

# BioGaia®

**Press Release, 13 February 2008 (13 pages)**

**BioGaia AB**

**Year-end report 2007**

(Figures in brackets refer to the previous year)

- Net sales amounted to SEK 106.6 million (86.8), an increase of SEK 19.8 million (23%) compared to last year.
- Operating profit was SEK 8.9 million (1.7), an improvement of SEK 7.2 million compared to last year.
- Profit before tax was SEK 10.7 million (2.8), an improvement of SEK 7.9 million compared to last year.
- Profit after tax was SEK 19.7 million (2.7), an improvement of SEK 17 million compared to last year. This figure includes a tax income of SEK 9 million arising from deferred tax asset.
- Earnings per share were SEK 1.14 (0.16).
- The period's cash flow from operating activities before change in working capital was SEK 15.8 million (7.8). Total cash flow for the period was SEK 3.3 million (-8.4). Cash and cash equivalents at 31 December 2007 amounted to SEK 43 million.

## Key events in the fourth quarter of 2007

- Launch of oral health products in South Africa and Finland.
- Launch of BioGaia's Probiotic tablets and drops in the USA and Poland.

## Key events after the end of the year

- Agreement with Sunstar for sale of oral health products in more than 100 countries.
- BioGaia continues its Japanese venture.

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

|            |   |
|------------|---|
| 2008-01-30 | BioGaia continues its Japanese venture                  |
| 2008-01-07 | BioGaia signs global agreement for oral health products |
| 2007-10-25 | BioGaia AB Interim report 1 January – 30 September 2007 |

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

**[www.biogaia.com](http://www.biogaia.com)**

## BioGaia AB (publ)

### Year-end report 2007

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

The Board of Directors and the Managing Director of BioGaia AB (publ) hereby present the year-end report for 2007.

### 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 the lactic acid bacterium *Lactobacillus reuteri* (Reuteri) which has health-enhancing effects. BioGaia has also developed unique delivery systems, such as straws and caps containing probiotics, that make it possible to create probiotic products with a long shelf life.

BioGaia has 37 employees, of whom 16 are based in Stockholm, 14 in Lund, 2 in Raleigh, USA, and 5 in Hiroshima, Japan.

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

#### *Business concept*

BioGaia's revenue is derived mainly from the sale of finished products, but also from license rights for the use of Reuteri cultures in customers' own products (such as baby formula and dairy products).

The finished probiotic products consist of tablets, drops, oral health products (chewing gum and lozenges) and probiotic-containing straws and caps.

BioGaia has no sales directly to end-users. Its products are instead sold to companies which then sell the products to end-users.

BioGaia's products are sold through nutrition, food, natural health, pharmaceutical and animal feed companies in some 30 countries worldwide. BioGaia holds patents for the use of Reuteri in all major markets.

#### *The BioGaia brand*

Until now, many of BioGaia's products have been sold under the customer's own brands. BioGaia launched its own brand at the end of 2005 and today has a number of customers in a large number of countries that sell products partly or entirely under the BioGaia brand. Even in cases where customers use their own brands, the BioGaia brand is featured on the package. BioGaia's strategy is to increase the share of sales under its own brand.

### *Research*

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 and respiratory tract infections,
- alleviate the side effects of antibiotic treatment,
- reduce the level of *H. pylori* infection,
- relieve infantile colic,
- reduce gum inflammation and the risk for dental caries,
- reduce the risk of infection in premature infants.

### KEY EVENTS IN THE FOURTH QUARTER

- Sunstar launched oral health products in Sweden.

- Everdis launched BioGaia's Probiotic drops and tablets in the USA.

- Ewopharma launched BioGaia's Probiotic drops and tablets in Poland.

- Verman launched oral health products in Finland.

- Thebe launched oral health products in South Africa.

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

### EVENTS AFTER THE END OF THE YEAR

#### *Global agreement with Sunstar*

Sunstar Suisse SA had since earlier an option to a distribution agreement for a large number of countries. At the beginning of January 2008, Sunstar exercised this option and signed an additional agreement with BioGaia that gives Sunstar exclusive rights to distribute BioGaia's probiotic oral health products in more than 100 countries.

The products will be sold under Sunstar's GUM PerioBalance brand. The agreement also includes possibilities to develop new oral products in joint projects. The launch will be carried out within a 2-year period. One of the first launches will take place in the USA during 2008. Sunstar already distributes BioGaia's oral health products in Germany, France, Italy, Spain and Sweden.

### ***BioGaia continues its Japanese venture***

Pilot sales of soy drinks with BioGaia's Probiotic straw started in the second quarter and continued through the end of the year. Efforts to adapt the products and marketing for the Japanese market are in progress. The Company has decided to continue its Japanese venture. The cost of this venture in 2007 amounted to SEK 8.4 million, where the high level is attributable to costs for marketing and the establishment of a local organisation. This is part of BioGaia's long-term focus on its own brand. The venture is expected to burden profit also for the first half of 2008, but not at all to the same extent as earlier.

### **EARLIER EVENTS IN 2007**

#### ***Two agreements with Semper***

In January 2007 BioGaia signed an agreement with Semper AB giving Semper the right to sell BioGaia's probiotic drops in Sweden and Norway. In March BioGaia signed an additional agreement giving Semper the right to use Reuteri in baby formula products for the Nordic market. The probiotic drops are sold in pharmacies under the name "Semper Magdroppar", featuring BioGaia's design and brand on the package.

#### ***Agreement with Delta Medical***

In February 2007 BioGaia signed a distribution agreement with Delta Medical Promotions AG, Switzerland, giving Delta Medical exclusive rights to sell BioGaia's Probiotic drops in Ukraine and non-exclusive rights in Russia. The drops will be sold under the BioGaia brand. The launch was expected before the end of 2007, but will now take place in the first quarter of 2008.

#### ***Agreement with Everidis***

In March BioGaia signed an agreement with Everidis Health Sciences LLC giving Everidis the right to sell BioGaia's Probiotic drops, tablets and straws in the USA. The launch took place in October at the *American Academy of Pediatrics* congress in San Francisco, California. The products are sold under the BioGaia brand to pharmacies and doctors throughout the USA.

#### ***Agreement with Earth Biochemical***

In June BioGaia signed an agreement with Earth Biochemical, a company in the Otsuka group, for the right to sell oil drops for dogs in Japan. The oil drops contain a Reuteri strain that has been specially developed for dogs.

### ***Agreement with Verman***

In August BioGaia signed an agreement with Verman OY giving Verman exclusive rights to distribute BioGaia's oral health products in Finland. The products are sold via pharmacies and dental clinics. The launch of the oral health products took place in the fourth quarter. Verman is already the distributor of BioGaia's probiotic drops and tablets in Finland.

### ***Agreement with Thebe***

In August BioGaia signed an agreement with Thebe Medicare giving Thebe exclusive rights to distribute BioGaia's oral health products in South Africa. The first delivery was made in September and the launch took place in the fourth quarter. Thebe already sells BioGaia's tablets and drops in South Africa.

### ***Agreement with Ferring***

In mid-August BioGaia signed an additional agreement with Ferring Pharmaceuticals giving Ferring exclusive rights to sell BioGaia's Probiotic drops in Mexico, Brazil and Greece. The products will be sold under the BioGaia brand. The registration process has been started and the launch will take place soon as approval is obtained, which is expected in 2008. Ferring already sells BioGaia's Probiotic drops in Spain, Portugal, Canada and the Czech Republic. Ferring also has the right to sell BioGaia's Probiotic drops in a number of countries in the Middle East. The first launch will take place in Jordan during the beginning of 2008.

### ***Agreement for South America***

In early September BioGaia signed an agreement with the Chilean pharmaceutical company Corporación Farmacéutica Recalcine. The agreement gives Recalcine exclusive rights to sell BioGaia's probiotic tablets and drops in five countries; Chile, Peru, Bolivia, Ecuador and Paraguay. Recalcine is the largest pharmaceutical company in Chile and Peru. The products will be sold under the BioGaia brand. The registration process has been started and the launch will take place as soon as approval is obtained, which is expected in 2008.

### ***Agreement with Sunstar in Scandinavia***

In September BioGaia signed an agreement with Sunstar Suisse SA, giving the company exclusive rights to distribute BioGaia's probiotic oral health products in Sweden, Norway and Denmark.

### **Agreement for Turkey**

In September BioGaia signed an additional agreement with Italchimici SpA in Italy giving Italchimici exclusive rights to sell BioGaia's probiotic drops, tablets and straws in Turkey through the Turkish pharmaceutical company Eczacibasi.

The products will be sold under BioGaia's own brand. The registration process has been started and the launch is expected to take place in 2009.

### **Product launches in the first nine months of 2007**

- Sunstar, oral health products in Germany, Spain, Italy and France
- Kalbe, BioGaia's probiotic tablets in Indonesia
- Ferring, BioGaia's Probiotic drops in Spain and the Czech Republic
- Semper, drops and baby formula with Reuteri in Sweden
- Laboratorios Casen, Reuteri tablets in Spain
- Ewopharma, BioGaia's Probiotic drops and tablets in Slovakia.

### **Colic study published**

At the beginning of 2007 the clinical study on the effects of Reuteri on colic was published in the scientific journal *Pediatrics* and attracted considerable attention from the media, including coverage by the American TV broadcasting company ABC and Swedish Science Radio P1. The results of the study demonstrate Reuteri's powerful efficacy against colic. This study, together with the study carried out on premature infants and large-scale safety studies performed by BioGaia, has further strengthened BioGaia's position in the paediatric area.

### **Annual General Meeting of BioGaia**

The 2007 AGM on 24 April resolved unanimously to:

- elect Inger Holmström as a new member of the Board
- elect David Dangoor as the new Board Chairman
- adopt an incentive scheme in accordance with the proposal of the board,
- adopt principles for remuneration and other terms of employment of senior executives in accordance with the proposal of the board.

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

In June BioGaia carried out the option warrant program that was approved by the AGM. A total of 128,950 warrants were subscribed for by the employees (of which 27,000 by the management), resulting in a dilution 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.

### **Stockholm office relocated**

On 1 September the Company's head office in Stockholm moved into new premises at Kungsbrogatan 3A. BioGaia's management, sales and marketing organisation, quality assurance department and accounting function are based in Stockholm.

### **FINANCIAL PERFORMANCE IN 2007**

The Group's net sales amounted to SEK 106.6 million (86.8), an increase of 23% compared to last year.

BioGaia's probiotic drops and oral health products accounted for most of the year's sales growth.

Sales in Europe rose by 67% mainly due to higher sales of tablets and drops in Italy and Finland and oral health products in Spain, Italy, Germany and France. In Asia, sales fell by 19%. The drop in Asia is explained by a lump-sum payment in the prior year and a decrease in orders from two Japanese customers in connection with organisational changes. In the fourth quarter, sales to Asia improved over earlier quarters in the year.

Gross profit was SEK 71.5 million, an increase of SEK 12.3 million compared to 2006.

Selling expenses rose by SEK 6.8 million over the previous year, mainly due to a cost increase of SEK 4 million attributable to Japan and PR activities in the USA.

The year's R&D expenses amounted to SEK 17.9 million (18.8), which is equal to 18% (22%) of total operating expenses. The amortisation component of research and development expenses amounted to SEK 3.4 million (3.9). Investments in capitalised development expenses totalled SEK 0 million (0).

Operating profit was SEK 8.9 million (1.7), an improvement of SEK 7.2 million compared to last year. The figure for 2007 includes a bonus of SEK 0.4 million (including social security expenses) to all employees which will be paid in February 2008.

Profit before tax was SEK 10.7 million (2.8), an improvement of SEK 7.9 million compared to last year.

Profit after tax amounted to SEK 19.7 million (2.7), an increase of SEK 16.9 million compared to last year.

The Group pays no tax due to the existence of a cumulative loss carryforward. The total loss

carryforward in the Group at 31 December 2007 was SEK 123.1 million. A deferred tax income of SEK 9 million is recognised in the income statement for 2007. Because the company has recorded a profit only in the past two years and has not yet shown a sustainable profit level, the entire deferred tax asset has not been recognised.

The Group's cash and cash equivalents at 31 December 2007 totalled SEK 43.0 million (39.8).

Cash flow for the year was SEK 3.3 million (-8.4), an improvement of SEK 11.7 million compared to last year.

In 2007 the company paid a conditional shareholder contribution of SEK 0.5 million to the associated company TwoPac AB. In addition, a previous loan of SEK 1 million to TwoPac was converted into a conditional shareholder contribution.

Cash flow from operating activities before change in working capital was SEK 15.8 million (7.8), an improvement of SEK 8 million compared to last year. The increase in working capital was SEK 10.7 million and is mainly attributable to inventories and accounts receivable.

Consolidated equity amounted to SEK 94.9 million (74.5). The Group's equity/assets ratio was 86% (82%). Capital expenditure on tangible assets totalled SEK 2.0 million (1.1).

The Parent Company reported net sales of SEK 107.0 million (86.9) million and a profit after net financial items of SEK 9.0 million (2.0). Profit after tax was SEK 18.0 million (2.0).

#### **FINANCIAL PERFORMANCE IN THE FOURTH QUARTER OF 2007**

Fourth quarter sales amounted to SEK 32.0 million, an improvement of SEK 7.3 million (30%) compared to the same period of last year. Compared to the third quarter of 2007, sales rose by SEK 8.6 million.

Since BioGaia still has a limited number of customers, the timing of deliveries can lead to sizeable variations in income between quarters. However, the Company's recurring order intake is rising steadily, which is helping to reduce quarterly variations.

Operating profit for the fourth quarter was SEK 5.6 million, an increase of SEK 5.1 million over the same period of last year that is mainly attributable to growth in sales. Compared to the third quarter, operating profit rose by SEK 4.9 million. Profit after tax for the fourth quarter was SEK 15.3 million, up by SEK 14.4 million over the same quarter of last year. Compared to the third quarter of 2007, profit after tax

increased by SEK 14.2 million. Profit for the period includes a tax income amounting to SEK 9 million. Aside from this item, profit improved by SEK 5.3 million compared to the fourth quarter of last year and by SEK 5.2 million compared to the third quarter of 2007.

Fourth quarter cash flow was SEK -1.6 million, because of an increase in working capital during the quarter mainly in accounts receivable and inventories. Cash flow from operating activities before change in working capital was SEK 7.3 million.

#### **EMPLOYEES**

The total number of employees at 31 December 2007 was 37 (34).

#### **SIGNIFICANT RISKS AND UNCERTAINTIES**

The ongoing trial sales to the Japanese retail trade are associated with an increased market risk. Although the market has shown a strong interest in these products, relatively large volumes are needed to achieve adequate profitability.

The shares in the associated company (TwoPac AB) and the receivable from the associated company amounted to a total of SEK 10 million (10.6). TwoPac AB's primary 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 the cash flow from TwoPac will generate good profitability, for which reason no impairment loss was recognised on the balance sheet date. Should BioGaia's investment fail in full or in part, the Company may be forced to recognise an impairment loss on all or parts of the holding in and receivables from the associated company.

BioGaia's capitalised development expenditure amounts to SEK 8.2 million, of which SEK 2.4 million refers to the LifeTop Cap project. BioGaia has one contract for LifeTop Cap and has received inquiries from a number of potential customers. BioGaia's assessment is that the cash flow from LifeTop Cap will generate good profitability, for which reason no impairment loss has been recognised. Should this investment fail in full or in part, BioGaia may be forced to recognise an impairment loss on all or parts of the project cost.

#### **APPROPRIATION OF ACCUMULATED DEFICIT**

The Board of Directors and Managing Director propose that the total accumulated deficit be covered through a transfer from the share premium reserve and a reduction in the legal reserve. No dividend is proposed.

## **FUTURE OUTLOOK**

BioGaia's goal is to attain a good long-term return through increased sales to both existing and new customers and limited growth in the cost level.

Over the coming two-year period, BioGaia expects the tablets, drops and oral health

products to be launched in a large number of countries.

In view of the Company's strong portfolio of innovative products, successful clinical trials and growing distribution network covering a large share of the key markets, BioGaia's future outlook is bright.

**CONSOLIDATED INCOME STATEMENTS**

(Amounts in SEK 000s)

|  | <b>Jan-Dec<br/>2007</b> | Jan-Dec<br>2006 | <b>Oct-Dec<br/>2007</b> | Oct-Dec<br>2006 |
|--|-------------------------|-----------------|-------------------------|-----------------|
| Net sales                                  | 106,580                 | 86,792          | 32,029                  | 24,675          |
| Cost of goods sold                         | -35,122                 | -27,636         | -10,042                 | -7,985          |
| Gross profit                               | 71,458                  | 59,156          | 21,987                  | 16,690          |
| Other operating income                     | 1,691                   | 166             | 926                     | -2              |
| Selling expenses                           | -37,739                 | -30,886         | -10,630                 | -8,656          |
| Administrative expenses                    | -7,487                  | -6,847          | -1,857                  | -1,665          |
| Research and development expenses          | -17,938                 | -18,755         | -4,666                  | -5,849          |
| Other operating expenses                   | -                       | -433            | -                       | -9              |
| Share in profit/loss of associated company | -1,103                  | -685            | -143                    | -35             |
| Other operating expenses                   | 8,882                   | 1,716           | 5,617                   | 474             |
| Financial income and expenses              | 1,807                   | 1,039           | 688                     | 507             |
| Profit before tax                          | 10,689                  | 2,755           | 6,305                   | 981             |
| Tax  | 8,970                   | -35             | 8,970                   | -35             |
| PROFIT FOR THE PERIOD                      | 19,659                  | 2,720           | 15,275                  | 946             |

**Earnings per share**

Earnings per share (average number of shares), SEK

|  |        |        |        |        |
|--|--------|--------|--------|--------|
|  | 1.14   | 0.16   | 0.89   | 0.05   |
| Earnings per share after dilution, SEK             | 1.14   | 0.16   | 0.89   | 0.05   |
| Number of shares, thousands                        | 17,208 | 17,208 | 17,208 | 17,208 |
| Average number of shares, thousands                | 17,208 | 17,208 | 17,208 | 17,208 |
| Average number of shares after dilution, thousands | 17,208 | 17,208 | 17,208 | 17,208 |

**CONSOLIDATED BALANCE SHEETS**

(Amounts in SEK 000s)

**ASSETS**

|  | <b>31-dec<br/>2007</b> | 31-dec<br>2006 |
|--|------------------------|----------------|
| Intangible assets                              | 8,199                  | 11,416         |
| Tangible assets                                | 2,617                  | 1,389          |
| Participations in associated company           | 5,585                  | 5,188          |
| Long-term receivable from associated company   | 4,400                  | 5,400          |
| Deferred tax asset                             | 9,000                  | -              |
| Other long-term receivable                     | 27                     | 18             |
| Current assets excl. cash and cash equivalents | 37,968                 | 27,633         |
| Cash and cash equivalents                      | 42,977                 | 39,719         |
| <b>TOTAL ASSETS</b>                            | <b>110,773</b>         | <b>90,763</b>  |

**EQUITY AND LIABILITIES**

|                                     |                |               |
|-------------------------------------|----------------|---------------|
| Shareholders' equity                | 94,910         | 74,530        |
| Interest-free current liabilities   | 15,863         | 16,233        |
| <b>TOTAL EQUITY AND LIABILITIES</b> | <b>110,773</b> | <b>90,763</b> |

**CONSOLIDATED CASH FLOW STATEMENTS**

(Amounts in SEK 000s)

Operating activities

|   | <b>Jan-Dec<br/>2007</b> | Jan-Dec<br>2006 | <b>Oct-Dec<br/>2007</b> | Oct-Dec<br>2006 |
|---|-------------------------|-----------------|-------------------------|-----------------|
| Operating profit  | <b>8,882</b>            | 1,716           | <b>5,617</b>            | 474             |
| Depreciation/amortisation   | <b>3,979</b>            | 4,314           | <b>828</b>              | 1,132           |
| Capital gains/losses on the sale of fixed assets                      | -                       | -147            | -                       | -2              |
| Share in profit/loss of associated company                            | <b>1,103</b>            | 685             | <b>143</b>              | 35              |
| Other non-cash items  | <b>-12</b>              | 143             | <b>24</b>               | 50              |
| Interest received and paid  | <b>1,807</b>            | 1,039           | <b>687</b>              | 507             |
| Cash flow from operating activities before changes in working capital | <b>15,759</b>           | 7,750           | <b>7,299</b>            | 2,196           |
| Changes in working capital  | <b>-10,671</b>          | -8,581          | <b>-8,550</b>           | -4,096          |
| <i>Cash flow from operating activities</i>                            | <b>5,088</b>            | -831            | <b>-1,251</b>           | -1,900          |
| <i>Cash flow from investing activities</i>                            | <b>-2,516</b>           | -4,566          | <b>-387</b>             | -1,263          |
| <i>Cash flow from financing activities</i>                            | <b>686</b>              | -2,984          | -                       | -2,984          |
| Cash flow for the period  | <b>3,258</b>            | -8,381          | <b>-1,638</b>           | -6,147          |
| Cash and cash equivalents at beginning of period                      | <b>39,719</b>           | 48,349          | <b>44,633</b>           | 45,964          |
| Exchange differences in cash and cash equivalents                     | -                       | -249            | <b>-18</b>              | -98             |
| Cash and cash equivalents at end of period                            | <b>42,977</b>           | <b>39,719</b>   | <b>42,977</b>           | <b>39,719</b>   |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(Amounts in SEK 000s)

|                                     | <b>Jan-Dec<br/>2007</b> | Jan-Dec<br>2006 |
|-------------------------------------|-------------------------|-----------------|
| At beginning of period              | <b>74,530</b>           | 71,779          |
| The period's translation difference | <b>35</b>               | 31              |
| Warrants in BioGaia AB              | <b>686</b>              | -               |
| Profit for the period               | <b>19,659</b>           | 2,720           |
| At end of period                    | <b>94,910</b>           | 74,530          |

**SEGMENT REPORTING – GROUP**

(Amounts in SEK 000s)

Sales

|                | <b>Jan-Dec<br/>2007</b> | Jan-Dec<br>2006 |
|----------------|-------------------------|-----------------|
| Europe         | <b>62,354</b>           | 37,290          |
| USA and Canada | <b>7,736</b>            | 6,888           |
| Asia           | <b>25,895</b>           | 32,027          |
| Rest of world  | <b>10,595</b>           | 10,587          |
|                | <b>106,580</b>          | 86,792          |

**PARENT COMPANY INCOME STATEMENTS**

|  | <b>Jan-Dec<br/>2007</b> | <b>Jan-Dec<br/>2006</b> |
|--|-------------------------|-------------------------|
| Net sales  | <b>107,034</b>          | 86,855                  |
| Cost of goods sold                               | <b>-35,827</b>          | -27,777                 |
| <i>Gross profit</i>                              | <b>71,207</b>           | 59,078                  |
| Selling expenses                                 | <b>-39,565</b>          | -28,676                 |
| Administrative expenses                          | <b>-7,488</b>           | -6,846                  |
| Research and development expenses                | <b>-17,784</b>          | -18,553                 |
| Other operating income                           | <b>1,691</b>            | 80                      |
| Other operating expenses                         | <b>-</b>                | -433                    |
| <i>Operating profit</i>                          | <b>8,061</b>            | 4,650                   |
| Result from participations in associated company | <b>-1,103</b>           | -3,712                  |
| Net financial items                              | <b>2,086</b>            | 1,036                   |
| Profit before tax                                | <b>9,044</b>            | 1,974                   |
| Tax expense for the period                       | <b>9,000</b>            | -                       |
| <b>PROFIT FOR THE PERIOD</b>                     | <b>18,044</b>           | 1,974                   |

**PARENT COMPANY BALANCE SHEETS**

|  | <b>31 Dec<br/>2007</b> | <b>31 Dec<br/>2006</b> |
|--|------------------------|------------------------|
| <b><u>ASSETS</u></b>                           |                        |                        |
| Intangible assets                              | <b>8,199</b>           | 11,416                 |
| Tangible assets                                | <b>2,287</b>           | 1,145                  |
| Shares in group companies                      | <b>4,137</b>           | 4,137                  |
| Shares in associated companies                 | <b>5,585</b>           | 5,188                  |
| Long-term receivables from subsidiaries        | <b>1,325</b>           | -                      |
| Long-term receivables from associated company  | <b>4,400</b>           | 5,400                  |
| Deferred tax asset                             | <b>9,000</b>           | -                      |
| Current assets excl. cash and cash equivalents | <b>36,392</b>          | 28,450                 |
| Cash and cash equivalents                      | <b>42,103</b>          | 38,640                 |
| <b>TOTAL ASSETS</b>                            | <b>113,428</b>         | 94,376                 |
| <b><u>EQUITY AND LIABILITIES</u></b>           |                        |                        |
| Shareholders' equity                           | <b>94,908</b>          | 76,178                 |
| Interest-free current liabilities              | <b>18,520</b>          | 18,198                 |
| <b>TOTAL EQUITY AND LIABILITIES</b>            | <b>113,428</b>         | 94,376                 |

**Pledged assets and contingent liabilities for the parent company**

|                        |              |       |
|------------------------|--------------|-------|
| Floating charges       | <b>2,000</b> | 2,000 |
| Contingent liabilities | <b>none</b>  | none  |

**PARENT COMPANY CASH FLOW STATEMENTS**

|   | <b>Jan-Dec<br/>2007</b> | <b>Jan-Dec<br/>2006</b> |
|---|-------------------------|-------------------------|
| <u>Operating activities</u>   |                         |                         |
| Operating profit  | <b>8,061</b>            | 4,650                   |
| Depreciation/amortisation   | <b>3,902</b>            | 4,187                   |
| Capital gains/losses on the sale of fixed assets                      | -                       | -60                     |
| Other non-cash items  | <b>-8</b>               | 143                     |
| Interest received and paid  | <b>2,086</b>            | 1,036                   |
| Cash flow from operating activities before changes in working capital | <b>14,041</b>           | 9,956                   |
| Changes in working capital  | <b>-9,373</b>           | -10,864                 |
| <i>Cash flow from operating activities</i>                            | <b>4,668</b>            | -908                    |
| <i>Cash flow from investing activities</i>                            | <b>-1,899</b>           | -4,931                  |
| <i>Cash flow from financing activities</i>                            | <b>686</b>              | -2,984                  |
| Cash flow for the period  | <b>3,455</b>            | -8,823                  |
| Cash and cash equivalents at beginning of period                      | <b>38,640</b>           | 47,606                  |
| Exchange differences in cash and cash equivalents                     | <b>8</b>                | -143                    |
| Cash and cash equivalents at end of period                            | <b>42,103</b>           | 38,640                  |

**PARENT COMPANY STATEMENT OF CHANGES IN EQUITY**

(Amounts in SEK 000s)

|                         | <b>Jan-Dec<br/>2007</b> | <b>Jan-Dec<br/>2006</b> |
|-------------------------|-------------------------|-------------------------|
| At beginning of period  | <b>76,178</b>           | 74,204                  |
| New issue of warrants   | <b>686</b>              | -                       |
| Profit for the period   | <b>18,044</b>           | 1,974                   |
| <b>At end of period</b> | <b>94,908</b>           | 76,178                  |

**SEGMENT REPORTING – PARENT COMPANY**

(Amounts in SEK 000s)

|                | <b>Jan-Dec<br/>2007</b> | <b>Jan-Dec<br/>2006</b> |
|----------------|-------------------------|-------------------------|
| Europe         | <b>62,269</b>           | 37,205                  |
| USA and Canada | <b>7,544</b>            | 6,583                   |
| Asia           | <b>26,626</b>           | 32,480                  |
| Rest of world  | <b>10,595</b>           | 10,587                  |
|                | <b>107,034</b>          | 86,855                  |

**RELATED PARTY TRANSACTIONS GROUP AND PARENT COMPANY**

(Amounts in SEK 000s)

The Group and the parent company have a 50% holding in TwoPac AB, which is reported as an associated company.

The following transactions have taken place with TwoPac AB.

|  | <b>Jan-Dec<br/>2007</b> | Jan-Dec<br>2006 |
|--|-------------------------|-----------------|
| Interest income                            | 304                     | 227             |
| Shareholder contributions paid             | 500                     | 2,900           |
| Loan converted to Shareholder contribution | 1,000                   | -               |
| Purchase of goods                          | 2,259                   | 527             |
| Advance payments for future deliveries     | 600                     | -               |
| Purchase of machinery and equipment        | 1,195                   | -               |

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

*Long-term receivables from TwoPac AB*

|  | <b>31 Dec<br/>2007</b> | 31 Dec<br>2006 |
|--|------------------------|----------------|
| <i>Long-term receivables from TwoPac AB</i>      | 4,400                  | 5,400          |
| <i>Current transactions with related parties</i> |                        |                |
| Current receivables from TwoPac AB               | 85                     | 65             |
| Current liabilities to TwoPac AB                 | -                      | -44            |
|  | 85                     | 21             |

**KEY RATIOS 1)**

|   | <b>Jan-Dec<br/>2007</b> | Jan-Dec<br>2006 |
|---|-------------------------|-----------------|
| <b>Return on</b>  |                         |                 |
| - average shareholders' equity  | 23.2%                   | 4.0%            |
| - average capital employed  | 12.7%                   | 4.0%            |
| <b>Capital employed, SEK 000s</b>   | 94,910                  | 74,530          |
| <b>Number of shares, thousands</b>  | 17,208                  | 17,208          |
| <b>Average number of shares, thousands</b>                                      | 17,208                  | 17,208          |
| <b>Number of outstanding warrants, thousands</b>                                | 129                     | -               |
| <b>Average number of outstanding warrants with a dilutive effect, thousands</b> | -                       | -               |
| <b>Average number of shares after dilution, thousands</b>                       | 17,208                  | 17,208          |
| <b>Earnings per share, SEK</b>  | 1.14                    | 0.16            |
| <b>Earnings per share after dilution, SEK</b>                                   | 1.14                    | 0.16            |
| <b>Equity per share, SEK</b>  | 5.52                    | 4.33            |
| <b>Equity per share after dilution, SEK</b>                                     | 5.52                    | 4.33            |
| <b>Equity/assets ratio</b>  | 86%                     | 82%             |
| <b>Average number of employees</b>  | 37                      | 34              |

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

## **ACCOUNTING POLICIES**

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) that have been endorsed by the European Commission for application in the EU. This interim report has been prepared for the Group in accordance with IAS 34, Interim Financial Reporting, and the Annual Accounts Act, and for the Parent Company in accordance with the Annual Accounts Act.

The Group and the Parent Company apply the same accounting and valuation principles as in the 2006 annual report

## **FINANCIAL CALENDAR**

|                 |  |
|-----------------|--|
| 24 April 2008   | Interim report 1 January – 31 March 2008     |
| 24 April 2008   | Annual General Meeting                       |
| 20 August 2008  | Interim report 1 January – 30 June 2008      |
| 23 October 2008 | Interim report 1 January – 30 September 2008 |

The Annual General Meeting will be held at 4:00 p.m. on 22 April 2008, at Klarabergsviadukten 90 in Stockholm.

The 2007 annual report will be distributed to all shareholders in March 2008 and can also be ordered by telephone +46 8-555 293 00 or by e-mail to [info@biogaia.se](mailto:info@biogaia.se)

**The Board of Directors and the Managing Director hereby give their assurance that the year-end report provides a true and fair picture of the business operations, financial position and results of operations of the Parent Company and the Group, and presents the significant risks and uncertainties to which the Parent Company and the Group are exposed.**

Stockholm, 13 February 2008

The Board of Directors and the Managing Director

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## **REVIEW REPORT**

### *Introduction*

I have reviewed the interim report for BioGaia AB (publ), corporate identity number 556380-8723, for the period from 1 January to 31 December 2007. The Board of Directors and Managing Director are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. My responsibility is to express a conclusion on this interim financial information based on my review.

### *Scope of review*

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

### *Conclusion*

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

**Stockholm, 13 February 2008**

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