. The research on *H. pylori* has only just started and further studies will follow.

Research Director Eamonn Connolly summed up the morning and informed the participants about other completed or ongoing studies of relevance.

**IN THE AFTERNOON**, it was time to see and listen to how BioGaia's products are marketed and sold in different markets.

After an introduction by Sales Director Jonas Weimer, Rossella Restignoli from Nóos in Italy showed how they have worked successfully with *L. reuteri* under the Reuterin brand for the oil drops and tablets.

Nóos concentrates primarily on distribution via pharmacies.

"We also have the best possible partners, and this is the best symposium I have ever attended. Nothing can stop us – so our competitors better look out!"

**JENNIFER CHERRY**  
President of Everidis,  
BioGaias partner in USA.

There are 18,000 pharmacies in Italy and competition between products of this type is intense. To give some idea, there are 493 different probiotic products on the market. Sales activities are targeted towards doctors and other healthcare professionals who can in turn recommend the products to their patients.

Nóos has shown a fantastic sales growth in recent years, not least for the oil drops which have multiplied in volume.

Rossella Restignoli explained that the connection between clinical studies in Italy and how the product is perceived leads to strong sales.

Friedrike Skott from Switzerland-based Ewopharma described the conditions for their work with BioGaia's products in Eastern Europe, where the situation is different from that in Italy. There is still a lack of support from local clinical studies, but in a short span of time

PHOTO: KJELL KARLSSON



Dr. Ruggerio Francavilla



Jennifer Cherry, President of Everidis





# valuable meeting place



PHOTO: ULF LÖNN

great advances have been made in a number of countries, particularly Slovakia, Poland and Bulgaria.

The day ended with workshops before it was time for dinner and a boat trip through Stockholm's beautiful archipelago.

**FRIDAY'S THEME** was Marketing: Innovation, Network & Synergies, a topic introduced by Marketing Director Cristián Contreras.

The conditions and market situation in the USA were described by Jennifer Cherry, CEO of Everidis, which is BioGaia's distributor in the USA. Their business model is also based on influencing doctors and other professionals who make recommendations to their patients. In nine cases of ten, a patient listens to the doctor and buys what the doctor recommends.

Everidis has developed attractive and serious marketing materials in connection with the launch of BioGaia products, but the American market is challenging. BioGaia's products are classified as dietary supplements and in the USA,

like many other markets, no health benefits may be claimed.

However, this does not stop many miraculous products from being marketed with the most astounding health effects – without the slightest basis in research or clinical studies. In addition, there is a widespread fear of bacteria in general and no broad knowledge about the existence of both good and bad bacteria.

Nevertheless, Jennifer Cherry is determined to ensure that BioGaia is the probiotic brand most widely recommended by paediatricians in the USA.

“The reason this will succeed is that together we have the best products, the best research and the best people,” she explained in conclusion.

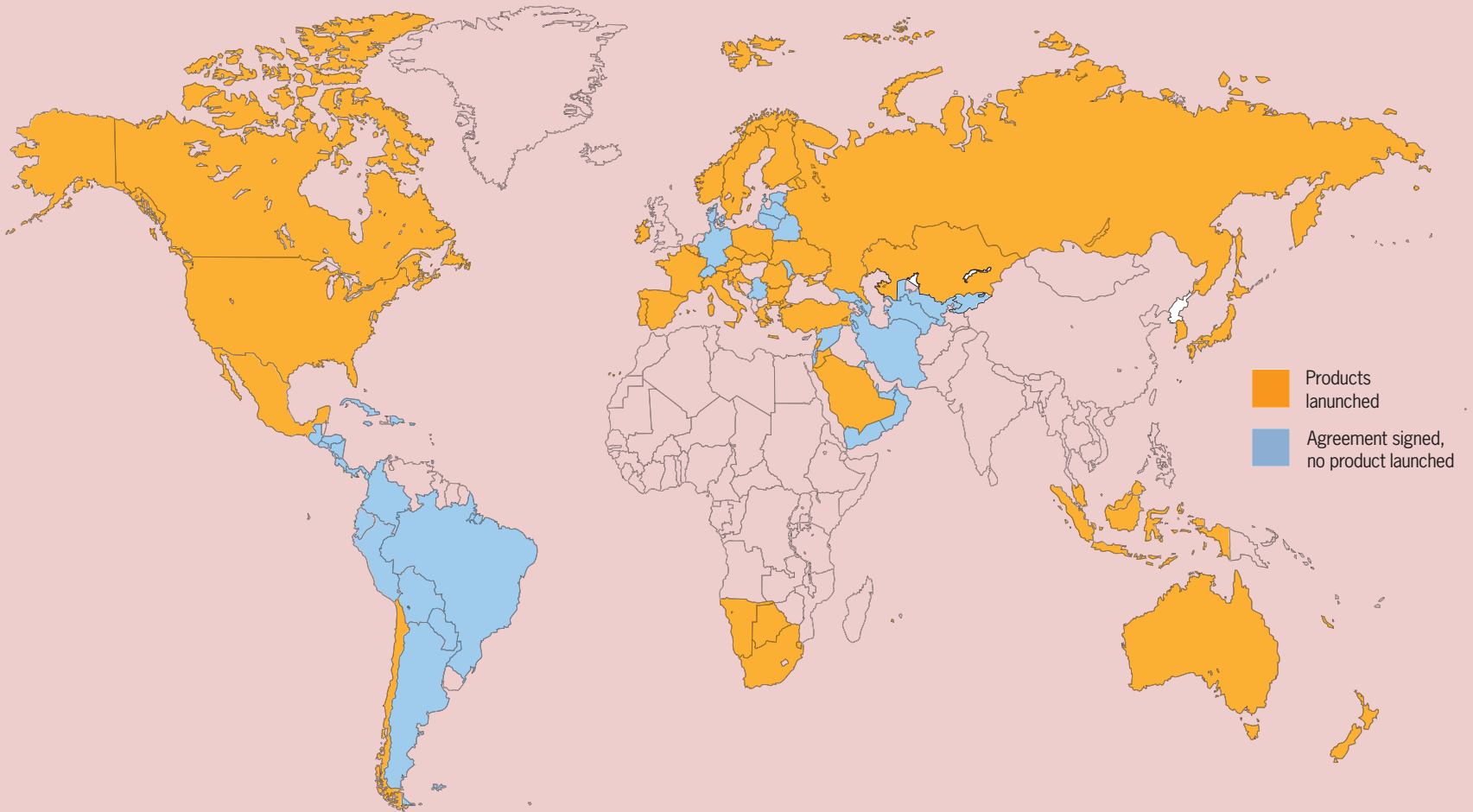
“We also have the best possible partners, and this is the best symposium I have ever attended. Nothing can stop us – so our competitors better look out!”

It was President Peter Rothschild's task to sum up and round off this successful BioGaia Academy. He thanked the participants but said that he could think of no better final words than those expressed by Jennifer Cherry. □



BioGaia Academy provides many opportunities to establish new contacts even outside the well filled programme. Exciting meetings between researchers, marketers and BioGaia's staff generate new ideas for the future.





# BioGaia's international expansion

Take a quick look at this map. It gives a good idea of how BioGaia is expanding. The yellow colour shows the countries and parts of the world where the company already sells the main products drops and/or tablets. The blue colour indicates areas where agreements have been signed with various partners but where sales activities have not yet begun.

**SALES DIRECTOR** Jonas Weimer, who has worked at BioGaia for 12 years and has closely followed the company's long-term development, is very optimistic about the future.

Today BioGaia is represented in more than 40 countries and has agreements covering almost as many new ones. The companies with which we have established relationships over the years through partnership agreements are very diverse in terms of both structure and focus, and include everything from dairies to pharmaceutical companies.

"We are in a very expansive stage at the moment" says Jonas Weimer. "Our ambition is to expand further, mainly by developing the cooperation with our existing partner networks and by broadening our product portfolio. We are cur-

PHOTO: ULF LODIN



Jonas Weimer

rently working to both deepen and refine the sales collaboration with partners that have already begun the sale of drops and tablets. In addition, we are helping partner companies that are preparing to launch our products. These are important, since they will almost exclusively sell

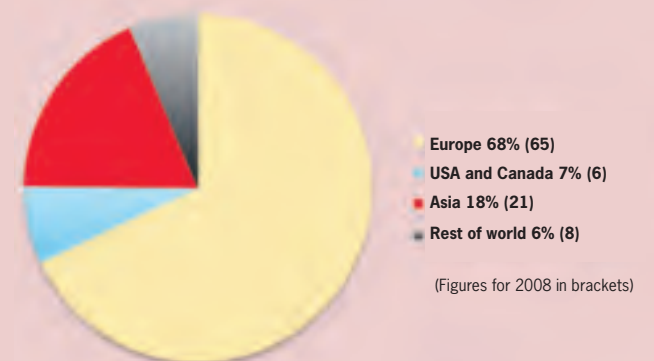
drops and tablets under the BioGaia brand name."

One such market is France, where BioGaia's drops and tablets were recently launched. Previous attempts to enter the French market have been unsuccessful, but Jonas Weimer feels that the Company has now found the right partner.

**A NEW PARTNER** with a strong position on the German market will also start working with BioGaia's products in the coming year.

That BioGaia has had enjoyed strong sales growth in recent years is clearly evident in the financial accounts. This is due to the fact that several partners have succeeded well in their markets. Italy, Finland, Slovakia and Sweden are good examples of countries where BioGaia's

Sales by geographical market 2009



products have secured a strong position among doctors, other healthcare professionals and consumers.

"You don't have to be Einstein to figure out that if we are as successful in a number of large countries that we are now entering, we will be able to maintain a strong growth also in the future," says Jonas Weimer. "Health benefits are equally important in all countries, and with the right partner we can continue working according to our model and achieve further success."

BioGaia is not involved in consumer sales but is exclusively engaged in business-to-business. For Jonas, it is very much a question of two principal tasks, finding new partners that can take the products to new markets and supporting the existing partner network with optimum sales support.

One important source of sales support is the interaction between all those involved in the network. Since they are not competing with each other, the exchange of new ideas and solutions is a great asset to all. □



# Semper first to launch probiotic oral rehydration solution

Karin Kniberg recently started working for BioGaia, where her responsibilities include the Swedish market and a number of countries in Central and Eastern Europe.

From the start she was involved in the launch of a whole new product from BioGaia, a probiotic oral rehydration solution (ORS) that is sold by Sweden-based Semper.

**IN THE PAST YEAR** BioGaia signed an exclusive agreement giving Semper the right to sell an ORS product with Reuteri in both Sweden and Norway. In recent years Semper has launched a number of probiotic products based on Reuteri. BioGaia's drops, which are found in the refrigerators of most pharmacies, and Semper's infant formula, which is available in several varieties with Reuteri, showed steady sales growth during the year.

For the past 50 years ORS has been the cornerstone of therapy for treatment of gastrointestinal conditions like paediatric diarrhoea and gastroenteritis caused by cholera or rotavirus.

"Our experiences with BioGaia's products in recent years confirm the results of extensive studies on the treatment of diarrhoea and other health issues related to the GI tract," says Mona Svensson Puhakka, Marketing Manager at Semper Nutrition. "We therefore wanted to integrate this superior lactic acid bacterium in a truly safe and effective ORS product that could be used even for two month old infants. In keeping with WHO recommendations, we supplement it with zinc but exclude colours and other unnecessary additives that are common in other commercial ORS products."

BioGaia is proud to be the first to combine probiotics, ORS and zinc in an integrated and user-friendly package. The product is delivered in 5.5 gram single-portion sachets.

**THE ORS PRODUCT** has been specially developed for infants and has been very well received by the healthcare community and the pharmacies chains that currently sell the product.

"Because we are targeting infants, we have started by developing the 'purest' possible product without flavour or colour additives," says Karin Kniberg. "In the next stage, we are also looking at flavoured versions."

Karin Kniberg explains that several other countries are interested in selling the new ORS product.

In the Swedish market, sales of BioGaia's chewable tablets under the Probiomax brand have picked up now that they are also carried by most pharmacies. Previously, they were found almost only in natural health stores and certain well assorted grocery stores.

For the BioGaia products that



Karin Kniberg

are distributed through pharmacies, the transformation of the pharmacy structure and entrance of new players has created both more work and great

er uncertainty, but has above all opened up new opportunities for wider distribution of BioGaia's products.

Karin is also seeing a high level of activity in her other markets. In particular, she wishes to highlight Ewopharma's fantastic development in Poland, Bulgaria and Slovakia.

Furthermore, BioGaia's partner Delta Medical has been successful in Ukraine despite a turbulent year from both an economic and political standpoint. Although the pharma market shrank by 30% in 2009, BioGaia's products continued to grow and expand their market share – partly through the drops that were launched in 2008 and



now also the tablets that were launched in August 2009. In the past year, intensive preparations were made for the launch of BioGaia in Kazakhstan and several CIS countries. □



## Launch of BioGaia's drops in France

**IT WAS THE FRENCH** company Laboratoires BIOETHIC that introduced BioGaia's Probiotic drops and tablets on the French market, where the products are sold under the BioGaia brand since the end of 2009. France is a large and important market where it has taken some time to find the right partner.

Sales Director Jonas Weimer is highly satisfied with the start of this collaboration and explains that BIOETHIC has an approach that is perfectly aligned with BioGaia's business model, and is quite simply an ideal partner.

"The company has around 170 pharmaceutical consultants that regularly visit doctors and other healthcare professionals," says Jonas Weimer. "They bring a limited number of products with them, rarely more than four, which means that our products are given a lot of attention and become important to our partner."

Jonas Weimer has high hopes for development in France. It is a huge market, the products are sold under the BioGaia brand and BIOETHIC works according to the model BioGaia wants all of its partners to apply.

"Given BioGaia's extensive clinical studies in this area and the large sales force that will be working with BioGaia's products, we have high expectations for the success of this collaboration," says Frédéric Derome, Managing Director of Laboratoires BIOETHIC, which is specialised in sales and marketing of pharmaceutical products.

# First step onto the market taken

Just over a year has now passed since CapAble AB was started. At first glance it may seem that fairly little has happened, but if you scrape the surface it is evident that a number of important steps have been taken.

“The cooperation with our customers in the past year has made us even better”, says Managing Director Staffan Pålsson.

**AFTER A FINE START** with two agreements around the beginning of the year, most of the company’s time has been devoted to working behind the scenes to further develop and adapt LifeTop Cap to meet customer requirements; a process that has taken place in close cooperation with the customers and has been guided by both their beverages and processes and current trends in beverage packaging of drinks.

LifeTop Cap was originally developed as a means to add probiotics to water. Now, with requests for other ingredients and beverages, products with new qualities will be continuously developed. “We have continued to work on the manufacturing process, the product itself and the product quality,” says Staffan Pålsson. “And this means that we now have more stable and efficient production with a greater delivery reliability. We have also improved the quality and function of the cap itself.”

The first consumer products with LifeTop Cap have now appeared on the market. In the autumn the American company Mass Probiotics trial launched its product PHD, a flavoured probiotic health water, in Cali-

fornia. The collaboration with Mass Probiotics has created a lot of feedback that has been valuable to both CapAble and the packaging company TwoPac, in manufacturing the product.

“The trial launch received a very good consumer response, so good that Mass Probiotics is now preparing a launch throughout the USA,” says Staffan Pålsson. “Agreements have been signed with most of the nationwide grocery chains. As anyone can understand this is a large market we are talking about,



CapAble – Staffan Pålsson

and it will be exciting to follow the results for these products.”

The second agreement that was signed at the start was with a Mexican company, but it has taken longer for them to develop their product, which is also a flavoured probiotic health water – four different beverages with *L. reuteri* Protectis that are planned to be launched at a trade fair in March. Mexico is also a huge market, presumably the second largest after the USA, although it is perhaps not as well developed in this area.

**CAPABLE HAS TWO** main target groups.

The primary and most obvious target group consists of beverage companies seeking to develop unique products with sensitive ingredients in a beverage.

In parallel, Staffan Pålsson is working on what he calls LifeTop Technology Partners, i.e. companies that manufacture and sell ingredients for beverages.

“The idea behind the creation of Technology Partners is that we can together create exciting combinations with LifeTop Cap and new ingredients that are of interest to beverage companies,” explains Staffan Pålsson. “For us, this provides an additional point of access to our primary



PHD is a flavoured probiotic water that has been launched in the USA.

target group, the beverage companies, since our new partners already have well-established contacts with them.”

It turns out that several of the ingredient producers have been discussing new concepts with their customers, but have had no good technical or practical solution. In cases involving probiotics as an ingredient, no other solution has been found that gives sufficiently good protection

for a long shelf life. Together with CapAble, they can now move forward in this process. New for the year is that LifeTop Straw is now also included in CapAble’s product range. Like the cap, the patented straw can be filled with ingredients other than BioGaia’s probiotics. No agreement has yet been signed but there are discussions and trials underway, which will be interesting to follow. □

## News updates

### Next stop Denmark

**FOR SOME INEXPLICABLE** reason BioGaia’s products have not yet reached across the sound to Denmark, but now it is time to take this important step. In 2010 BioGaia’s drops and tablets will be launched by Pharma Nord Aps, which has obtained exclusive rights to the Danish market.

Pharma Nord, one of Europe’s largest manufacturers of natural health products and dietary supplements, has sales in a large number of countries and a strong position in Denmark.

The products will be launched under the BioGaia brand in the first half of 2010. They will be marketed to healthcare professionals and distributed via pharmacies and natural health retailers.

“Now we are found throughout Scandinavia and look forward to a successful launch with the support of our strong clinical data,” comments Jonas Weimer.



### New partner in Germany launches BioGaia’s drops

**THE GERMAN MARKET** is both large and demanding, and so far BioGaia has not had any made any real inroads there. Now BioGaia has pinned its hopes on the pharmaceutical company Infectopharm, which has a strong market position and is the leader in the paediatric niches where it is active. The company has a well established relationship with paediatricians and is a partner whose working methods are well suited to BioGaia’s business model.

The success of the drops in the rest of Europe has opened the door to the German market and Infectopharm sees a big need for the drops among children in Germany.

Karin Kniberg, who is responsible for the German market, says that BioGaia’s drops have been very well received during the intensive preparatory stage and that she is excited about the launch in this major market.



# Strong brand attracting new partners

## BioGaia®

**BioGaia's Marketing Director Cristián Contreras is far from alone in working with the BioGaia brand. He has more "colleagues" than there are employees at BioGaia. All the partner companies around the world who use the brand are namely involved and contributing in their respective markets to building the brand globally.**

**FOR EACH YEAR** that has passed since the decision was made to invest in developing BioGaia's own brand, both the number of markets where the brand is sold and the volumes have increased. By joining forces with its network of partners, BioGaia's brand-building activities have a greater impact.

"The BioGaia brand, alone or on co-branded products, is now found on more than half the markets where we are represented," says Cristián Contreras. "This in itself is proof that more and more of our partners realise the value of cooperating to build a strong global brand."

Everyone also knows that the stronger a brand is, the more advantages are created for everyone

working with it. And in pace with its success, even more resources are being allocated to support the brand globally in different ways, which is something that benefits all partners. Nowadays, national borders are no hinder to the spread of information and knowledge about new products and services.

"My ambition is for our partners, both existing and new, to experience that working with the BioGaia brand is a clear win-win situation," says Cristián Contreras.



Cristián Contreras

The brand cooperation described by Cristián is a good example of how BioGaia's business model is structured. In this model, BioGaia, its partners and research/clinical studies is a trinity of parts that together

forms a strong whole. These three parts exist in a healthy symbiosis with each other, in the same way that *L. reuteri* lives in symbiosis with us humans.

The business model is based on experience from the markets that have shown the best per-

formance in recent years, where the combination of good results from local clinical studies on the health effects of the products, a strong brand and a professional partner with an effective sales force have led to success in the market.

It is also important to ensure a uniform picture of the brand in all the markets. As a result, there are clear guidelines for graphic representation and communication of the brand. The head office provides continuous support in the form of different types of marketing material and research documentation.

Research and clinical studies are an important component of the business model. Since marketing and sales are often directed to doctors and other healthcare staff, participation in medical congresses is a natural part of the company's operations.

Today there are increasing opportunities for participation, since interest in probiotics is

growing on a wide front. This is particularly true in the paediatric sector, the area where BioGaia's products have gained the most attention. The obvious motto is "clinically proven probiotics".

"We took part in three major paediatric congresses in 2009 and received a lot of attention," says Cristián. "The research symposiums with independent research scientists that we arranged at these events have been well attended and greatly appreciated."

Congresses not only provide the chance to meet existing partners and establish contact with new ones, but also attract influential opinion-builders in this area that are important to BioGaia.

In 2010 BioGaia will continue on its chosen path and participate in several medical congresses to inform about the health effects of *Reuteri*, how different distribution forms work and that BioGaia's product safety is in a class of its own. □

## Participation in congresses an important marketing tool

**FOR A COMPANY** like BioGaia with a focus on research and close cooperation with doctors and other healthcare professionals, participation in medical congresses is a natural part of operations. Much of the company's success is based on the stable platform that can be demonstrated in the form of documented basic research and clear results from clinical studies. The largest number of clinical studies have been carried out and published in the paediatric sector, and it is therefore logical to take part in medical congresses in this area.

"Congresses give us the chance to develop professional contacts and good opportunities to spread knowledge about the BioGaia brand in a serious

manner," says Marketing Director Cristián Contreras.

The large European ESPGHAN congress on paediatric gastroenterology, hepatology and nutrition was held in Budapest on 3–6 June, and was attended by some 1,500 participants from around the world.

**DURING THE CONGRESS**, BioGaia arranged a satellite symposium with the title "Probiotics in Paediatrics: Facts, Fiction and Future". In a full lecture hall, the participants could see and hear Professor Bengt Björkstén, Dr. Teresa del Moral, Dr. Flavia Indrio and Dr. Elena Lionetti present the latest findings from research on *L. reuteri* Protec-tis. The focus of the symposium was nat-urally on the role

of probiotics in paediatric care and it was greatly appreciated.

Many contacts were also made in the stand hosted by BioGaia throughout the congress.

BioGaia held a similar programme at the corresponding American AAP (American Academy of Pediatrics) conference with great success. This is the largest paediatrics conference in the world, and was held in Washington D.C. on 17–20 October.

About 120 people attended the dinner symposium held by BioGaia on the theme of "Advances in paediatric health care – the potential of probiotics".

The lasting impression is that there is a serious interest in probiotics in the USA today, and



BioGaia participated in ESPGHAN with its own stand and a satellite symposium.

that it is continuing to grow.

In Latin America, a relatively new market, BioGaia took part in the LASPGHAN paediatrics congress, which was held in Chile.

"These medical congresses are a good example of how we, together with our partners in the network, can adapt our efforts to the needs of the regional market," concludes Cristián



By chance, Per Hellström ended up next to Sven Lindgren on a ski lift in Verbier, a meeting that led to the birth of BioGaia. Peter Rothschild in centre and Bo Möllstam at right.



In the mid-1990s BioGaia was reinforced with Lotta Johansson, customer support, and Margareta Hagman, who is still in charge of the figures.



# The first twenty years

Twenty years have now passed since BioGaia Biologics was founded. It has been an exciting, tough, surprising and enjoyable journey to reach the position the company holds today. Here below is a brief summary.

**LOOKING BACK**, it can sometimes seem like the development of a company is guided by chance, but it can also be a question of seizing the opportunities that arise along the way.

In jest, it is sometimes said that BioGaia was born thanks to a successful meeting on a ski lift in Verbier. Professor Sven Lindgren, one of Reuteri's discoverers, found himself beside Per Hellström, who at that time was working together with Jan Annwall and Peter Rothschild. Their problem was that the vegetables they were importing to Sweden from southern Europe did not survive the journey particularly well. Sven Lindgren told them about a lactic acid

bacterium that could perhaps be the solution to their problem.

Contact was established and it was discovered that this bacterium had many strings to its bow. It had also been shown to have positive effects on the health of both humans and animals.

Far away in a laboratory in Raleigh, North Carolina, a small team of research scientists were toiling away with *Lactobacillus reuteri* and a company had been formed to commercialise the use of the bacterium. Bo Möllstam was already working with Jan and Peter, and was given the task of preparing the due diligence documentation for a possible acquisition.

His report, which still exists,

“The message was that it would take a long time and cost a lot of money before the venture would be profitable.”

summed up clearly what awaited. The message was that it would take a long time and cost a lot of money before the venture would be profitable.

Nevertheless, a decision was made to start BioGaia Biologics with Jan and Peter as the principal owners together with a number of friends and acquaintances as joint financiers.

Initially, the main focus was on the animal side. With supplements of Reuteri, it would be possible to reduce the use of antibiotics in the chicken and turkey industry. The American market alone would generate revenue in the multi-millions if only the customers understood the advantages.

Parallel to this, the company started to look at the human

side, where Reuteri had a future as a supplement in what are known as Functional Foods.

On the home market, BioGaia developed a product of its own under its own brand name; “BRA milk” to begin with and later “BRA filmjolk”. However, because the Swedish market in the early 1990s was more or less a monopoly, BioGaia had to search for a supplier who stood slightly outside.

**IT WAS THE LITTLE** Falköping Mejeri that produced the BRA products, which were a success despite competition from the dairy giant Arla. Indeed, the concept was so successful that the Ica grocery retail chain became interested and acquired the concept and the brand, bringing a well needed cash infusion.

At the same time, BioGaia started to look for partners abroad in the Functional Food segment, and the first contracts were soon signed at the mid-1990s with ToniLait in Switzerland and Ingman in Finland.

BioGaia still had only a few employees – Peter living in France, Jan on site in Stockholm and Bo Möllstam at the laboratory in Raleigh. To give the company greater momentum, they realised that it was

necessary to consolidate their resources and create a better organisation. In addition, it was still not profitable and the idea of a stock market introduction began to take shape.

At this point BioGaia was strengthened with Lotta Johansson and soon after with Margareta Hagman, who immediately had to start preparing for introduction on the IM (Innovationsmarknaden) exchange in 1996. The year after, MultiFerm in Lund was acquired and was later shown to be a good deal.

The company's activities were still costing more than it was possible to invoice and the target became a listing on the larger



Bra milk and fermented milk challenged the monopoly.







Time to sign the papers to take over *Lactobacillus reuteri*. On the left Walter Dobrogosz, who "discovered" Reuteri together with Sven Lindgren, (centre), and Jan Annwall, (right).

stock exchange list, the O list, which also meant that it would be possible to attract more shareholders and more capital into the company. In 1998 BioGaia was quoted on the "real" stock exchange in Stockholm.

However, things were still not quite taking off. So in 2000 the company sat down for an in-depth discussion about the future and arrived at a number of decisive alternatives.

BioGaia decided to more or less leave the animal side, which had proven considerably more difficult to develop than expected. Instead, the focus was shifted to nutrition and dietary supplements, i.e. the route that led to the BioGaia of today. The next important decision was to start developing its own products and not only ingredients for the products of others, which had previously been the case.

Already the same year, a con-

tract was signed for probiotic tablets.

In 2000 BioGaia finances were considerably strengthened and this was the last time the company had to ask for support from the investors. The sale of Multiferm in 2002 also contributed to BioGaia's not needing to seek external capital.

Now, the results of the company's own product development started to emerge. LifeTop Straw was launched in 2002, probiotic drops came onto the market in 2004 and probiotic chewing gum was introduced a year later.

The decision to develop its own products was found to be correct and, as a natural result of this, the next important decision was now taken – to invest in launching the products under the BioGaia brand.

The company had now arrived at the year 2006 and the

long-awaited turnaround came. For the first time, BioGaia was able to earn money from its business activities. The curves reversed and began to point upwards. Three years later, they are still pointing in the same direction and the BioGaia brand is now represented on half of the markets where BioGaia is active.

Trying to predict what the company will look twenty years from now is impossible, just as impossible as it was for Jan Annwall and Peter Rothschild twenty years ago to know what could be achieved with the help of a small bacterium called *Lactobacillus reuteri*. □

**In 2000 BioGaia made a strategic decision to focus the business on dietary supplements for humans and on development of its own products. As a result of this and the decision to launch its own BioGaia brand, BioGaia now has a wide and successful product range.**



The boat carried guests to the restaurant at the Museum of Modern Art.

## Let's celebrate!

**IN JANUARY 2010** marked the 20th anniversary of BioGaia, an event that was celebrated with a full day of festivities.

In the morning a seminar was held to both review the ins and outs of Reuteri and shed light on the unknown chapters of BioGaia's history.

Research Director Eamonn Connolly served as moderator and gave a talk of his own. Professors Sven Lindgren and Bengt Björkstén guided the participants on an entertaining journey through the complex world of microbiology that attracted many laughs.

President Peter Rothschild's

address, titled "The Untold Story of BioGaia", was an irreverent retrospective stretching from his and Jan Annwall's first faltering steps into a whole new industry that had few similarities with their previous speciality in shipping and up to the present day.

In the evening, the guests had the chance to see Stockholm in its winter finery from the water. A boat excursion among the city's islands carried them to the party venue – the beautiful restaurant at the Museum of Modern Art. This was followed by dinner and a series of tributes, congratulatory speeches and speeches of gratitude. □



The film about BioGaia's history got many laughs.



Founders Annwall and Rothschild thanked everyone for their contributions to making BioGaia the successful company it is today.



# Jan intends to spend more time in his hammock

Jan Annwall leans back in the chair where he is seated in a conference room at BioGaia's headquarters in Stockholm. He has every reason to feel satisfied. The company's performance last year was good, you could even say excellent.

"It feels fantastic to be able to leave figures like this behind me. In 2010 the company is celebrating its 20th anniversary and it has taken many years of hard work for Peter and me to get where we are today," he says with some relief.

## Leave behind you?

"Yes, in fact, since I will be retiring on 1 April. No, it's not an April Fool's Day joke! Of course I will not be leaving the company completely but will be involved as a consultant and hopefully still serve on the Board."

## And what are you otherwise planning to do as a pensioner?

"I don't understand why so many people ask that question. I get the impression that people can only imagine one type of life, and that is to work. Of course, retirement will be a change from the role I have had as Deputy Managing Director and general keeper of order. But as a pensioner I am hoping to do a lot of travelling, I enjoy seeing new countries and places. I also want to spend more time in my hammock on Gotland."

Peter Rothschild and Jan Annwall started BioGaia in 1990, and in the 20 years that have passed since that time the company has shown impressive development. The initial intention was to focus the business on replacement of antibiotics in animal feed. But after a while the emphasis shifted to working

"I will be retiring on 1 April. No, it's not an April Fool's Day joke!"

JAN ANNWALL

with functional foods, which later led to the successful idea of marketing the company's own finished probiotic products. **It took 16 years for BioGaia to start making a profit. Did you ever doubt that you were on the right track?**

"No, well perhaps a little during the first year, but basically we never did. We had a long-term plan and knew that it would take time to both develop the products and introduce them onto the market. This meant that we were also expecting many years of losses. One thing that also increased our costs was that we were forced to have a

relatively large organisation in order to secure our long-term business objectives."

## Didn't the shareholders become anxious and demand some answers?

"At first, the only shareholders were ourselves and a few close friends, but after our stock market introduction in 1998 there were a number of people who were clearly becoming nervous. However, we were able to retain their confidence and continue pursuing our long-term plans."

## And then the turning point came in 2006?

"Yes, that's when we made a profit for the first time. It was fantastic, a confirmation of all our years of stubborn work. I have amused myself by looking at our operating cash flow over the years. In 2001 we had a negative cash flow of roughly SEK 50 million and in 2009 we had a positive cash flow of the same amount. At year-end 2009 we had net cash of SEK 100 million and no bank debts. I think that gives a good idea of the company's turnaround and position.

## And your success is growing and growing in terms of sales and profits?

"Yes, that's correct. The input to output ratio, or whatever you like to call it, has an increasing effect. We and our products are now represented in 36 countries and we have contracts with an equal number of new partners.

"Our current sales of over SEK 200 million are expected to continue increasingly strongly. But the point is that the costs of running the business are not rising to anywhere near the same extent. In 2009 our sales and gross profit improved by 40%, while our profit before tax increased by 120%. It looks very promising, and as a pensioner I



After 20 years of hard work, Jan Annwall looks forward to a slower pace.

will probably be able to live on the future dividends."

## What is your assessment of the probiotics market in general?

"In my opinion, the future looks bright. There are many positive signals and it is clear that the pharmaceutical companies are starting to take notice of probiotic products. We get a lot of enquiries from them.

"But I'm not worried about

competition, mainly because we have such strong research of our own and because our own Bio-Gaia brand accounts for almost a third of total sales.

"In fact, I think it would be good if the pharmaceutical companies entered our market. This would contribute to making probiotics better known and would significantly expand the total market, which would in turn benefit us." □

## Jan Annwall

**Name:** Jan Annwall

**Age:** Almost 60

**Family:** Married to Gunilla, with two children, Linda and Joakim, and two grandchildren

**Home:** Hammarby Sjöstad, Stockholm

**Education:** M.Sc. (Econ) and building engineer

**Business career:** Shipping, fruit trading, BioGaia

**Hobbies:** House on the island of Gotland, travel, books and soon golf

**Latest book read:** His bank book

**Latest film seen at a cinema:** Sherlock Holmes

**Latest opera/theatre:** Singing in the Rain

**My best quality:** Many ideas and rapid decisions

**My worst quality:** A lack of patience and sometimes too rapid decisions

**How I would like my friends to describe me:** Someone to rely on



# A strong defence

**OUTSIDE THE LIMELIGHT** and all the attention surrounding the profits and good margins of recent years, work is ongoing in one of the key areas of BioGaia's business. It is time to highlight the work on patents and other rights that protect BioGaia's interests all over the world.

This has been Bo Möllstam's area from the start, and the scope of his responsibilities has steadily grown in pace with the addition of new areas of use, new distribution forms and new markets.

## Why is this work so important for BioGaia?

"BioGaia has succeeded in becoming a world-leader in probiotic products and research, although we 'only' have about 40 employees. This is due not only to our very competent staff but also largely to our business model. You could say that we are a 'network company'. We are working with the top research scientists around the



Bo Möllstam works with BioGaia's patents.

world to understand new mechanisms and the use of different specific probiotic strains for various health indications. On the marketing side, our partners are selling BioGaia products or their own products with our

technology on an exclusive basis. This is a model that has enabled us to grow rapidly without incurring high costs.

"On both the research and marketing side, our business model requires strong positions in intellectual property, e.g. patents and trademarks, in order to function well."

## Is the patent work today different from when you started?

"Yes it is. Today, we talk more about IPR (Intellectual Property Rights) and this includes patents, trademarks, copyrights, etc. One major difference is that we are now selling more and more products under our own brand name. This, together with the patents, strengthens the protection of our business.

"Another aspect is that we are at the cutting edge with respect to new knowledge in the probiotics area, which means that we can find new and specific strains for different health indications.

This is creating opportunities for new, specific and strong patent positions."

## Are we talking about one patent in many countries, different patents in different countries or many patents in many countries?

"There are no global patents, so you have to apply for and hold patents in all of the countries where you want protection. This means that we apply for patents in all countries that we consider relevant for the business and where there is a functioning patent system. Since knowledge development in our industry has been very strong in recent years, it has been possible to protect new specific strains and indications or fields of application. Today, we have a young portfolio, with new patented strains in more countries than ever before."

## What is the current situation – are you maintaining the

## existing patents or expanding and gaining new ground?

"To the utmost degree it is a question of gaining new ground and exploiting our scientific advantage. We also seek to protect the new delivery methods that we are developing to make the products better for our customers. IPR and patents in particular are essentially a matter of building and protecting our business. In pace with our growth on all fronts, this work will gain importance in the future – there is quite simply more to be protected in more countries. □

## Facts

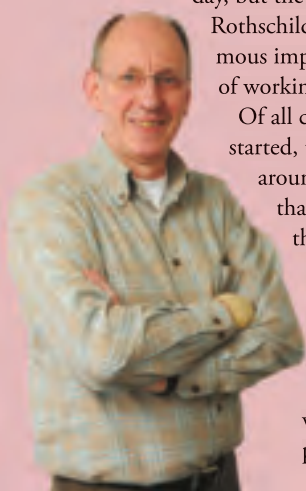
**PATENTS:** 31 families  
140 issued + 11 notices of allowance  
**TRADEMARKS:** 43 countries + EU  
**INTERNET DOMAINS:** 21 countries

## Karlsson's column

# A strong and vital culture

**IN THE PAST FEW YEARS** I have taken a close look at BioGaia while writing the annual report, and in the process I have gotten to know the business and nearly all of the employees fairly well.

I usually write a short reflection on the last page, but this year I decided to try and give my perspective on the attributes of BioGaia's founders, Jan Annwall och Peter Rothschild, and my explanation for why things have turned out the way they have. In this case, it's more a matter of corporate culture than a bacterial culture. Many people have contributed to making BioGaia the successful company it is today, but the team of Annwall and Rothschild has had an enormous impact through its way of working.



Of all companies that are started, they say that only around 25% survive. And that's keeping in mind that most companies are started by people who know what they are doing. I have no idea what the chances of survival are for a company started by people

who don't know the first thing about their intended business, and in an industry that is entirely new to them.

Janne and Peter knew pretty much all there is to know about shipping, but hardly anything about microbiology or bacteria. And yet it was a bacterium that was to be the backbone of the company. To be honest, it all seems a little unlikely.

I still don't think you could call them experts at microbiology after all these years, though you would have to ask Eamonn about that. But they have learned one thing along the way, and that is how to build and manage a company based on a bacterium.

From my outside perspective, I have identified four qualities that I think characterise BioGaia today.

## ENDURANCE

There is no doubt that you need endurance, determination and pure pigheadedness not to give up when you are confronted with losses year after year and the money is flowing out of the company in a torrent – sixteen consecutive years except for the year when the fermentation plant in Lund was sold. Then the curve shot skyward and the profits started rolling in.

## FRUGALITY

Bordering on stinginess according to some. You might suspect that the constant outflow of money

was the reason, but I would dare to say that it isn't any different today.

## CREATIVITY

Creativity doesn't mean inventing something entirely new, but finding new combinations and areas of use for things that already exist. Putting bacteria in a straw, storing bacteria in a cap – both are clearly creative solutions to find new distribution forms for Reuteri. I would also describe BioGaia's business model as highly creative – to succeed at doing business in some 40 countries with a roughly equal number of employees.

And last but not least, it has taken creativity to secure new funds to keep the ship afloat.

## UNPRETENTIOUS

You would have to search high and low for a more down-to-earth management! This is a quality I have seen throughout the organisation, and I know that many customers and partners would agree. I believe this attitude underlies the good atmosphere that is tangible in all contacts with BioGaia.

My simple analysis is that these four qualities not only exemplify Janne and Peter's leadership, but are also cornerstones of the entire corporate culture.

KJELL KARLSSON  
EDITOR

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## BIOGAIA IN BRIEF

- BioGaia was founded 1990 by Peter Rothschild and Jan Annwall.
- BioGaia is a biotechnology company that develops, markets and sells probiotic products.
- Probiotics = Live micro organisms which when administered in adequate amounts confer a documented health benefit (Source: WHO)
- BioGaia's mission is to make well-documented probiotics globally available through innovative and appealing supplements and food concepts.
- BioGaia's products are primarily based on different strains of the lactic acid bacterium *Lactobacillus reuteri* (Reuteri).
- 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's sells finished consumer products (tablets, drops and oral health products) to distributors, component products such as Reuteri cultures to licensees, which are used in infant and baby formula, and straws and caps with Reuteri.
- BioGaia's products are sold in some 50 countries worldwide and are normally registered as dietary supplements and in certain cases as pharmaceuticals.
- BioGaia holds patents for the use of Reuteri and certain delivery systems in all major markets.
- BioGaia's sales have increased by 38% per year on average over the past five years. Since 2006 the Company is profitable.
- BioGaia has 45 employees, of whom 19 are based in Stockholm, 19 in Lund, 3 in Raleigh, USA, and 4 in Hiroshima, Japan.
- The class B share of the Parent Company BioGaia AB is quoted on the Small Cap list of the NASDAQ OMX Nordic Exchange Stockholm.

## THE BIOGAIA BRAND

BioGaia's licensees add Reuteri culture to their products and sell these under their own brand names. On these products, the BioGaia brand is 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 distributors that sell BioGaia's finished products under the BioGaia brand in a large number of markets. One central part of BioGaia's strategy is to increase the share of sales consisting of BioGaia-branded products.

## RESEARCH AND CLINICAL STUDIES

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

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

## BIOGAIA 2009

### IMPORTANT EVENTS IN 2009

New sales agreements with:

- Ewopharma for the sale of tablets and drops in Serbia and Croatia.
- InfectoPharm for the sale of drops in Germany.
- Semper for the sale of probiotic oral rehydration solution in Sweden and Norway.
- Laboratoires BIOETHIC for the sale of tablets and drops in France.
- Pharma Nord for the sale of tablets and drops in Denmark.
- Aqua Scandik for the sale of LifeTop Cap with Reuteri in Mexico.

### LAUNCHES DURING 2009

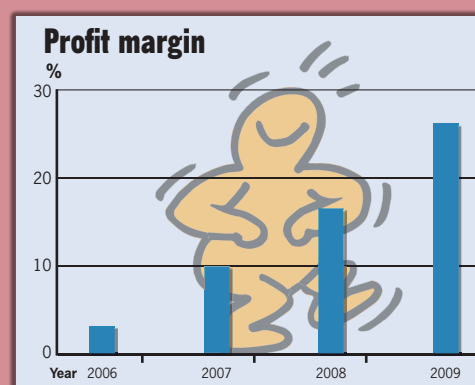
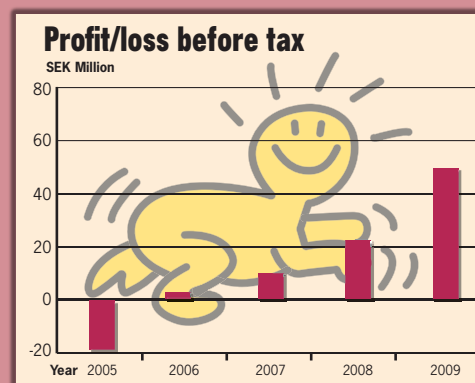
- **Biolife.** Single-portion sachet containing colostrum and Reuteri
- **Delta Medical.** Tablets in Ukraine, drops in Kazakhstan
- **Ewopharma.** Drops and tablets in Romania and Croatia.
- **Ferring.** Tablets in Mexico. Drops in Lebanon, Greece, Ireland and Saudi Arabia.
- **Laboratoires BIOETHIC.** Drops and tablets in France.
- **Neocare.** Drops and tablets in Belgium and Luxembourg
- **Nestlé.** Infant formula with Reuteri in France.
- **Semper.** Oral rehydration solution with Reuteri in Sweden
- **Tablets India.** Capsule with Reuteri in India.

### OTHER EVENTS IN 2009

- Study shows that BioGaia's Probiotic chewable tablets are effective in reducing diarrhoea caused by antibiotics.

### FINANCIAL PERFORMANCE IN 2009

- Net sales amounted to SEK 203.5 million, an increase of 40% compared to the previous year.
- Operating profit was SEK 47.7 million, an improvement of SEK 21.9 million compared to the previous year.
- Profit before tax was SEK 53.1 million, an increase of SEK 29.1 million compared to the previous year.



Profit before tax in relation to sales.



Annual report 2009

**BioGaia®**

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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 No 556380-8723, hereby submit their annual report and consolidated accounts for the financial year 2009. The financial statements were approved for publication by the Board of the Parent Company on 22 February 2010.

### BioGaia AB

#### The Company

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

BioGaia has 45 employees, of whom 19 are based in Stockholm, 19 in Lund, 3 in Raleigh, USA, and 4 in Hiroshima, Japan.

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

#### Business model

BioGaia's turnover consists mainly of revenue from the sale of finished consumer products (tablets, drops and oral health products) to distributors, but also of revenue from the sale of component products such as Reuteri cultures, straws and caps.

BioGaia's products are sold through nutritional, food, natural health and pharmaceutical companies in some 50 countries worldwide. In Sweden, BioGaia's products are sold under the brands Semper Magdroppar and Vätkeersättning and Gum PerioBalance lozenges in pharmacies, as well as Semper whole grain cereal and infant formula with active culture and Probiomax intestinal health tablets in grocery stores.

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

#### The BioGaia brand

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

Some of BioGaias 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 manufacturer and licensor.

At the end of 2005, BioGaia launched its own consumer brand and today there are a number of distributors that sell BioGaia's finished products under the BioGaia brand on a large number of markets. A central feature 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 the selection of different probiotics for the gastrointestinal system, the immune system and oral health. Extensive clinical studies have shown that BioGaia's various probiotic products:

- stimulate the human immune system,
- protect against gastrointestinal and respiratory tract infections,
- reduce the risk of side effects from antibiotic treatment,
- reduce the level of *H. pylori* infections,
- reduce the occurrence of infantile colic,
- reduce the risk of infection and improve the gastrointestinal function in prematurely born infants,
- reduce gum inflammation, plaque and the risk of dental caries.

### Key events in 2009

#### Sales contracts

Distributor/licensee	Product	Country
Biolife	Single-portion sachet containing colostrum and Reuteri	China
Delta Medcial	Tablets	Ukraine
Delta Medical	Drops	Kazakhstan
Ewopharma	Drops and tablets	Romania and Croatia
Ferring	Tablets	Mexico
Ferring	Drops	Lebanon, Greece, Saudi Arabia and Ireland
Laboratoires Bioetic	Drops and tablets	France
Neocare	Drops and tablets	Belgium and Luxembourg
Nestlé	Infant formula with Reuteri	France
Semper	Rehydration solution with Reuteri	Sweden
Tablets India	Capsule with Reuteri	India

#### Contract with Aqua Scandik

In January 2009, CapAble signed an agreement with the Mexican water company Aqua Scandik giving them the right to use LifeTop Cap with Reuteri. Aqua Scandik will launch water in three different flavours with Reuteri. The launch is expected to take place in 2010.

#### Pharmaceutical in India

BioGaia has an agreement with Tablets India Ltd. for the production and sale on the Indian market of products based on BioGaia's probiotics.

The first product launched on the Indian market in April 2009 was a capsule under the brand name Apylori Probiotic Capsules. The product is manufactured by Tablets India and is registered as a pharmaceutical that will be prescribed by physicians and distributed through pharmacies.

#### Distribution agreement with Ewopharma for Serbia and Croatia

In March, BioGaia extended its collaboration with the Swiss pharmaceutical company Ewopharma AG, giving the company exclusive rights to sell BioGaia's Probiotic drops and tablets under the BioGaia brand in Serbia and Croatia

#### Agreement with InfectoPharm

In June, BioGaia signed an exclusive distribution agreement for BioGaia's Probiotic drops with the German pharmaceutical company InfectoPharm. The product will be sold under the BioGaia brand and the launch is scheduled for 2010.

#### Agreement with Semper

At the end of June, BioGaia signed an agreement with Semper giving Semper exclusive rights to distribute a probiotic oral rehydration solution containing Reuteri in Sweden and Norway. The rehydration solution is administered in cases of diarrhoea and vomiting to quickly restore the body's salt and fluid balance. The probiotic rehydration solution is pre-mixed in a sachet and was launched in Swedish pharmacies in August 2009.



#### Agreement with Laboratoires BIOETHIC

In August, BioGaia signed a distribution agreement with the French company Laboratoires BIOETHIC. The agreement gives Laboratoires BIOETHIC exclusive rights to sell BioGaia's Probiotic drops and tablets in France. The products are sold under the BioGaia brand. The launch of BioGaia's Probiotic drops and tablets took place in the fourth quarter of 2009.

#### Extended agreements with Delta Medical and Ewopharma

In the third quarter of 2009, BioGaia signed extended agreements with Delta Medical and Ewopharma. The agreement with Delta Medical grants them the right to sell BioGaia's Probiotic drops and tablets in Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Turkmenistan and Uzbekistan. The agreement with Ewopharma grants them the right to sell BioGaia's Probiotic drops and tablets in Moldavia.

#### Agreement with Pharma Nord

BioGaia has signed an agreement with the Danish company Pharma Nord Aps which gives Pharma Nord exclusive rights to sell BioGaia's Probiotic tablets and drops in Denmark. The launch is expected to take place in the first half of 2010.

#### Other events in 2009

##### Study shows that BioGaia's Probiotic chewable tablets are effective in reducing diarrhoea caused by antibiotics

In a new double-blind, placebo-controlled clinical study, supplementation with BioGaia's Probiotic chewable tablets containing *L. reuteri* was effective in reducing the incidence of diarrhoea in hospitalised patients who were treated with antibiotics. The study, which was performed at the University Hospitals Case Medical Center in Cleveland, Ohio, USA, was presented by Cimperman and his colleagues at the Clinical Nutrition Week 2009 Conference held in New Orleans.

#### Personnel changes in BioGaia

Jan Annwall, Deputy Managing Director, one of the Company's founders, Chief Financial Officer and Board member of BioGaia AB, announced in September that he will leave his position in the company in connection with his 60th birthday in April 2010. After this date, Jan will be at the company's disposal on a consultant basis. Jan has declared that he will remain available for election as a Board member at the 2010 Annual General Meeting. BioGaia's Board of Directors has appointed Margareta Hagman och Urban Strindlöv as Deputy Managing Directors of the company as from 1 April 2010. Margareta will be responsible for accounting, finance and administration, while Urban will be responsible for product development and special business development projects.

#### Events after the end of the year

##### 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, a subsidiary of the major trading house Itochu. In addition to the distribution of food products through Nippon Access, Itochu also handles the distribution of pharmaceuticals to pharmacies via two different subsidiaries. The agreement covers food products and infant formula with Reuteri and BioGaia's primary products such as drops, oral health lozenges and Life Top Straw. Sales will be handled by BioGaia's Japanese subsidiary, which will also support Nippon Access's marketing of the products through the training of doctors, sales representatives and marketing staff and through participation in negotiations with companies that are interested in selling products with Reuteri. Under the agreement, the company hopes that BioGaia's products can be quickly launched on a large scale on the Japanese market via a number of distribution channels that were difficult to reach through the previous business model. The launch will take place in the second quarter of 2010.

This agreement does not affect the existing distributors in Japan, Erina, Chichiyasu and Earth Biochemical.

#### Financial development during 2009

##### Sales

Consolidated net sales amounted to SEK 203.5 million (145.2), an increase of 40% compared to the previous year. Of the sales increase, SEK 13.7 million is attributable to rises in the exchange rates for EUR and JPY compared to the previous year. Apart from the currency effect, the turnover increased by 31%. The period's exchange rate changes (mainly in EUR and JPY) increased both revenues and costs, resulting in a net gain of SEK 6.4 million.

The sales of BioGaia's finished consumer products in Europe accounted for most of the sales increase compared to the previous year. Of the total finished consumer products, 31% (21) were sold under the BioGaia brand.

##### Gross profits

The gross profits amounted to SEK 135.3 million (97.0), an improvement of SEK 38.3 million compared to the previous year.

##### Other operating expenses

Sales expenses rose by SEK 9.3 million over the previous year, due partly to increased marketing and PR activities and partly to higher personnel costs.

R&D expenses amounted to SEK 27 million (23.0), which is equal to 17% (19) of the total operating expenses and 13% (16) of the turnover. The rise in R&D expenses is due to a higher level of activity in clinical studies that began during the year, as well as increased product development costs. The amortisation component of R&D expenses amounted to SEK 3.0 million (3.4). Investments in capitalised development expenses amounted to SEK 0 (0).

##### Operating profits

The operating profits amounted to SEK 47.7 million (25.8), i.e. SEK 21.9 million more than in the previous year.

##### Profit before tax

The profit before tax was SEK 53.1 million (24), an increase of SEK 29.1 million over the previous year. Net financial items include an unrealised foreign exchange gain of SEK 4.5 million on forward exchange contracts in EUR. On 31 December 2009 the company had entered into forward exchange contracts for EUR 7.8 at an average exchange rate of SEK 10.70. Forward exchange contracts amounting to EUR 7.2 million will mature in 2010 and the remaining EUR 0.6 million in 2011. 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 on 31 December 2009 (10.32), a foreign exchange gain/loss will be recognised.

##### Profit after tax

The profit after reported tax was SEK 36.0 million (36.1), a decrease of SEK 0.1 million compared to the previous year. The profit for the year includes a reported tax expense of SEK 17.1 million relating to a change in the deferred tax asset. The profit for the previous year included a deferred tax benefit of SEK 12.1 million.

The Group pays no tax because of the existence of a cumulative loss carryforward. The Group's loss carryforwards on 31 December 2009 amounted to SEK 45.4 million, of which the Swedish companies accounted for SEK 15.6 million. The deferred tax asset amounts to SEK 4.1 million and is attributable to the Swedish companies. The reported tax expense is attributable to a change in the deferred tax asset.

##### Earnings per share

The earnings per share after tax amounted to SEK 2.11 (2.10). A total of 128,950 options have been subscribed for in BioGaia's ongoing incentive scheme. Since the share price at year-end exceeded the subscription price, the outstanding options are estimated to have a dilution effect. After dilution, the earnings per share are SEK 2.09. The profit for the year includes a reported tax expense of SEK 17.1 million pertaining to a change in the deferred tax asset. The profit for the previous year included a deferred tax benefit of SEK 12.1 million. The earnings per share before tax and dilution were SEK 3.09 (1.40).

##### Cash flow

The Group's cash and cash equivalents at 31 December 2009 totalled SEK 100.3 million (58.1).

The cash flow for the year was SEK 42.5 million (14.3), an improvement of SEK 28.2 million compared to the previous year.

The cash flow from operating activities before change in working capital was SEK 52.6 million (32.4), an increase of SEK 20.2 million compared to the previous year.

During the year, the Group has paid dividends of SEK 6.9 million and a conditional shareholder contribution of SEK 1.0 million to the associated company TwoPac.

##### Equity

The consolidated equity amounted to SEK 161.1 million (132.4). The Group's equity/assets ratio was 90% (86).

##### Capital expenditure

The capital expenditure on property, plant and equipment totalled SEK 2.9 million (2.4).

##### Parent Company

The Parent Company's turnover amounted to SEK 198.6 million (143.6) and the profit after net financial items was SEK 53.8 million (17.8). This figure includes an impairment loss of SEK 13.4 million (13.5) on receivables from the Japanese subsidiary. The profit after tax was SEK 36.2 million (29.5). The cash flow in the Parent Company amounted to SEK 41.3 million (12.8). The cash flow from investment activities includes a loan of SEK 12.2 million (10.6) to the Japanese subsidiary.

### Research and development activities

BioGaia has a large research network and cooperates with universities and hospitals around the world, including SLU in Uppsala, the Karolinska Institute in Stockholm, the Texas Children Hospital in USA, the University Hospital in Bari, Italy and the University Hospital in Turin, Italy. The research includes studies of the Reuteri genome and how it is linked to the function and effects of the bacterium. In addition, the company is seeking to identify and develop new probiotic lactic acid bacteria with a potential for a number of applications in human beings and is carrying out clinical trials of its products and new probiotics.

The research and development costs amounted to SEK 27,0 (23,0) million which is 17 (19) per cent of the total operating costs and 13 (16) per cent of the turnover. The increase in the research and development costs is due to an increased activity with respect to clinical studies which began during the year and also to an increase in product development costs. These costs included impairment costs amounting to SEK 3,0 (3,4) million. Investments in balanced costs for development work amounted to SEK 0 (0).

For further information see note 13.

### Reporting of clinical studies

The 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 in an accepted clinical trials register before the onset of patient enrolment, and this is now becoming a prerequisite for publication of trial outcomes in major medical journals. Clinical-Trials.gov is a register of clinical trials provided by the U.S. National Institutes of Health, and BioGaia encourages all doctors 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 in the scientific literature. When clinical trial results do become available, BioGaia will report these through press releases if such results are of significant importance for its operations.

### Environmental information

BioGaia contributes to a positive development in the environmental sector through its ecological commitment. The micro-organisms used by the company are natural and are normally present in human beings. The modes of action of the micro-organisms are fully based on ecological biological principles. Human health requires a balance in the body's different systems. An imbalance rapidly leads to a deterioration in the body's immune system. An ecological biological approach is thus the foundation of the company's activity.

BioGaia manufactures no products itself and can therefore to only a limited degree control the manufacturing procedures. In addition, BioGaia's products are sensitive to temperature, moisture and oxygen, and this can make special demands on the packaging materials used for BioGaia's products. Within these limitations, the company seeks to use suppliers, materials and manufacturing methods which have as little effect as possible on the environment.

BioGaia decided during 2008 to review the effects of its business on the climate, and during 2009, cooperation has begun with IVL, the Swedish Environmental Research Institute. The first task is to calculate and compare the environmental effects of the company's different packages. This will mean that it will be possible to include an environmental perspective in the choice of new packaging or in changes in the existing materials.

The company has no reporting obligation.

### 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 importance for future development.

#### The Japanese venture

The business model previously chosen in Japan was not successful. Measures have now been taken to change the business model (see above). On the closing day, the assets relating to the Japanese company are reported as amounting to SEK 5,0 million. The company's assessment is that there is no indication to write down these assets.

#### Shares in associated companies and receivables from associated companies

Shares in associated companies (TwoPac AB) and receivables from associated companies amount to a total of SEK 13,8 million in the Group and in the Parent Company. TwoPac's profits in 2009 amounted to SEK 1,1 million. TwoPac AB's primary activity is the development of product machinery and the manufacture of BioGaia's probiotic drops, straws and LifeTop Caps on behalf of BioGaia. BioGaia's assessment is that TwoPac will continue to show a good profitability and that there is no need for any write-down on the closing day.

#### Shares in group companies

The shares in and receivables from the subsidiary CapAble amount to a total of SEK 5,8 million in the Parent Company. CapAble reports a loss of SEK 2,3 million for 2009. CapAble, which is owned to 90,1 % by BioGaia AB was created in November 2008 in order to manufacture and sell the patented LifeTop Cap

capsule. In this capsule, sensitive ingredients that do not survive in the drink can be placed in an aluminium blister which is sealed into the capsule. When the drink is consumed, these ingredients are released and fall into the drink. The capsule was initially developed to contain lacto acid bacteria but it is also suitable for vitamins and minerals. The plastic components are purchased from BeriCap in France and the filling and sealing of the blister is carried out by TwoPac AB in Eslöv. Since it started, CapAble has primarily sought to complete the production equipment, trim the production and supply small quantities to a few customers. BioGaia's assessment is that CapAble will generate good profitability and that there is no need for any write-down on the closing day.

### Dependence on Reuteri

Most of the products are based on the positive effects of using *Lactobacillus reuteri*. This creates advantages for the Company, since for example the research and development are applicable to various products. However, there can be risks in relying on a single species of lactobacilli. To avoid this risk, the Company has developed new probiotic strains from other lactobacillus families that will be a part of the future product range if these development efforts are successful.

### Products on the market

BioGaia does not sell directly to the end-use consumer, but instead sells primarily to major companies which then market the products to consumers. This means that the Company is dependent on their customer's confidence in the products and their willingness to invest the resources necessary to attain profitability. In order to reduce this dependence, BioGaia's own brand was launched in 2005. Today, there are a number of customers that sell products wholly or partly under the BioGaia brand in a large number of countries.

### Research and development

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

### Intellectual property

BioGaia's business activities are based on a large amount of intellectual property including patents, brand trademarks, names of strains and internet domains. The Company works continuously to strengthen its intellectual property to protect the use of the company's products.

There is always a risk of infringement of intellectual property, but the Company is not currently engaged in any dispute. The Company continuously monitors its rights, but there is no guarantee that future infringements will not cause the Company damage. The Company continuously monitors the market.

### Personnel

The Company's most valuable resource is its employees. Its operations are totally dependent on their expertise, and consequently it is vital for the Company's development to be able 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 and up to a maximum of SEK 120 million annually. The insurance is valid worldwide.

### Financial risk management

The overall objective of the Group's finance function is to secure a cost-effective financing of 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 the financial risk management is to minimise the risk of 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 and expenses primarily in SEK, EUR, USD and DKK. In 2009 the Company had a cash flow surplus of approximately EUR 10,200,000 (6,600,000), a cash flow deficit of USD 340,000 (440,000) and a cash flow surplus of DKK 1,300,000 (3,400,000). The increase in sales has also led to increased currency risks, for which reason the company has taken currency hedges in EUR. As per 31 December 2009 the Company had forward exchange contracts for a total of EUR 7,8 million at an average exchange rate of SEK 10,70, of which EUR 7,2 million mature in 2010 and EUR 0,6 million in 2011. For more information, see Note 20.

#### Interest rate risk

The Group has no interest rate risk.

#### Credit risk

BioGaia's credit risks are attached to trade receivables and loans to associated companies and, for the Parent Company, also a loan to a subsidiary. When signing agreements with new customers, BioGaia always makes an assessment of the customer's financial position. The company has routines for claiming receivables due and if necessary makes a new evaluation of a company's financial status in order to minimise the risks.



The loan to the associated company TwoPac AB has been primarily used to develop equipment for the production of delivery systems (BioGaia's probiotic straw and LifeTop Cap). TwoPac's primary operations are the development of production equipment and the manufacture 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.

The loan from the Parent Company to the subsidiary CapAble AB has been used for the purchase of a machine for the manufacture 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 2009 BioGaia had a positive cash flow from operating activities before changes in working capital, amounting to SEK 52.6 million (32.4). After changes in working capital, the cash flow was SEK 53.3 million (19.2). The total cash flow for the year was SEK 42.5 million (14.3). Since the cash and cash equivalents as per 31 December 2009 amounted to SEK 100.3 million (58.1) and the cash flow is positive, no infusion of capital is necessary.

#### Price risk

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

#### Personnel

The number of employees in the Group on 31 December 2009 was 45 (42), consisting of 27 women and 18 men. The management team includes 8 men and 2 women. In 2009, three new employees were hired and no one resigned from the Company.

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

In June 2007, BioGaia carried out an options programme approved by the AGM. A total of 128 950 options were subscribed for by the employees (of which 27 000 by the management), which led to a dilution of ca. 0.7% on the total number of shares and ca. 0.5% on the total number of votes. Each option grants 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. The option price was calculated according to the customary valuation method (Black & Scholes model) and amounted to SEK 5.32 per option, which meant that the employees subscribed for the options on market-based terms. In the valuation in accordance with the Black & Scholes model, a volatility of 30% and a risk-free interest rate of 3.92% were used.

#### Future outlook

BioGaia's goal is to create a strong value growth and a good return for the shareholders. This shall 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 to achieve a sustainable profit margin (profit before tax in relation to total turnover) of at least 25% with a 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 the profits after paid tax.

During 2010, product launches are expected to take place in a large number of countries.

In view of the Company's strong product 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, the future outlook for BioGaia is bright.

#### The Board's proposal to the AGM regarding remuneration and other conditions of employment of senior executives

The Board proposes that the AGM shall approve the following guidelines for the determination of the remuneration and other conditions of employment for senior executives within the Group. The principles shall apply for employment contracts entered into after the decision of the AGM and in so far as amendments are made to existing conditions after this date.

It is of fundamental importance for the Board that the principles for remuneration and other conditions of employment for senior executives in the Group shall in a long-term perspective motivate and make it possible to retain competent colleagues who work to achieve the maximum value for shareholders and customers. To achieve this, it is important to maintain just and internally balanced conditions which are at the same time market-based and competitive with regard to structure, scope and remuneration level. The full packet of conditions for individual persons should contain a suitable balance of fixed salary, variable remuneration, long-term incentives, pension benefits and other benefits and conditions for notice and severance compensation.

**Fixed salary** – The fixed salary shall be individual and based both upon each individual person's responsibility and role and upon that person's competence and experience in the position concerned.

**Variable remuneration** – The variable remuneration shall be not more than 10 % of the total remuneration.

**Long-term incentives** – The Board shall annually consider whether a share-related or share-price-related long-term incentive programme shall be put before the AGM. Other types of long-term incentive programme can be decided upon by the Board. Any compensation in the form of a long-term incentive programme shall be in line with current practice on the respective markets.

**Pensions** – Senior executives who are entitled to a pension shall have a fee-based pension agreement. Senior executives who are Swedish citizens retire at the age of 65 years, and others in accordance with their own country's pension regulations. The final pension is dependent on the result of the pension insurance taken out.

**Other benefits** – Other benefits shall have a limited value in relation to the other compensation and shall conform to what is customary on the respective geographical markets.

**Conditions of notice and severance compensation** – The Managing Director and the Company have a mutual period of notice of 18 months. If the Company dismisses the Managing Director, he shall be entitled to a salary during a termination period of 18 months. The Company's Deputy Managing Director(s) shall have a corresponding period of notice of six months, and other senior executives three months.

The Board propose that the Board shall be granted the possibility to depart from these proposed guidelines if there should in any particular case be special reasons for so doing.

Further information relating to payments to senior executives is given in Note 5.

#### The most recently approved guidelines regarding remuneration and other conditions of employment for senior executives

The guidelines proposed to the AGM (see above) are in agreement with the most recently approved guidelines except that the item relating to variable remuneration has been added and that the period of notice for the company's Deputy Managing Director(s) has been changed.

#### Corporate governance

BioGaia has issued a separate corporate governance report, see page 26.

#### Share information

The total registered share capital of BioGaia AB consists of 740,668 class A shares and 16,466,894 class B shares, giving a total of 17,207,562 shares. One class A share carries 10 votes and one class B share carries 1 vote. The number of shareholders as per 31 December 2009 was 7,328 (6,596). The largest shareholder is Annwall & Rothschild Investment AB which controls 11.6% of the share capital and 36.3% of the votes. For more information, see page 28-29.

#### International Financial Reporting Standards

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 International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Commission for application in the EU. For more information, see pages 10-12.

#### Proposed appropriation of profits

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

Accumulated profits brought forward:	22,589,289
Profit for the year:	36,196,273
Total:	58,785,562

#### The Board of Directors proposes the following appropriation:

To be paid as a dividend to the shareholders:	25,811,343*)
To be carried forward to a new account:	32,974,219
Total:	58,785,562

\*) The proposed dividend consists of an ordinary dividend of SEK 0.90 per share, and taking into consideration the good liquidity and the strong balance sheet, an extra dividend of SEK 0.60 per share, which gives a total dividend of SEK 1.50 per share.

## Group

### Income statements

SEK 000s	Note	2009	2008	2007
Net sales	2,3	203,461	145,190	106,580
Cost of goods sold		-68,151	-48,234	-35,122
<b>Gross profit</b>	2	<b>135,310</b>	96,956	71,458
Other operating income	4	750	4,059	1,691
Selling expenses	5	-52,906	-43,617	-37,739
Administrative expenses	5,6	-8,996	-8,193	-7,487
Research and development expenses	5,13	-27,000	-23,030	-17,938
Share in result of associated company	7	590	-334	-1,103
<b>Operating profit</b>	8	<b>47,748</b>	25,841	8,882
Financial income	9	5,428	2,744	1,882
Financial expenses	10	-63	-4,555	-75
<b>Net financial items</b>		<b>5,365</b>	-1,811	1,807
<b>Profit before tax</b>		<b>53,113</b>	24,030	10,689
Tax	11	-17,068	12,091	8,970
<b>PROFIT FOR THE YEAR</b>		<b>36,045</b>	36,121	19,659
<b>Other comprehensive income</b>				
Gains and losses arising on translation of the financial statements of foreign operations:		-464	1,290	36
<b>Comprehensive income for the year</b>		<b>35,581</b>	37,411	19,695
Attributable to:				
Owners of the Parent Company		36,310	36,121	19,659
Minority interests	12	-265	-	-
		<b>36,045</b>	36,121	19,659
Comprehensive income for the period attributable to:				
Owners of the Parent Company		35,846	37,411	19,695
Minority interests		-265	-	-
		<b>35,581</b>	37,411	19,695

### Earnings per share

Basic earnings per share, SEK	2.11	2.10	1.14
Diluted earnings per share, SEK	2.09	2.10	1.14
Basic earnings per share before tax, SEK	3.09	1.40	0.62
Diluted earnings per share before tax, SEK	3.06	1.40	0.62
Number of shares, thousands	17,208	17,208	17,208
Average number of shares, thousands	17,208	17,208	17,208
Number of outstanding warrants, thousands	129	129	-
Number of outstanding warrants with a dilutive effect, thousands	129	-	-
Average number of shares after dilution, thousands	17,337	17,208	17,208

### Cash flow statements

SEK 000s	Note	2009	2008	2007
<b>Operating activities</b>				
Operating result		47,748	25,841	8,882
<i>Adjustments for non-cash items</i>				
Depreciation/amortisation		4,144	4,260	3,979
Capital gains/losses on the sale of non-current assets		-	7	-
Share in result of associated company		-590	334	1,103
Other non-cash items		208	-407	-12
		<b>51,510</b>	30,035	13,952
Interest received		1,186	2,435	1,882
Interest paid		-60	-54	-75
<b>Cash flow from operating activities before changes in working capital</b>		<b>52,636</b>	32,416	15,759
<i>Cash flow from changes in working capital</i>				
Inventories		5,799	-8,381	-4,326
Current receivables		-6,944	-5,916	-5,987
Trade payables		2,124	599	-488
Current interest-free operating liabilities		-325	486	130
<b>Cash flow from operating activities</b>		<b>53,290</b>	19,204	5,088
<b>Investing activities</b>				
Purchase of intangible assets	13	-	-	-
Purchase of tangible assets	14	-2,895	-2,373	-2,005
Sale of tangible assets	14	-	19	-
Purchase of financial assets	15	-1,000	-2,600	-1,500
Net change of long-term receivables		14	-12	989
<b>Cash flow from investing activities</b>		<b>-3,881</b>	-4,966	-2,516
<b>Financing activities</b>				
New share issue warrants		-	-	686
New share issue CapAble AB	15	-	99	-
Dividend		-6,883	-	-
<b>Cash flow from financing activities</b>		<b>-6,883</b>	99	686
<b>CASH FLOW FOR THE YEAR</b>		<b>42,526</b>	<b>14,377</b>	3,258
<b>Cash and cash equivalents at beginning of year</b>		<b>58,127</b>	42,977	39,719
Exchange difference in cash and cash equivalents		-326	813	-
<b>Cash and cash equivalents at end of year</b>		<b>100,327</b>	58,127	42,977



## Balance sheets

SEK 000s	Note	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	13	2,285	5,050	8,199
Tangible assets	14	5,424	3,936	2,617
Participations in associated company	15, 29	9,441	7,851	5,585
Receivables from associated company	16, 19, 23, 29	4,400	4,400	4,400
Deferred tax asset	11	4,100	21,100	9,000
Deposits		31	47	27
<b>Total non-current assets</b>		<b>25,681</b>	<b>42,384</b>	<b>29,828</b>
<b>Current assets</b>				
Inventories	17	13,177	19,168	10,029
Trade receivables	18, 23	28,721	28,844	17,869
Receivables from associated company	19, 23	–	–	85
Other receivables	20	5,648	2,133	1,765
Prepaid expenses and accrued income	21	6,180	3,570	7,600
Current investments	22, 23	80	80	620
Cash and cash equivalents	23	100,327	58,127	42,977
<b>Total current assets</b>		<b>154,133</b>	<b>111,922</b>	<b>80,945</b>
<b>TOTAL ASSETS</b>		<b>179,814</b>	<b>154,306</b>	<b>110,773</b>

## Balance sheets

SEK 000s	Note	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	24	17,208	17,208	17,208
Other contributed capital		77,701	77,701	212,091
Reserves		947	1,411	121
Accumulated deficit		29,118	–120	–154,169
Profit for the year attributable to owners in the Parent Company		36,310	36,121	19,659
<b>Total equity attributable to owners in the Parent Company</b>		<b>161,284</b>	<b>132,321</b>	<b>94,910</b>
Minority interests	12, 15	–166	99	–
<b>Total equity</b>		<b>161,118</b>	<b>132,420</b>	<b>94,910</b>
<b>Liabilities</b>				
<i>Current liabilities</i>				
Prepayments from customers	23	432	999	1,532
Trade payables	23	8,100	6,607	6,032
Liabilities to associated company	19, 23	664	53	–
Other liabilities	25	864	5,625	796
Accrued expenses and deferred income	26	8,636	8,602	7,503
<b>Total current liabilities</b>		<b>18,696</b>	<b>21,886</b>	<b>15,863</b>
<b>Total liabilities</b>		<b>18,696</b>	<b>21,886</b>	<b>15,863</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>179,814</b>	<b>154,306</b>	<b>110,773</b>
<b>Pledged assets and contingent liabilities in the Group</b>				
	27			

## Statement of changes in equity

SEK 000s	Share capital	Other contributed capital	Translation reserve	Accumulated deficit incl. profit of the year	Equity attributable to owners in the Parent Company	Minority interests	Total equity
<b>Opening balance January 1, 2007</b>	17,208	211,405	86	-154,169	74,530	0	74,530
New issue of warrants		686			686		686
<b>Total transactions with owners</b>	0	686	0	0	686	0	686
<b>Profit for 2007</b>				19,659	19,659		19,659
<b>Other comprehensive income</b>							
Translation difference			35		35		35
<b>Comprehensive income for the year</b>	0	0	35	19,659	19,694	0	19,694
<b>Closing balance December 31, 2007</b>	17,208	212,091	121	-134,510	94,910	0	94,910
Appropriation of accumulated deficit		–134,390		134,390	0		0
New share issue CapAble AB					0	99	99
<b>Total transactions with owners</b>	0	–134,390	0	134,390	0	99	99
<b>Profit for 2008</b>				36,121	36,121		36,121
<b>Other comprehensive income</b>							
Translation difference			1,290		1,290		1,290
<b>Comprehensive income for the year</b>	0	0	1,290	36,121	37,411	0	37,411
<b>Closing balance December 31, 2008</b>	17,208	77,701	1,411	36,001	132,321	99	132,420
Dividend				–6,883	–6,883		–6,883
<b>Total transactions with owners</b>	0	0	0	–6,883	–6,883	0	–6,883
<b>Profit for 2009</b>				36,310	36,310	–265	36,045
<b>Other comprehensive income</b>							
Translation difference			–464		–464		–464
<b>Comprehensive income for the year</b>	0	0	–464	36,310	35,846	–265	35,581
<b>Closing balance December 31, 2009</b>	17,208	77,701	947	65,428	161,284	–166	161,118

## Parent Company

### Income statements

SEK 000s	Note	2009	2008	2007
Net sales	2,3	198,567	143,586	107,034
Cost of goods sold		-63,793	-47,211	-35,827
<b>Gross profit</b>	2	<b>134,774</b>	96,375	71,207
Selling expenses	5	-38,870	-36,035	-30,141
Administrative expenses	5,6	-8,918	-8,167	-7,488
Research and development expenses	5,13	-27,278	-23,042	-17,784
Other operating income	4	750	4,059	1,691
<b>Operating profit</b>	8	<b>60,458</b>	33,190	17,485
<i>Result from financial investments</i>				
Result from participations in associated company	7,15	590	-334	-1,103
Result from participations in group companies	15	-	-569	-
Write-down of receivable from subsidiary	16	-13,446	-13,467	-9,424
Interest income and similar profit/loss items	9	6,263	3,545	2,152
Interest expense and similar profit/loss items	10	-59	-4,553	-66
<b>Net financial items</b>		<b>-6,652</b>	-15,378	-8,441
<b>Profit before tax</b>		<b>53,806</b>	17,812	9,044
Tax	11	-17,610	11,660	9,000
<b>PROFIT FOR THE YEAR</b>		<b>36,196</b>	29,472	18,044

### Cash flow statements

SEK 000s	Note	2009	2008	2007
<b>Operating activities</b>				
Operating profit		60,458	33,190	17,485
<i>Adjustments for non-cash items</i>				
Depreciation/amortisation		3,792	4,141	3,902
Capital gains/losses on the sale of non-current assets		-	7	-
Other non-cash items		208	-407	-8
		<b>64,458</b>	36,931	21,379
Interest received		1,179	2,419	2,152
Interest paid		-58	-52	-66
<b>Cash flow from operating activities before changes in working capital</b>		<b>65,579</b>	39,298	23,465
<i>Cash flow from changes in working capital</i>				
Inventories		4,874	-8,041	-3,808
Current receivables		-5,459	-7,007	-7,089
Trade payables		1,837	1,686	-1,229
Current interest-free operating liabilities		-108	3,234	1,552
<b>Cash flow from operating activities</b>		<b>66,723</b>	29,170	12,890
<b>Investing activities</b>				
Purchase of intangible assets	13	-	-	-
Purchase of tangible assets	14	-2,323	-2,311	-1,827
Sale of tangible assets	14	1,022	19	-
Purchase of financial assets	15	-4,000	-3,501	-1,500
Payment of loan to subsidiary	16	-13,245	-10,595	-7,794
Decrease of non-current receivables		-	-	1,000
<b>Cash flow from investing activities</b>		<b>-18,546</b>	-16,388	-10,121
<b>Financing activities</b>				
New share issue warrants		-	-	686
Dividend		-6,883	-	-
<b>Cash flow from financing activities</b>		<b>-6,883</b>	-	686
<b>CASH FLOW FOR THE YEAR</b>		<b>41,294</b>	12,782	3,455
<b>Cash and cash equivalents at beginning of year</b>		<b>55,293</b>	42,103	38,640
Exchange difference in cash and cash equivalents		-208	408	8
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>96,379</b>	55,293	42,103



## Balance sheets

SEK 000s Note 31 Dec. 2009 31 Dec. 2008 31 Dec. 2007

### ASSETS

#### Non-current assets

<i>Intangible assets</i>	13			
Capitalised development expenditure		2,285	5,050	8,199

**Total intangible assets** 2,285 5,050 8,199

#### *Tangible assets*

	14			
Production equipment		367	1,105	1,166
Office equipment and computers		3,488	2,476	1,121

**Total tangible assets** 3,855 3,581 2,287

#### *Financial assets*

Participations in group companies	15	7,469	4,469	4,137
Participations in associated company	15,29	9,441	7,851	5,585
Receivables from group companies	16,19,29	1,022	–	1,325
Receivables from associated company	16,19,23,29	4,400	4,400	4,400
Deferred tax asset	11	3,050	20,660	9,000

**Total financial assets** 25,383 37,380 24,447

**Total non-current assets** 31,522 46,011 34,933

#### Current assets

Inventories	17	12,357	17,231	9,191
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#### Current receivables

Trade receivables	18	26,624	27,832	17,743
Receivables from group companies	19	884	553	–
Receivables from associated company	19	–	–	85
Other receivables	20	4,972	1,938	1,426
Prepaid expenses and accrued income	21	5,995	3,383	7,327

**Total current receivables** 38,475 33,706 26,581

Current investments	22	80	80	620
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Cash and cash equivalents		96,379	55,293	42,103
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**Total current assets** 147,291 106,310 78,495

**TOTAL ASSETS** 178,813 152,321 113,428

## Balance sheets

SEK 000s Note 31 Dec. 2009 31 Dec. 2008 31 Dec. 2007

### EQUITY AND LIABILITIES

#### Equity

<i>Restricted equity</i>	24			
Share capital		17,208	17,208	17,208
Statutory reserve		77,000	77,700	211,405

**94,908** 94,908 228,613

#### *Non-restricted equity/Accumulated deficit*

Share premium reserve		–	–	686
Accumulated deficit		22,589	–	–152,435
Profit for the year		36,196	29,472	18,044

**58,785** 29,472 –133,705

**Total equity** 153,693 124,380 94,908

#### Liabilities

##### *Current liabilities*

Prepayments from customers		432	999	1,532
Trade payables		7,751	6,525	4,892
Liabilities to associated companies	19	664	53	–
Liabilities to group companies	19	8,504	7,962	3,803
Other liabilities	25	660	5,452	761
Accrued expenses and prepaid income	26	7,109	6,949	7,532

**Total current liabilities** 25,120 27,941 18,520

**Total liabilities** 25,120 27,941 18,520

**TOTAL EQUITY AND LIABILITIES** 178,813 152,321 113,428

#### Pledged assets and contingent liabilities for the Parent Company

Floating charges	27	2,000	2,000	2,000
Contingent liabilities		None	None	None

## Statement of changes in equity

SEK 000s	Share capital	Statutory reserve	Share premium reserve non-restricted	Accumulated deficit incl. profit for the year	Total equity
<b>Opening balance January 1, 2007</b>	17,208	211,405	0	–152,435	76,178
New issue of warrants			686		686
Profit for 2007				18,044	18,044
<b>Closing balance December 31, 2007</b>	<b>17,208</b>	<b>211,405</b>	<b>686</b>	<b>–134,391</b>	<b>94,908</b>
Appropriation of accumulated deficit		–133,705	–686	134,391	0
Profit for 2008				29,472	29,472
<b>Closing balance December 31, 2008</b>	<b>17,208</b>	<b>77,700</b>	<b>0</b>	<b>29,472</b>	<b>124,380</b>
Dividend				–6,883	–6,883
Profit for 2009				36,196	36,196
<b>Closing balance December 31, 2009</b>	<b>17,208</b>	<b>77,700</b>	<b>0</b>	<b>58,785</b>	<b>153,693</b>

## 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 Standards and Laws

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and the interpretations published by the International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the European Commission for application in the EU. In addition, the Swedish Financial Reporting Board's recommendation RFR 1.2, Supplementary Rules for Consolidated Financial Statements, has been applied.

The Parent Company applies the Swedish Financial Reporting Board's recommendation RFR 2.2 Accounting for Legal Entities, i.e. the same accounting principles as the Group except in those cases where the Parent Company's compliance with the Swedish Companies Act limits the applicability of IFRS in the Parent Company.

#### *Standards, amendments and interpretations effective in 2009 that have affected the Group's disclosures*

The revised IAS 1, Structuring of financial reports, has been applied from 1 January 2009. The change means e.g. that the earnings and expenses which were previously reported directly against the equity, and which are not assignable to owner transactions are now shown in connection with the income statement.

IFRS 8, Operating segments, has been applied from 1 January 2009. This standard means that the reporting of the operating segments is adapted to the reporting which the management uses internally for the follow-up of its activities. The application of IFRS 8 has meant that the division into segments has been changed so that it now comprises the following operating segments:

*Finished consumer products:* Sales of tablets, drops and oral health products, etc.

*Component products:* Royalty income from the use of Reuteri, sales of cultures as an ingredient in licensee products (such as infant formula and dairy products), and sales of LifeTop Straw and Life Top Cap.

*Other sales:* (Animal Health, etc.)

This application has had no effect on the Group's result, financial situation, cash flow or change in equity.

Other changes and interpretations which have come into effect in 2009 have had no effects on the Group.

#### *Standards and interpretations that have not yet become effective but that may affect the Group in the future*

\* **IAS 27** *IAS 27 Consolidated financial statements and accounting for investments in subsidiaries – changes*  
The changes explain under what conditions a company shall prepare consolidated financial statements, how a parent company shall report changes in its ownership of a subsidiary and how losses in a subsidiary shall be distributed between companies with and without a controlling interest.

\* **IFRS 3** *IFRS 3 Business combinations – changes*  
The changes mean that a large number of acquisition transactions will be considered to be business acquisitions, that transaction costs shall be reported as a cost etc. Principles and rules have been established for how an acquirer in connection with a business acquisition shall report and value the various elements associated with the acquisition.

Other changes and interpretations that have not yet become effective have been assessed as not be relevant for the group.

#### 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 consist essentially of amounts that are expected to be recovered or settled more than 12 months after the closing date. Current assets and current liabilities consist essentially 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 that the management exercise its judgment in the process of applying the Company's accounting policies. The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 29.

#### Scope of consolidation

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

The consolidated financial statements have been prepared in accordance with the purchase method, which means that 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. The Group's cost of acquisition for the investment in the subsidiary is determined through a purchase price allocation in connection with the acquisition. The cost of the acquisition is calculated as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. 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 on consolidation.

## Foreign currencies

### Functional currency

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

### Transactions

Transactions in foreign currency are translated to the functional currency at the rate of exchange applicable on the transaction date. Monetary assets and liabilities in foreign currency are translated to the functional currency at the closing day rate. Foreign exchange gains/losses arising on translation are recognized in the income statement. Non-monetary assets and liabilities carried at cost are translated at the rate of exchange applicable on the transaction date. Non-monetary assets and liabilities carried at fair value are translated to the functional currency at the rate of exchange applicable on the date when the fair values were determined. Foreign exchange differences arising on operating receivables and liabilities are recognized in operating profit, while exchange differences arising on financial assets and liabilities are recognized among net financial items.

### Financial statements of foreign operations

Assets and liabilities in foreign operations are translated from the functional currency of the foreign operation to the Group's reporting 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 published quarterly. Translation differences arising on translation of foreign operations are recognized directly in the consolidated equity as a translation reserve.

### Net investments in foreign operations

Exchange differences arising on translation of long-term loans that form part of the net investment in a foreign operation are deferred to a translation reserve in equity.

## Associated companies

Associated companies are those companies in 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

Since 2003, the Company has had only one business area, Animal & Human Health, consisting of the Human Health and Animal Health marketing units. As from 1 January 2009, the Group has implemented IFRS 8 Business segments. The Group management has analysed the Group's internal reporting and has established that the Group's activity is governed and evaluated on the basis of the following segments:

*Finished consumer products:* Sales of tablets, drops and oral health products, etc.

*Component products:* Royalty income from the use of Reuteri, sales of cultures as an ingredient in licensee products (such as infant formula and dairy products), and sales of LifeTop Straw and Life Top Cap.

*Other sales:* (Animal Health, etc.)

## Revenue

BioGaia's gross 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 infant formula and dairy products), revenue from the sale of Reuteri cultures for use in licensee products and revenue from the sale delivery systems such as straws and caps.

Revenue from the sale of goods is recognised when the amount can be measured in a reliable manner, when it is probable that the economic benefits will flow to the Company and when the criteria have been met for delivery in accordance with the 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 on a monthly or quarterly basis. License revenue received in connection with the signing of agreements is accrued in cases where it is 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, in so far as all the risks and rewards incident to ownership have not been substantially transferred to BioGaia. The leasing payments are therefore recognised over the lease term on a linear basis.

## 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 the annual payment of pension insurance premiums. Pension insurance premiums are reported as expenses 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. On each closing day, 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

Costs related to research undertaken with the prospect of gaining new scientific or technical knowledge in the Group's operations are reported as expenses 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. if the technical and commercial feasibility of the product or process has been established, and if the Group has adequate resources to complete development and thereafter either use or sell the asset. It shall also be probable that the future economic benefits attributable to the asset will flow to the Company and that the cost of the asset can be reliably measured. The reported value includes all directly attributable costs, such as those for materials, external costs and salaries to employees. Other development costs are reported as expenses in the income statement for the period in which they arise.

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

The Company has a number of projects that meet the criteria for capitalisation and are recognised in the balance sheet. In 2009, no development costs were considered to meet these criteria, and for this reason all costs were reported as expenses.

## Intangible and tangible assets

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

The following depreciation/amortisation schedules are applied:

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

Amortisation of intangible assets is started when a project has been completed and the product begins to generate 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 sales contract.

On each balance sheet date, an assessment is made as to whether there is any indication that an asset may be impaired, in which case the recoverable amount of the asset is calculated. If this is lower than the carrying amount, the value is written down to the recoverable amount.

#### Inventories

Inventories are valued at the lower of the purchase value and the net realisable value, including provisions for obsolescence. The purchase value 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 regulations in IAS 39.

The financial assets recognised as assets in the balance sheet include cash and cash equivalents, short-term investments, customer receivables and loans. Financial liabilities and equity include accounts payable and payments in advance from customers.

Financial assets and liabilities are initially reported at cost, corresponding to fair value including additional transaction costs for all financial assets and liabilities with the exception of those which are classified as reported at fair value in the income statement. Subsequent reporting 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 becomes a party to the contractual provisions of the instrument. Customer receivables are recorded in the balance sheet when an invoice has been sent. Financial liabilities are recognised when the counterparty has performed and there is a contractual obligation to pay, even if no invoice has been received. Customer receivables are recorded initially at the purchase price and thereafter at the accrued purchase price reduced by any reservation for depreciation. Any writing down of customer receivables is reported in the income statement. Accounts payable are recorded when an invoice has been received.

A financial asset is removed from the balance sheet when the Company's rights under the agreement are realised or expire or if the Company relinquishes control thereof. The same applies to a part of a financial asset. A financial liability is removed 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 valued at fair value through profit or loss, Customer receivables and loans, Held-to-maturity investments and Other financial liabilities.

#### ■ Note 2 Segment reporting

Since 2003 the company has had only one operating segment, Animal & Human Health, which consists of the Human Health and Animal Health market units.

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

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

<u>Revenue by segment</u>	<u>Group</u>			<u>Parent Company</u>		
	2009	2008	2007	2009	2008	2007
Finished consumer products	147,673	106,325	72,984	142,918	105,172	73,714
Component products	53,814	36,931	31,826	53,675	36,480	31,550
Other products	1,974	1,934	1,770	1,974	1,934	1,770
	<b>203,461</b>	145,190	106,580	<b>198,567</b>	143,586	107,034
<u>Gross profit by segment</u>						
Finished consumer products	94,804	68,728	46,378	94,281	68,495	46,372
Component products	38,816	26,631	23,704	38,803	26,283	23,459
Other products	1,690	1,597	1,376	1,690	1,597	1,376
	<b>135,310</b>	96,956	71,458	<b>134,774</b>	96,375	71,207
<u>Trade receivables by segment</u>						
	31-dec 2009	31-dec 2008	31-dec 2007	31-dec 2009	31-dec 2008	31-dec 2007
Finished consumer products	23,448	20,400	14,725	21,406	19,460	14,658
Component products	4,929	8,050	3,073	4,874	7,978	2,714
Other products	344	394	71	344	394	71
	<b>28,721</b>	28,844	17,869	<b>26,624</b>	27,832	17,443

During 2009, SEK 76.3 million, or 37.5% of the revenue, was related to three customers, two in the Finished Consumer Products segment and one in the Component Products segment (2008: SEK 41.3 million or 28.5%)



Cont'd Note 2

	Group			Parent Company		
	2009	2008	2007	2009	2008	2007
<i>Net sales by geographical market</i>						
Europe	138,430	93,973	62,354	138,423	93,674	62,269
USA and Canada	14,571	8,851	7,736	14,437	8,698	7,544
Asia	37,386	30,618	25,895	32,633	29,466	26,626
Rest of world	13,074	11,748	10,595	13,074	11,748	10,595
	203,461	145,190	106,580	198,567	143,586	107,034

More than 90% of the Group's total assets, amounting to SEK 179,814 thousand (154,306) are located in Europe.

Of the Group's capital expenditure on tangible and intangible assets, totalling SEK 2,895 thousand (2,373), more than 90% pertained to Europe.

Sales in Sweden amounted to SEK 9.2 million (6.7) or 4.5% (4.6%).

The Group's fixed assets amount to SEK 25.7 million, of which SEK 25.4 million are located in Sweden and SEK 0.3 million in other countries (USA and Japan).

### Note 3 Revenue

	Group			Parent Company		
	2009	2008	2007	2009	2008	2007
Royalties	7,761	6,629	11,728	7,761	6,629	11,728
Product revenue	195,700	138,561	94,852	190,806	136,957	95,306
	203,461	145,190	106,580	198,567	143,586	107,034

### Note 4 Other operating income

	Group			Parent Company		
	2009	2008	2007	2009	2008	2007
Damages received	–	–	866	–	–	866
Exchange gains on operating receivables/liabilities	750	4,059	793	750	4,059	793
Other income	–	–	32	–	–	32
	750	4,059	1,691	750	4,059	1,691

### Note 5 Employees and personnel expenses, remuneration to senior executives

#### Average number of employees by country

	2009		2008		2007	
	of whom, men		of whom, men		of whom, men	
<b>Parent Company</b>						
Sweden	35	13	31	12	30	12
<b>Subsidiaries</b>						
Sweden	1	1	1	1	–	–
Japan	4	3	4	3	5	5
USA	3	1	3	1	2	–
Total subsidiaries	8	5	8	5	7	5
Total Group	43	18	39	17	37	17

The number of employees in the Group on 31 December 2009 was 45 (42).

#### Distribution of salaries and other remuneration by country and between Board members, etc., and other employees

	2009		2008		2007	
	Board and MD	Other employees	Board and MD	Other employees	Board and MD	Other employees
<b>Parent Company</b>						
Sweden	3,380	16,703	3,276	14,325	2,909	12,791
<b>Subsidiaries</b>						
Sweden	886	–	236	–	–	–
Japan	1,804	2,105	768	2,680	1,372	3,045
USA	–	2,484	–	1,578	–	893
Total subsidiaries	2,690	4,589	1,004	4,258	1,372	3,938
Total Group	6,070	21,292	4,280	18,583	4,281	16,729

#### Total salaries and social security expenses

	Group			Parent Company		
	2009	2008	2007	2009	2008	2007
Salaries and other remuneration	27,362	22,863	21,010	20,083	17,601	15,700
Pension expenses for the Board and MD	1,703	461	377	1,455	379	377
Pension expenses for other employees	1,969	1,888	1,461	1,709	1,690	1,373
Other social security expenses	7,178	6,158	5,655	6,551	5,856	5,249
<b>Total</b>	<b>38,212</b>	<b>31,370</b>	<b>28,503</b>	<b>29,798</b>	<b>25,526</b>	<b>22,699</b>

Cont'd Note 5

**Sickness absence in the Parent Company as a percentage of total number of working hours**

	2009	2008	2007
Total sickness absence	4%	4%	4%
Of which, long-term	75%	78%	75%
Sickness absence for men	1%	1%	4%
Sickness absence for women	6%	6%	3%
Employees 29 years or younger	*)	*)	*)
Employees aged 30–49 years	6%	6%	5%
Employees 50 years and older	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 Managing Director and Deputy Managing Director 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.

Remuneration to the Managing Director and other senior executives employed by the Company consists of basic salary, variable remuneration and other benefits. Other senior executives comprise the 8 persons who together with the Managing Director and Deputy Managing Director 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 Managing Director and Deputy Managing Director are entitled to full salary during an 18-month period of notice. Other senior executives have a period of notice of at least 3 months in the event of termination by the Company. In 2009, extra pension payments were made for the Managing Director and Deputy Managing Director, amounting respectively to SEK 600 thousand and SEK 480 thousand, furthermore the Company pays the cost of health insurance that provides sickness benefits equal to 75% of salary after a qualifying period of 3 months and in the event of early retirement. In other respects, the Managing Director has the same benefits as other employees. No agreements for termination benefits exist for the Managing Director 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	200					200
Board member, Jan Annwall (Deputy MD)		1,116	42	657		1,815
Board member, Stefan Elving	100					100
Board member, Thomas Flinck	100					100
Board member, Inger Holmström	100					100
Board member, Jörgen Thorball	100					100
Board member, Paula Zeilon	100					100
Managing Director Peter Rothschild		1,470	53	798		2,321
Other senior executives (8 persons)		5,200	149	671	1,975	7,995
	700	7,786	244	2,126	1,975	12,831

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.

In June 2007 BioGaia carried out a warrant program that was approved by the AGM 2007. A total of 128,950 warrants were subscribed for by the employees (of which 27,000 by the then existing management). Each warrant grants 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. The warrant price was calculated according to the customary valuation method (Black & Scholes model) and amounted to SEK 5.32 per warrant, which meant that the employees subscribed for the options on market-based terms. The warrant price was calculated according to the Black & Scholes model using a volatility of 30% and a risk-free interest rate of 3.92%.

**Gender distribution**

	2009		2008		2007	
	Women	Men	Women	Men	Women	Men
Board members	2	5	2	5	3	4
Management including MD	2	8	2	8	2	7

**Note 6 Auditing fees**

	2009		2008		2007	
	Group	Parent Company	Group	Parent Company	Group	Parent Company
Grant Thornton Sweden AB						
Audit assignments	526	526	421	421	346	346
Other assignments	219	219	129	124	59	59



## Cont'd Note 6

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

Audit assignments	66	–	57	–	42	–
Other assignments	156	–	106	–	92	–

## Nakashima Accounting Firm

Audit assignments	17	–	36	–	36	–
Other assignments	–	–	–	–	–	–

Audit assignments refer to examination of the consolidated financial statements, the accounts and the administration of the Board of Directors and the Managing Director 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. All other work is classified as "other assignments".

## ■ Note 7 Result from participations in associated company

	2009	2008	2007
Share in result of TwoPac AB	590	–334	–1,103

## ■ Note 8 Operating expenses allocated by type of cost

	2009		2008		2007	
	Group	Parent Company	Group	Parent Company	Group	Parent Company
Raw materials and consumables	62,224	58,984	57,226	55,104	38,736	39,639
Change in inventories of finished products	5,941	4,809	–8,992	–7,893	–3,614	–3,812
Personnel expenses	38,331	29,917	30,959	25,352	28,714	22,910
Depreciation/amortisation	4,134	3,792	4,272	4,141	3,980	3,902
Other operating expenses	46,662	41,356	39,942	37,751	31,573	28,601
	157,292	138,858	123,407	114,455	99,389	91,240

The item "administrative expenses" includes lease payments of SEK 89 thousand (132). Total minimum future lease payments pertaining to operating leases fall due as follows:

Within one year: 105

Within two to five years: 112

The Group's future payment commitments for leases amount to SEK 9.2 million, of which SEK 8.7 million refers to the Parent Company. The Group's rents fall due for payment in an amount of SEK 3.0 million within one year and SEK 6.2 million within two to five years.

## ■ Note 9 Financial income

	Group			Parent Company		
	2009	2008	2007	2009	2008	2007
Interest income	878	2,744	1,882	1,713	3,545	2,152
Unrealised profit on forward exchange contracts	4,550	–	–	4,550	–	–
	5,428	2,744	1,882	6,263	3,545	2,152

The Parent Company and the Group have entered into forward exchange contracts in EUR for a total of EUR 7,800,000 at an average exchange rate of SEK 10.70 of which EUR 7.2 million will mature in 2010 and EUR 0.6 million in 2011.

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

## ■ Note 10 Financial expenses

	Group			Parent Company		
	2009	2008	2007	2009	2008	2007
Interest expenses	–	–	10	–	–	10
Unrealised losses on forward exchange contracts	–	4,501	–	–	4,501	–
Other financial expenses	63	54	65	58	52	56
	63	4,555	75	58	4,553	66

## ■ Note 11 Tax on result for the year

	2009		2008		2007	
	Group	Parent Company	Group	Parent Company	Group	Parent Company
Current tax	–68	–	–9	–	–30	–
Deferred tax	–17,000	–17,610	12,100	11,660	9,000	9,000
	–17,068	–17,610	12,091	11,660	8,970	9,000
	2009		2008		2007	
	Group	Parent Company	Group	Parent Company	Group	Parent Company
<b>Deferred tax expense/tax income</b>						
Deferred tax expense related to utilisation of previously capitalised loss carryforwards	–17,597	–17,608	–	–	–	–
Deferred tax income related to loss carryforwards capitalised during the year	608	–	12,092	11,749	9,004	9,004
Deferred tax related to temporary differences	–11	–2	8	–89	–4	–4
	–17,000	–17,610	12,100	11,660	9,000	9,000

Cont'd Note 11

**Reconciliation of nominal tax and actual tax expenses**

Reported result before tax	53,113	53,806	24,029	17,812	10,689	9 044
Nominal tax 26.3% / 28%	-13,969	-14,151	-6,728	-4,987	-2,993	-2 532
Tax effect of utilisation of not previously capitalised loss carryforwards	-	-	9,254	9,196	5,553	5 526
Tax effect of non-capitalised loss carryforwards	-3,187	-	-2,153	-	-2,175	-
Tax effect of capitalised loss carryforwards on losses related to previous years	-	-	12,092	11,749	9,004	9 004
Tax effect of changed tax rate	-	-	-546	-546	-	-
Tax effect of other non-deductible and non-taxable items	235	-3,457	263	-3,663	-50	-2 994
Tax effect of group adjustments	-136	-	-99	-	-365	-
Tax effect of temporary adjustments	-11	-2	8	-89	-4	-4
	-17,068	-17,610	12,091	11,660	8,970	9 000

**Deferred tax asset**

	2009		2008		2007	
	Group	Parent Company	Group	Parent Company	Group	Parent Company
Opening balance, 1 January	21,100	20,660	9,000	9,000	-	-
The year's tax income	-17,000	-17,610	12,100	11,660	9,000	9,000
<b>Closing balance, 31 December</b>	<b>4,100</b>	<b>3,050</b>	<b>21,100</b>	<b>20,660</b>	<b>9,000</b>	<b>9,000</b>

The Group's loss carryforwards amounted to a total of SEK 45,368 thousand (97,899) at 31 December 2009.

Loss carryforwards of SEK 15,590 thousand (80,235) are attributable to the Swedish companies and therefore have no specified expiration date.

No deferred tax has been recognised on loss carryforwards amounting to SEK 29,779 thousand (17,664).

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 and SEK 12,115 thousand 2016.

**Not 12 Minority interest**

	2009	2008
Opening balance, 1 January	99	-
Minority payment of share capital	-	99
Minority share in profit	-265	-33
Impairment loss on receivable from minority	-	33
<b>Closing balance, 31 December</b>	<b>-166</b>	<b>99</b>

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

**Note 13 Intangible assets****Group and Parent Company**

	Capitalised development expenditure	Licenses and brands	Total intangible assets
<b>Accumulated cost</b>			
Opening balance, 1 January 2007	26,875	2,528	29,403
Purchases	-	-	-
<b>Closing balance, 31 December 2007</b>	<b>26,875</b>	<b>2,528</b>	<b>29,403</b>
Opening balance, 1 January 2008	26,875	2,528	29,403
Purchases	-	-	-
<b>Closing balance, 31 December 2008</b>	<b>26,875</b>	<b>2,528</b>	<b>29,403</b>
Opening balance, 1 January 2009	26,875	2,528	29,403
Purchases	-	-	-
<b>Closing balance, 31 December 2009</b>	<b>26,875</b>	<b>2,528</b>	<b>29,403</b>
<b>Accumulated amortisation</b>			
Opening balance, 1 January 2007	15,469	2,518	17,987
The year's amortisation	3,207	10	3,217
<b>Closing balance, 31 December 2007</b>	<b>18,676</b>	<b>2,528</b>	<b>21,204</b>
Opening balance, 1 January 2008	18,676	2,528	21,204
The year's amortisation	3,149	-	3,149
<b>Closing balance, 31 December 2008</b>	<b>21,825</b>	<b>2,528</b>	<b>24,353</b>
Opening balance, 1 January 2009	21,825	2,528	24,353
The year's amortisation	2,765	-	2,765
<b>Closing balance, 31 December 2009</b>	<b>24,590</b>	<b>2,528</b>	<b>27,118</b>
<b>Carrying amounts</b>			
At 1 January 2007	11,406	10	11,416
At 31 December 2007	8,199	0	8,199
At 31 December 2008	5,050	0	5,050
<b>At 31 December 2009</b>	<b>2,285</b>	<b>0</b>	<b>2,285</b>

Capitalised expenses include internally generated and externally acquired assets.



Cont'd Note 13

Amortisation is recognised on the following lines in the income statement

	2009		2008		2007	
	Group	Parent Company	Group	Parent Company	Group	Parent Company
Research and development expenses	2,765	2,765	3,149	3,149	3,217	3,217
	<b>2,765</b>	<b>2,765</b>	3,149	3,149	3,217	3,217

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 to BioGaia probiotic tablets, Animal Health products, Oral Health products and LifeTop Cap. These projects will be fully amortised in 1–3 years.

**Total research and development expenditure**

	2009		2008		2007	
	Group	Parent Company	Group	Parent Company	Group	Parent Company
Total R&D expenditure	23,949	24,250	19,560	19,659	14,721	14,567
The year's capitalisation of development expenses	–	–	–	–	–	–
Uncapitalised R&D expenditure	23,949	24,250	19,560	19,659	14,721	14,567
Amortisation/depreciation recognised in R&D expenses	3,051	3,028	3,470	3,383	3,217	3,217
R&D expenses affecting income	27,000	27,278	23,030	23,042	17,938	17,784

**Note 14 Tangible assets****Group**

	Production equipment	Office equipment and computers	Total tangible assets
<b>Accumulated cost</b>			
Opening balance, 1 January 2007	2,192	6,263	8,455
Purchases	1,210	786	1,996
Translation difference	–	–69	–69
<b>Closing balance, 31 December 2007</b>	<b>3,402</b>	<b>6,980</b>	<b>10,382</b>
Opening balance, 1 January 2008	3,402	6,980	10,382
Purchases	291	2,089	2,380
Sales and disposals	–	–29	–29
Translation difference	–	287	2,878
<b>Closing balance, 31 December 2008</b>	<b>3,693</b>	<b>9,327</b>	<b>13,020</b>
Opening balance, 1 January 2009	3,693	9,327	13,020
Purchases	826	2,072	2,898
Translation difference	–	–137	–137
<b>Closing balance, 31 December 2009</b>	<b>4,519</b>	<b>11,262</b>	<b>15,781</b>
<b>Accumulated depreciation</b>			
Opening balance, 1 January 2007	1,932	5,134	7,066
Depreciation	304	459	763
Translation difference	–	–64	–64
<b>Closing balance, 31 December 2007</b>	<b>2,236</b>	<b>5,529</b>	<b>7,765</b>
Opening balance, 1 January 2008	2,236	5,529	7,065
Depreciation	352	769	1,121
Sales and disposals	–	–2	–2
Translation difference	–	200	200
<b>Closing balance, 31 December 2008</b>	<b>2,588</b>	<b>6,496</b>	<b>9,084</b>
Opening balance, 1 January 2009	2,588	6,496	9,084
Depreciation	309	1,068	1,377
Translation difference	–	–104	–104
<b>Closing balance, 31 December 2009</b>	<b>2,897</b>	<b>7,460</b>	<b>10,357</b>
<b>Carrying amounts</b>			
At 1 January 2007	260	1,129	1,389
At 31 December 2007	1,166	1,451	2,617
At 31 December 2008	1,105	2,831	3,936
<b>At 31 December 2009</b>	<b>1,622</b>	<b>3,802</b>	<b>5,424</b>

**Parent Company**

	Production equipment	Office equipment and computers	Total tangible assets
<b>Accumulated cost</b>			
Opening balance, 1 January 2007	2,192	5,025	7,217
Purchases	1,210	616	1,826
<b>Closing balance, 31 December 2007</b>	<b>3,402</b>	<b>5,641</b>	<b>9,043</b>
Opening balance, 1 January 2008	3,402	5,641	9,043
Purchases	291	2,020	2,311
Sales and disposals	–	–29	–29
<b>Closing balance, 31 December 2008</b>	<b>3,693</b>	<b>7,632</b>	<b>11,325</b>

Cont'd Note 14

Opening balance, 1 January 2009	3,693	7,632	11,325
Purchases	316	2,007	2,323
Sales and disposals	-1,716	-	-1,716
<b>Closing balance, 31 December 2009</b>	<b>2,293</b>	<b>9,639</b>	<b>11,932</b>
<b>Accumulated depreciation</b>			
Opening balance, 1 January 2007	1,932	4,140	6,072
Depreciation	304	380	684
<b>Closing balance, 31 December 2007</b>	<b>2,236</b>	<b>4,520</b>	<b>6,756</b>
Opening balance, 1 January 2008	2,236	4,520	6,756
Depreciation	352	638	990
Sales and disposals	-	-2	-2
<b>Closing balance, 31 December 2008</b>	<b>2,588</b>	<b>5,156</b>	<b>7,744</b>
Opening balance, 1 January 2009	2,588	5,156	7,744
Depreciation	32	995	1,027
Sales and disposals	-694	-	-694
<b>Closing balance, 31 December 2009</b>	<b>1,926</b>	<b>6,151</b>	<b>8,077</b>
<b>Carrying amounts</b>			
At 1 January 2007	260	885	1,145
At 31 December 2007	1,166	1,121	2,287
At 31 December 2008	1,105	2,476	3,581
<b>At 31 December 2009</b>	<b>367</b>	<b>3,488</b>	<b>3,855</b>

Depreciation is recognised on the following lines in the income statement

	2009		2008		2007	
	Group	Parent Company	Group	Parent Company	Group	Parent Company
Cost of goods sold	-	-	-	-	-	-
Selling expenses	931	602	661	617	500	443
Administrative expenses	162	162	139	139	92	92
Research and development expenses	285	263	321	234	171	149
	<b>1,378</b>	<b>1,027</b>	<b>1,121</b>	<b>990</b>	<b>763</b>	<b>684</b>

**Note 15 Financial assets****Participations in group companies**

	2009		2008		2007	
	Parent Company	Parent Company	Parent Company	Parent Company	Parent Company	Parent Company
At beginning of year	4,469	4,137	4,137	4,137	4,137	4,137
Conditional share holder contribution CapAble AB	3,000	-	-	-	-	-
Purchase of shares in CapAble AB	-	901	901	901	901	901
Impairment loss on the shares in BioGaia Japan Inc.	-	-569	-569	-569	-569	-569
<b>Book value at end of year</b>	<b>7,469</b>	<b>4,469</b>	<b>4,469</b>	<b>4,469</b>	<b>4,469</b>	<b>4,137</b>

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

Subsidiary/corp.reg.no./reg. office	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	3,901
BioGaia Japan Inc. /-/Hiroshima, Japan	180	100	0
			<b>7,469</b>

The assets and liabilities of the American subsidiary BioGaia Biologics Inc. have been translated at the closing day rate of exchange, SEK 7.19 (7.77). All items in the income statement have been translated at the average exchange rate during the year, SEK 7.65 (6.59). The assets and liabilities of the Japanese subsidiary BioGaia Japan Inc. have been translated at the closing day rate of exchange SEK 0.078 (0.086). All items in the income statement have been translated at the average exchange rate SEK 0.081 (0.058). The resulting translation differences have been reported directly against consolidated equity. CapAble AB was formed in the autumn of 2008. BioGaia owns 90.1% of the company. CapAble's Managing Director, Staffan Pålsson, owns 9.9% of the company. The minority share of the result 2009 amounted to SEK -265 thousand.

Of total purchases made by the Parent Company, 3.3% (3.0) was attributable to group companies.

Of total sales made by the Parent Company 0.2% (1.0) was attributable to group companies.

**Participations in associated companies**

	2009		2008		2007	
	Group	Parent Company	Group	Parent Company	Group	Parent Company
At beginning of year	7,851	7,851	5,585	5,585	5,188	5,188
Conditional shareholder contribution	1,000	1,000	2,000	2,000	500	500
Conversion of advance payment to conditional shareholder contribution	-	-	600	600	-	-
Conversion of loan to conditional shareholder contribution	-	-	-	-	1,000	1,000
Share in result for the year	590	-	-334	-	-1,103	-
Return of impairment loss on participation in associated company	-	590	-	-	-	-
Impairment loss on participation in associated company	-	-	-	-334	-	-1,103
<b>Book value at end of year</b>	<b>9,441</b>	<b>9,441</b>	<b>7,851</b>	<b>7,851</b>	<b>5,585</b>	<b>5,585</b>

The participations in the associated company have been written down to the carrying amount in the Group.



Cont'd Note 15

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

TwoPac AB/556591-9767/Eslöv	2009	2008	2007
Assets	11,877	9,833	7,798
Liabilities	6,104	6,137	6,418
Equity	5,773	3,696	1,380
Sales	13,440	9,290	2,605
Net result for the year	1,078	-284	-2,206
Number of shares	5,000	5,000	5,000
Holding, %	50	50	50
Value of equity share in Group	9,441	7,851	5,585
Book value in Parent Company	9,441	7,851	5,585

Because BioGaia does not have a controlling influence in TwoPac AB, the participations in the associated company are reported according to the equity method.

**Note 16 Non-current receivables from subsidiaries and associated company****Non-current receivables from subsidiaries**

	2009	2008	2007
	Parent Company	Parent Company	Parent Company
At beginning of year	-	1,325	-
Conversion of current to non-current receivable	-	-	1,569
Loan to subsidiary	13,245	10,595	7,795
Foreign exchange losses	-	-	-201
Product sales	405	730	1,301
Interest income	818	817	285
Provisions for receivables <sup>1)</sup>	-13,446	13,467	-9,424
	1,022	-	1,325

<sup>1)</sup> The receivable refers to the subsidiary in Japan. Because it is uncertain whether the loan will be repaid within a foreseeable future, a provision has been made for the amount receivable. The remaining receivable of SEK 1,022 thousand as of December 31, 2009 refers to the subsidiary CapAble AB.

**Receivables from associated companies**

	2009		2008		2007	
	Group	Parent Company	Group	Parent Company	Group	Parent Company
At beginning of year	4,400	4,400	4,400	4,400	5,400	5,400
Conversion of loan to conditional shareholder contribution	-	-	-	-	-1,000	-1,000
<b>Closing balance at end of year</b>	<b>4,400</b>	<b>4,400</b>	<b>4,400</b>	<b>4,400</b>	<b>4,400</b>	<b>4,400</b>

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 LifeTop products.

**Note 17 Inventories**

	2009		2008		2007	
	Group	Parent Company	Group	Parent Company	Group	Parent Company
Raw materials and consumables	205	205	269	269	122	122
Finished goods and goods for resale	12,972	12,152	18,899	16,962	9,907	9,069
	13,177	12,357	19,168	17,231	10,029	9,191

The Company's provisions for obsolescence amounted to SEK 266 thousand (504) at 31 December 2009. An individual assessment of the obsolescence reserve has been carried out.

**Note 18 Trade receivables**

The Group and the Parent Company have recorded a loss of SEK 0 (20) on the write-down of trade receivables in 2009.

Provisions for bad debt losses amounted to SEK 199 thousand (36) at 31 December 2009.

At 31 December 2009, trade receivables of SEK 3,792 thousand (3,317) were overdue without any assessed need for a write-down.

Of the overdue receivables, SEK 2,245 thousand had been paid as of the closing date.

An age analysis of these trade receivables is shown below:

	Group			Parent Company		
	2009	2008	2007	2009	2008	2007
Less than 3 months	3,458	3,244	2,281	3,458	3,172	2,281
3-6 months	334	73	85	297	73	85
	3,792	3,317	2,366	3,755	3,245	2,366

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

	Group			Parent Company		
	2009	2008	2007	2009	2008	2007
SEK	3,035	4,514	5,031	3,035	4,442	5,031
EUR	22,489	23,389	11,649	22,489	23,389	11,649
USD	499	1	497	444	1	433
DKK	656	-	630	656	-	630
JPY	2,042	940	62	-	-	-
	28,721	28,844	17,869	26,624	27,832	17,743

### ■ Note 19 Related party transactions

#### RELATED PARTY TRANSACTIONS, GROUP AND PARENT COMPANY

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			Parent Company		
	2009	2008	2007	2009	2008	2007
Interest income	116	285	304	116	285	304
Conditional shareholder contributions rendered	1,000	2,000	500	1,000	2,000	500
Conversion of loan to conditional shareholder contribution	–	–	1,000	–	–	1,000
Advance payment converted to shareholder contribution	–	600	–	–	600	–
Purchase of goods	13,052	8,952	2,259	12,976	8,952	2,259
Advance payment for future delivery	–	–	600	–	–	600
Purchase of plant and equipment	–	221	1,195	–	221	1,195

Goods are purchased at cost plus profit margin.

The closing balances were as follows:

Non-current receivables from related parties	Group and Parent Company		
	2009	2008	2007
Non-current receivables from TwoPac AB	4,400	4,400	4,400
	4,400	4,400	4,400

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

Current balance from related parties	Group			Parent Company		
	2009	2008	2007	2009	2008	2007
Current receivables from TwoPac AB	24	65	85	24	65	85
Current liabilities from TwoPac AB	–704	–118	–	–688	–118	–
	–680	–53	85	–664	–53	85

#### RELATED PARTY TRANSACTIONS – PARENT COMPANY

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

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

The Parent Company and the Group own 50% of TwoPac AB and report this holding as an associated company.

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

The following transactions have taken place with BioGaia Japan

	2009	2008	2007
Interest income	818	818	285
Loan provided	12,223	10,595	7,795
Purchase of services	–	4,241	–
Sale of goods	405	730	1,301

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 receivable.

The following transactions have taken place with BioGaia Biologics Inc.

	2009	2008	2007
Purchase of services	4,542	3,374	1,925

The following transactions have taken place with CapAble AB

	2009	2008	2007
Interest income	23	–	–
Sale of machinery	1,022	–	–
Loan from parent company	1,022	–	–
Conditional share holder contribution	3,000	–	–
Sales of services	308	553	–

The closing balance were at follows:

	31-dec 2009	31-dec 2008	31-dec 2007
<b>Non-current receivables, related party</b>			
Non-current receivables, CapAble AB	1,022	–	–
<b>Current receivables, related party</b>			
Current receivables, CapAble AB	884	553	–
<b>Current liabilities, related party</b>			
Current liabilities, BioGaia Biologics Inc	–927	–385	–467
Current liabilities, BioGaia Japan	–4,241	–4,241	–
Current liabilities, TriPac AB	–3,336	–3,336	–3,336
	–8,504	–7,962	3,803

Cont'd Note 19

Annwall & Rothschild Investment AB holds 740,668 class A shares and 1,251,391 class B shares, corresponding to 11.6 % of the share capital and 36.3 % of the votes. Annwall & Rothschild Investment AB is owned by Peter Rothschild and Jan Annwall, who are Managing Director and Deputy Managing Director of the Parent Company. No transactions have taken place between BioGaia and Annwall & Rothschild Investment AB.

For further information, please see Note 5 Employees and personnel expenses, remuneration to senior executives.

#### ■ Note 20 Other receivables

	2009		2008		2007	
	Group	Parent Company	Group	Parent Company	Group	Parent Company
VAT refund	1,813	1,781	1,594	1,451	928	918
Tax asset	482	461	461	461	402	402
Forward exchange contracts	2,701	2,701	–	–	–	–
Other receivables	652	29	78	26	435	106
	<b>5,648</b>	<b>4,972</b>	<b>2,133</b>	<b>1,938</b>	<b>1,765</b>	<b>1,426</b>

#### ■ Note 21 Prepaid expenses and accrued income

	2009		2008		2007	
	Group	Parent Company	Group	Parent Company	Group	Parent Company
Accrued income	4,617	4,617	1,506	1,506	3,407	3,407
Prepaid rents	604	604	558	558	493	493
Other prepaid expenses	959	775	1,506	1,319	3,700	3,427
	<b>6,180</b>	<b>5,996</b>	<b>3,570</b>	<b>3,383</b>	<b>7,600</b>	<b>7,327</b>

#### ■ Note 22 Short-term investments

	2009	2008	2007
Opening balance	80	620	830
Additions	–	–	–
Write-down to market value	–	–540	–210
<b>Closing balance</b>	<b>80</b>	<b>80</b>	<b>620</b>

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 23 Financial assets and liabilities

The Group classifies its financial assets and liabilities in the following categories; financial assets measured 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 measured at fair value through profit or loss consist of cash and cash equivalents. The financial assets are recognised in the balance sheet and are measured at the closing day rate of exchange.

Assets (SEK 000s)	2009		2008		2007	
	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount
Cash and cash equivalents in SEK	90,956	90,956	52,537	52,537	39,772	39,772
Cash and cash equivalents in EUR	7,579	7,579	2,979	2,979	1,516	1,516
Cash and cash equivalents in USD	407	407	969	969	910	910
Cash and cash equivalents in JPY	1,164	1,164	1,132	1,132	591	591
Cash and cash equivalents in DKK	221	221	510	510	188	188
Current investments	80	80	80	80	620	620
<b>Total assets</b>	<b>100,407</b>	<b>100,407</b>	<b>58,207</b>	<b>58,207</b>	<b>43,597</b>	<b>43,597</b>

##### Held-to-maturity investments

The Group has not 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.

	2009	2008	2007
	Carrying amount <sup>1)</sup>	Carrying amount <sup>1)</sup>	Carrying amount <sup>1)</sup>
Loan to associated company	4,400	4,400	4,400
Trade receivables	28,721	28,844	17,869
Current receivable from associated company	–	–	85
<b>Total loans and receivables</b>	<b>33,121</b>	<b>33,244</b>	<b>22,354</b>

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



Cont'd Note 23

**Interest rate risks**

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

<b>Interest conversion/maturity</b>	< 1 yr from balance sheet date	> 1 yr but < 5 yrs from balance sheet date	> 5 yrs from balance 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.

	2009 Fair value	Carrying amount	2008 Fair value	Carrying amount	2007 Fair value	Carrying amount
Trade payables	8,099	8,099	6,607	6,607	6,032	6,032
Liability to associated company	664	664	53	53	–	–
Prepayments from customer	432	432	999	999	1,532	1,532
<b>Total other financial liabilities</b>	<b>9,195</b>	<b>9,195</b>	<b>7,659</b>	<b>7,659</b>	<b>7,564</b>	<b>7,564</b>

**Note 24 Share capital**

The share capital in BioGaia AB consists of 740,668 A-shares carrying 10 votes per share and 16,466,894 B-shares carrying one vote per share. A- and B-shares carry the same rights to a share in the company's assets and profits. The equity ratio for both A- and B-shares is SEK 1 per share. All the shares are fully paid for and no shares are reserved for transfer. No shares are owned by the company itself or by its subsidiary.

Other injected capital consists of reserve fund and premium fund

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

The company's total profits consist of accumulated profits together with transfers from the premium fund and reserve fund. In 2009, the Parent Company's dividend was SEK 6.9 million corresponding to SEK 0.40 per share. The Board and Managing Director propose that the Company shall in 2010 issue an ordinary dividend amounting to SEK 0.90 per share and an extra dividend of SEK 0.60 per share, giving a total dividend of SEK 1.50 per share.

The minority interest amounts to 9.9% of the equity in the subsidiary CapAble.

The equity in the BioGaia group consists of the sum of the equity associated with BioGaia AB's shareholders and the equity associated with minority owners. At the end of the year, the group's equity amounted to SEK 161.6 million (132.4 million)

**Dividend policy**

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

**Key ratios**

	2009	2008	2007
Number of shares at 31 Dec., thousands <sup>1)</sup>	17,208	17,208	17,208
Average number of shares, thousands	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	17,337	17,208	17,208
Earnings per share, SEK	2.11	2.10	1.14
Earnings per share after dilution, SEK	2.09	2.10	1.14
Equity per share, SEK	9.37	7.69	5.52
Equity per share after dilution, SEK	9.30	7.69	5.52
Return on equity, %	25	32	23
Share price on closing day, SEK	80.00	33.10	27.80
Dividend per share, SEK	1.50 <sup>1)</sup>	0.40	–

<sup>1)</sup> Dividend proposed but not yet approved. The board and Managing Director propose that the Company shall in 2010 issue an ordinary dividend of SEK 0.90 per share and an extra dividend of SEK 0.60 per share giving a total dividend of SEK 1.50 per share.

**Note 25 Other liabilities**

	2009 Group	Parent Company	2008 Group	Parent Company	2007 Group	Parent Company
Employee withholding tax	687	660	637	637	446	446
Forward exchange contracts	–	–	4,815	4,815	314	314
Other current liabilities	177	–	173	–	36	1
	<b>864</b>	<b>660</b>	<b>5,625</b>	<b>5,452</b>	<b>796</b>	<b>761</b>

**Note 26 Accrued expenses and deferred income**

	2009 Group	Parent Company	2008 Group	Parent Company	2007 Group	Parent Company
Accrued holiday pay	3,394	3,187	3,301	3,301	2,769	2,769
Accrued social security expenses	608	586	568	568	387	387
Other accrued expenses	4,634	3,336	4,733	3,080	4,347	4,376
	<b>8,636</b>	<b>7,109</b>	<b>8,602</b>	<b>6,949</b>	<b>7,503</b>	<b>7,532</b>

#### ■ Note 27 Pledged assets and contingent liabilities

	2009		2008		2007	
	Group	Parent Company	Group	Parent Company	Group	Parent Company
<b>Pledged assets</b>						
Floating charges	2,000	2,000	2,000	2,000	2,000	2,000
Contingent liabilities	None	None	None	None	None	None

#### ■ Note 28 Policy for financial risk management

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

##### Currency risk

BioGaia has revenue and expenses primarily in the currencies SEK, EUR, USD and DKK. In 2009 the company had a cash flow surplus of approximately EUR 10,200,000 (6,600,000), a cash flow deficit of USD 340,000 (440,000) and a cash flow surplus of DKK 1,300,000 (3,400,000). The increase in sales has also led to increased currency risk, for which reason the company has taken currency hedges in EUR. At 31 December 2009 the company had forward exchange contracts for a total of EUR 7.8 million at an average exchange rate of SEK 10.70. Foreign exchange contracts of SEK 7.2 million mature in 2010, and SEK 0.6 million in 2011.

##### Interest rate risk

The Group has no interest rate risk.

##### Credit risk

BioGaia's credit risks are attached to trade receivables and the loan to the associated company. When signing agreements with new customers, BioGaia always carries out an assessment of the customer's financial position. The Company has routines for claiming receivables due and if necessary makes a new evaluation of a company's financial status in order to minimise the risk. The loan to the associated company TwoPac AB has been used to develop machinery for production of delivery systems (BioGaia's probiotic straw and LifeTop Cap). TwoPac's primary operations are development of production machinery and manufacturing of BioGaia's probiotic drops, straws and LifeTop Cap. The Company's assessment is that TwoPac will show good profitability, and that the loan therefore entails no credit risk. The loan from the parent company to the subsidiary CapAble AB has been used to purchase of machinery for manufacturing of LifeTop Cap. The Company's assessment is that CapAble AB will show good profitability, and that the loan therefore entails no credit risk.

##### Liquidity risk

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

##### Cash flow risk

In 2009 BioGaia had a positive cash flow from operating activities before change in working capital, amounting to SEK 52.6 million (32.4). After changes in working capital, cash flow was SEK 53.3 million (19.2). Total cash flow for the year was SEK 42.5 million (14.3). Because cash and cash equivalents at 31 December 2009 amounted to SEK 100.3 million (58.1) and cash flow is positive, no infusion of capital is necessary.

##### Price risk

BioGaia purchases most of its goods in an international market with several alternative suppliers, which reduces the Company's price risk.

#### ■ Note 29 Critical accounting estimates and assumptions

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

##### BioGaia's Japanese venture

The previously chosen business model in Japan was found to be unsuccessful. Measures have now been taken to change the business model. On the balance sheet date, assets in the Japanese subsidiary were reported at SEK 5.0 million. The company assessment is that there is no indication of impairment of these assets.

##### Participations in associated company and receivable from associated company

The shares in and receivables from the associated company (TwoPac AB) amount to a total of SEK 13.8 million in both the Group and the Parent Company. TwoPac's profit for the year was SEK 1.1 million. TwoPac AB's core operations are development of equipment and manufacturing of BioGaia's Probiotic drops and straws and LifeTop Cap on behalf of BioGaia. BioGaia's assessment is that TwoPac will generate good profitability, for which reason no impairment loss was recognised on the balance sheet date.

##### Participation in group companies and receivables from group companies

The shares in and receivables from the subsidiary CapAble amount to a total of SEK 5.8 million in the Parent Company. CapAble reported a loss SEK 2.3 million for the financial year 2009. CapAble, which is 90.1% owned by BioGaia AB, was started in November 2008 to manufacture and sell the patented LifeTop Cap. In this bottle closure, it is possible to place sensitive ingredients that could not survive in a beverage within an aluminium blister that is placed inside the cap, to be released into the beverage at the time of consumption. The cap has been developed primarily to contain lactic acid bacteria but is also suitable for vitamins and minerals. The plastic details are purchased from BeriCap in France, while filling and sealing of the blisters is handled by TwoPac AB in Eslöv. Since the start, CapAble has focused mainly on development of production equipment, running in of production and delivery of small volumes to a few customers. BioGaia's assessment is that CapAble will generate good profitability, for which reason no impairment loss was recognised on the balance sheet date.

The Board of Directors and the Managing Director hereby give their assurance that the consolidated financial statements and annual report have been prepared in accordance with the international accounting standards covered in Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002, on the Application of International Accounting Standards and Generally Accepted Accounting Standards, and give a true and fair view of the financial position and results of operations of the Group and the Parent Company.

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

**Stockholm, 22 February 2010**

David Dangoor  
*Chairman*

Peter Rothschild  
*Managing Director*

Jan Annwall

Stefan Elving

Thomas Flinck

Inger Holmström

Jörgen Thorball

Paula Zeilon

My audit report was submitted on 22 February 2010

Lena de Rosche  
*Authorised Public Accountant*  
Grant Thornton Sweden AB

## Audit Report

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

I have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the Managing Director of BioGaia AB (publ) for the financial year 2009. The Company's annual report and consolidated financial statements are included in the printed version of this document on pages 1-25. 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 Managing Director. My responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in Sweden. Those standards require that I 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 Managing Director and significant estimates made by the Board of Directors and the Managing Director 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 my opinion concerning discharge from liability, I 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 Managing Director. I also examined whether any Board member or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. I believe that my audit provides a reasonable basis for my 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.

I 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 Managing Director be discharged from liability for the financial year.

Stockholm, 22 February 2010

Lena de Rosche  
*Authorised Public Accountant*  
Grant Thornton Sweden AB



## Five-year summary

### Key ratios

	2009	2008	2007	2006	2005
Net sales, SEK 000s	203,461	145,190	106,580	86,792	59,606
Result before tax, SEK 000s	53,113	24,030	10,689	2,720	-19,825
Net result, SEK 000s	36,045	36,121	19,659	2,720	-19,825
Growth, %	40	36	23	46	47
Operating margin, %	23	18	8	2	-35
Profit margin, %	26	17	10	3	-33
Current ratio, times	8.2	5.1	5.1	4.1	4.1
Equity/assets ratio, %	90	86	86	82	82
Capital employed, SEK 000s	161,118	132,420	94,910	74,530	74,763
Return on capital employed, %	36	25	13	4	-23
Return on equity, %	25	32	23	4	-24
Average number of employees	43	39	37	34	33

### Data per share

Number of shares at 31 Dec., thousands <sup>1)</sup>	17,208	17,208	17,208	17,208	17,208
Average number of shares, thousands	17,208	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	17,337	17,208	17,208	17,208	17,208
Basic earnings per share, SEK	2.11	2.10	1.14	0.16	-1.15
Basic earnings per share after dilution, SEK	2.09	2.10	1.14	0.16	-1.15
Earnings per share before tax, SEK	3.09	1.40	0.62	0.16	-1.15
Earnings per share before tax after dilution, SEK	3.06	1.40	0.62	0.16	-1.15
Equity per share, SEK	9.37	7.69	5.52	4.33	4.17
Equity per share after dilution, SEK	9.30	7.69	5.52	4.33	4.17
Share price on closing day, SEK	80.00	33.10	27.80	40.50	19.30
Dividend per share, SEK	1.50 <sup>2)</sup>	0.40	-	-	-

<sup>1)</sup> The share capital consists of 740,668 class A shares and 16,466,894 class B shares.

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

## Definitions

### Basic earnings per share

Profit/loss after tax plus/minus minority interests, divided by number of shares.

### Basic earnings per share after dilution

Profit/loss after tax plus/minus minority interests, divided by number of shares plus the number of outstanding warrants with a dilution effect.

### Capital employed

Balance sheet total minus interest-free liabilities.

### Current ratio

Total current assets divided by current liabilities.

### Earnings per share before tax

Profit/loss before tax divided by the number of shares.

### Earnings per share before tax after dilution

Profit/loss before tax divided by the number of shares plus the number of outstanding warrants with a dilution effect.

### Equity/assets ratio

Shareholders' equity divided by total assets.

### Equity per share

Shareholders' equity 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 dilution effect.

### Growth

Annual sales less preceding year's sales, divided by preceding year's sales.

### Operating margin

Operating profit or loss plus/minus one-time items in relation to sales.

### Profit margin

Profit before tax in relation to net sales.

### Return on capital employed

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

### Return on equity

Profit/loss 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 Managing Director 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 partnership or cooperation, shall engage in the development, production, marketing and sales of products which benefit health in the form of pharmaceuticals, natural health products, dietary supplements, food additives and animal feed and suitable delivery systems for these products and other therewith compatible activities. The company is registered in Stockholm, Sweden. The Articles of Association are available on BioGaia's website under the heading "Corporate Governance".

### General Meeting of Shareholders

The General Meeting of Shareholders is the highest decision-making body. The Annual General Meeting (AGM) elects the members of the Board of Directors. The responsibilities of the AGM also include the 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 Managing Director. The Annual General Meeting also elects the company's auditors.

#### Annual General Meeting 2009

The 2009 Annual General Meeting of BioGaia was held on 22 April 2009 and was attended by shareholders representing 46.8% of the total number of votes in the Company. The AGM was also attended by the Company's Managing Director, the Board members elected by the previous AGM, all of the Board members elected by the year's AGM and the Company's auditor.

#### Annual General Meeting 2010

The 2010 Annual General Meeting will be held on Thursday, 6 May 2010, at 4:00 p.m., at Lundqvist and Lindqvist, Klara strand conference, Klarabergsviadukten 90, Stockholm.

#### Notice of Annual General Meeting

Notice of the AGM is given through an announcement in the Official Gazette (Post- och Inrikes Tidningar) and Svenska Dagbladet no more than six weeks and not less than four weeks prior to the Meeting.

### Nominating Committee

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

The 2009 AGM resolved that the Nominating Committee would be appointed as follows: "The Board Chairman shall convene the three largest shareholders in the company, 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 ownership conditions on 30 June 2009 shall determine which are the largest shareholders in terms of voting power. The Nominating Committee shall be chaired by the member representing the largest shareholder at this time. If any of the three largest shareholders should waive this right to appoint a member of the nominating committee, the shareholder next in order of size shall be given the opportunity to appoint a member. The names of the three owner representatives shall be made public as soon as they have been appointed, but not later than six months before the 2010 Annual General Meeting. The term of office of the Nominating Committee shall extend until a new Nominating Committee has been appointed".

The Nominating Committee has been appointed in accordance with the resolution of the AGM and consists of Per-Erik Andersson, representing Annwall & Rothschild Investment AB, the largest shareholder, the Board Chairman David Dangoor, the second largest shareholder, and Sven Zetterqvist, representing Livförsäkringsaktiefbolaget Skandia, the fourth largest shareholder.

The Nominating Committee shall prepare recommendations to be put before the 2010 AGM for resolution regarding the following matters

- a) appointment of Chairman of the AGM
- b) election of Board of Directors and auditors

- c) election of Board Chairman
- d) fees for the members of the Board
- e) fees for the auditors
- f) appointment of the Nominating Committee for the 2011 AGM.

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

### Board of Directors

According to BioGaia's Articles of Association, the Board shall consist of not less than five and not more than eight members with not more than three deputies. The Board is elected annually by the AGM to serve for the period until the end of the following AGM. In 2009, the Board has consisted of seven members elected by the AGM with no deputies. One Board member, Jan Annwall, who has been a member of the Board since 1990, is employed by the Company and is also a major shareholder. The six remaining members are independent of both the Company and its management. Jan Annwall has notified that he will end his employment with the company on 1 April 2010. A presentation of the Board is provided on page 30.

BioGaia's independent legal counsel has been appointed to serve as Secretary at Board meetings. The Managing Director is not a member of the Board but is a co-opted member at 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 Managing Director and the structure of Board activities during the year. The Board has also adopted instructions for the Managing Director, authorisation instructions including instructions for liquidity management. The rules of procedure, the Managing Director's instructions and the authorisation instructions are reviewed at least once a year.

The Board decides on matters relating to the Group's overall strategy, organisation and management. The Board approves both intermediate reports and the annual report before these are published. The Board held nine minuted meetings and also a strategy seminar in 2009. At these meetings, the Board has discussed budgets, business plans, financial accounts, capital expenditure, financial reports and major contracts. At the strategy seminar, the members of the management group presented their fields of responsibility and thereafter the Board dealt with strategy questions. Paula Zeilon was absent from one meeting and Stefan Elving was absent from two meetings. The other Board members attended all the meetings.

The Board of Directors continuously assesses 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 2009 AGM resolved that Board fees would be paid in amounts of SEK 200,000 to the Board Chairman and SEK 100,000 to each of the other Board members not employed by the Company.

### Board Chairman

The Chairman 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 Managing Director, 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.

### Managing Director

The Managing Director is responsible for overseeing the Company's business development and for supervising and coordinating its day-to-day operations. The Board has adopted instructions for the Managing Director which among other things regulate his management and development of the Company and the provision of reports and decision data to the Board. The Managing Director prepares the requisite information and decision data such as reports on the Company's finances, the order situation, significant business and strategic issues prior to Board meetings, and presents reports and motivates proposals for decision. Furthermore, the Managing Director continuously informs the Board Chairman about the Company's financial and business situation. Every year the Board carries out an evaluation of the Managing Director's performance, when no member of the executive management is present.

## Executive Management

BioGaia's Group Executive Management consists of the 10 persons presented on page 31. The Management Group is headed by the Managing Director and is responsible for planning, supervising and monitoring the Company's day-to-day operations. Minuted meetings are normally held every four weeks. The responsibilities and powers of the Managing Director are regulated by the Swedish Companies Act and by the instructions 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 Managing Director and other senior executives who together make up the Group Executive Management. The principles for remuneration to senior executives are approved by the AGM. The Remuneration Committee prepares its recommendations in accordance with these principles.

## Auditors

BioGaia's independent auditors are normally appointed by the AGM to serve for a period of four years. The 2007 AGM elected Lena de Rosche and Ivar Verner (deputy), both from Grant Thornton Sweden AB, as the Company's auditors until the end of the 2010 AGM. By decision of the AGM, auditing fees are paid on a current account basis.

The auditors examine the administration of the Company by the Board of Directors and the Managing Director and the quality of the Company's financial reporting. At the request of the Board, the auditors also review the six-monthly report and the year-end statement.

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 their ongoing examination of the company's internal control during the financial year.

Grant Thornton has also provided certain tax-related advice and performed other audit-related services. Disclosures about remuneration to the auditors are given in Note 6.

In view of the Company's limited size and volume of transactions, 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 in the absence of the Managing Director and other member of the executive management.

## The Board's report on internal control over financial reporting for the financial year 2009

### Introduction

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

### Financial reporting

The Board is responsible for ensuring that the Company's organisation is structured so that the financial accounts, cash management and other financial conditions are controlled in a satisfactory manner.

Each 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 confirmation by the Board. At Board meetings, the Managing Director reports on matters requiring consideration by the Board.

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

In addition to the rules of procedure between the Board and the Managing

Director, BioGaia's control structure is based on the Company's organisation and operating routines 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 on a monthly basis. Financial reports and summaries are prepared by the Group's finance department and are presented to the Board quarterly and to the executive management each month.

### BioGaia's values

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

### BioGaia's values

- *Our mission is to distribute our natural products which improve human health*
- *We aim to be fast, innovative and informal problem-solvers*
- *We build strong relationships with our customers by meeting their needs*
- *We strive to achieve high quality, delivery reliability and profitability*
- *We have ethical principles, are open and honest in dealing with our colleagues and partners*
- *We take personal responsibility for the success of the company*

### Risk assessment

The Company works continuously with risk assessment and risk management in order to ensure that the risks to which the Company is exposed are managed with the framework 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 essential risks of error in the financial reporting. To limit the risks, suitable processes and controls are built into the activity.

The most critical business processes and the absolutely largest values, both assets and business and product development, are found in the Parent Company. In addition, the majority of the 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 the financial reporting are taken care of 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 correctness 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 2009 the Company's employees met for two days in May.

### Follow-up

The executive management makes an annual evaluation of the effectiveness of the internal control. Each year, the Company's elected auditing firm, Grant Thornton Sweden AB, also reviews 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 deficiencies identified and the resulting recommendations.

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

### Stockholm, 22 February 2010

The Board of Directors of BioGaia AB

This corporate governance report has not been examined by the Company's independent auditor.



## 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 2009 the trading volume reached just over SEK 710 million (240), corresponding to approximately 11 million (7) shares.

The number of shareholders at 31 December 2009 was 7,328 (6,596).

The total registered share capital of BioGaia AB consists of 740,668 class A shares and 16,466,894 class B shares.

### Share price development

In 2009 the share price increased from SEK 33.10 to SEK 80.00. The highest closing price during the year was SEK 91.00. Market capitalisation at 31 December 2009 was approximately SEK 1,375 million (570).

### Dividend policy

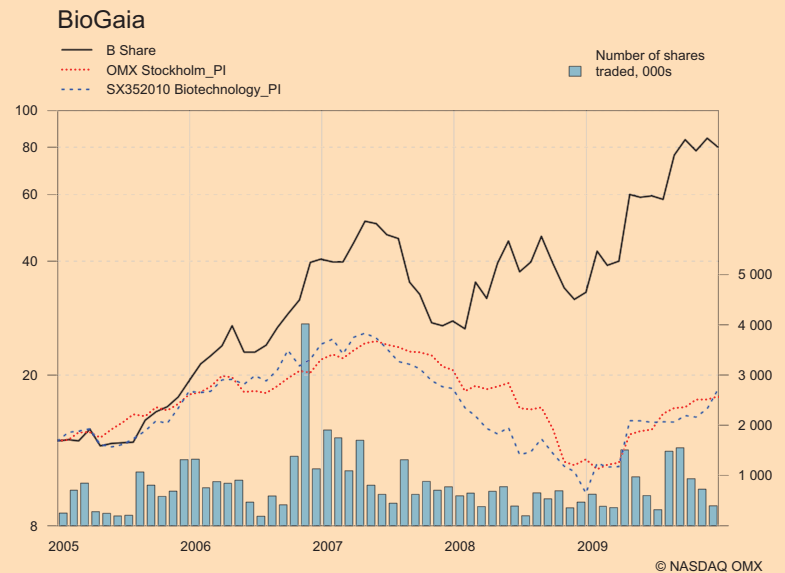
BioGaia's ambition is to pay a shareholder dividend equal to 30% of profit after paid tax.

### 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, resulting in a dilutive effect of around 0.7% in the total number of shares and 0.5% in the total number of votes. Each warrant grants 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. The warrant price was calculated according to the customary valuation method (Black & Scholes model) and amounted to SEK 5.32 per warrant, which means that the employees subscribed for warrants on market-based terms. In valuation according to the Black & Scholes model, a volatility of 30% and a risk-free interest rate of 3.92% were used.

### Distribution of ownership (31 Dec. 2009)

Number of shares	Total number of shareholders 31 December 2009
1–500	5,331
501–1,000	1,063
1,001–5,000	706
5,001–10,000	90
10,001–15,000	23
15,001–20,000	21
20,000–	94
	<b>7,328</b>



## Major shareholders in BioGaia at 31 December 2009

	A shares 000s	B Shares, 000s	Share capital, 000s	No. of votes, SEK 000s	Holding %	Votes %
Annwall & Rothschild Inv. AB	741	1,253	1,994	8,663	11.6	36.3
Banque Öhman S.A		906	906	906	5.3	3.8
David Dangoor (inkl. bolag)		569	569	569	3.3	2.4
Pictet & Cie W8IMY		569	569	569	3.3	2.4
Livförsäkringsaktiebolaget Skandia		511	511	511	3.0	2.1
Futuris		400	400	400	2.3	1.7
Försäkringsaktiebolaget Avanza Pension		353	353	353	2.1	1.5
Caroline Hamilton		303	303	303	1.8	1.3
Credit Agricole Suisse SA		300	300	300	1.7	1.3
Hanvad Invest Aktiebolag		268	268	268	1.6	1.1
Private investment Bank Limited		253	253	253	1.5	1.1
Tangent		244	244	244	1.4	1.0
Lars Thunberg		236	236	236	1.4	1.0
Swedbank Robur Ny Teknik		235	235	235	1.4	1.0
Handelsbanken Svenska småbolagsfond		230	230	230	1.3	1.0
Banque Carnegie Luxembourg SA		215	215	215	1.2	0.9
SIX SIS AG W8IMY		205	205	205	1.2	0.9
Swedbank Robur småbolagsfond Europa		170	170	170	1.0	0.7
Sten Inwe		152	152	152	0.9	0.6
Subfund Ruffer European FD		150	150	150	0.9	0.6
Goldman Sachs International LTD		143	143	143	0.8	0.6
Maerki Baumann & Co AG		140	140	140	0.8	0.6
Nordnet pensionsföräkring AB		135	135	135	0.8	0.6
CR Suisse Lux S A PB		132	132	132	0.8	0.6
Lärostandens Brandförsäkring GE		130	130	130	0.8	0.5
Others		8,265	8,265	8,265	48.0	34.6
<b>Total</b>	<b>741</b>	<b>16,467</b>	<b>17,208</b>	<b>23,877</b>	<b>100.0</b>	<b>100.0</b>

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

Year	Transaction	Increase in no. of shares	Increase in share capital, SEK	Total share capital, SEK	Total no. of A shares	Total no. of B shares	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

\*Excluding underwriting costs

## Board of Directors and Executive Management



### Board of Directors

**Jürgen Thorball** born in 1962, Elected to the Board 2008. Physician. Managing Partner XOventure Aps. Former international senior positions in for example Aventis and Pharmacia. Other board assignments in Pergamum AB, ViroGates A/S, Lina-Medical A/S, YourGlobalEye Aps, Immudex A/S, Imotions A/S and Alsensa Aps. Holds 0 shares.

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

**David Dangoor** Born in 1949. **Chairman of the Board.** Elected to the Board 2003. M.B.A. Marketing and PR consultant. Managing Director of Innoventive Partners LLC. Former Vice President and Marketing Director at Philip Morris USA and Philip Morris International. Other board assignments for Lifetime Brands, Inc., New York, ICP Solar Technologies Inc. Montreal, New York City 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.

**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.

**Paula Zeilon** Born in 1962. Elected to the Board 2003. M.Sc.Eng. Lund Institute of Technology. Partner in Conlega Affärskonsultbolag AB. Former Marketing Director, Amersham Biosciences. Holds 0 shares.

**Inger Holmström** Born in 1948. Elected to the Board in 2007. M.A. in Literary History. Director of relationships in Paf. Former Corporate Communications Director at Coop Norden, Posten and Vattenfall. Other board assignments for Iris AB, the design company Pangea Design, the Mannaminne tourist centre and Star Management AB. Holds 500 class B shares.

**Jan Annwall** Born in 1950. Elected to the Board 1990. M.B.A. Deputy Managing Director and CFO of BioGaia AB. Founder and principal shareholder in BioGaia AB. Holds 370,334 class A shares and 626,625 class B shares via Annwall & Rothschild Investments AB.





## Executive Management

### **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 87,500 class B shares.

### **Jonas Weimer**

Born in 1971, M.B.A.  
Vice President Sales.  
Employed by the Company since 1998, in current position since 2008.  
Holds 10,000 class B shares and 6,000 warrants.

### **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.

### **Urban Strindlöv**

Born in 1964, mechanical engineer.  
Senior Vice President Projects and Product Development. Employed by the Company since 2004.  
Holds 10,000 warrants.

### **Eamonn Connolly**

Born in 1957, Ph.D.  
Senior Vice President Research.  
Employed by the Company since 2000, in current position since 2002.  
Holds 5,000 warrants.

### **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 626,625 class B shares via Annwall & Rothschild Investments AB and 50,000 class B shares privately.

### **Margareta Hagman**

Born in 1966, M.B.A.  
Senior Vice President Accounting, Finance and Investor Relation. Employed by the Company since 1996.  
Holds 5,068 class B shares and 7,000 warrants.

### **Jan Annwall**

Born in 1950, M.B.A.  
Executive Vice President, founder and principal shareholder.  
Holds 370,334 class A shares and 626,625 class B shares via Annwall & Rothschild Investments AB.

### **Cristián Contreras Ruiz-Tagle**

Born in 1968, M.B.A.  
Vice President Marketing.  
Employed by the Company since 2006, in current position since 2008.  
Holds 7,000 warrants.

### **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.

## Auditors

### **Lena de Rosche**

Born in 1954.  
Authorised Public Accountant,  
Grant Thornton Sweden AB.  
Auditor for BioGaia AB since 2003.

### *Deputy Auditor*

### **Ivar Verner**

Born in 1947.  
Authorised Public Accountant,  
Grant Thornton Sweden AB.

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

The 2010 Annual General Meeting will be held on Thursday, 6 May 2010, at 4:00 p.m., at Lundqvist and Lindqvist, Klara strand conference, Klarabergsviadukten 90, Stockholm.

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