



Biovitrum AB (publ)
6,700,000 Ordinary Shares

This offering memorandum relates to the initial public offering of 6,700,000 of our ordinary shares. All of the shares offered hereby are being offered by certain of our shareholders. We will not receive any of the proceeds from the sale of these shares. The offering consists of: (i) a public offering in Sweden and (ii) a private placement to institutional investors in various jurisdictions, including a private placement in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). All offers and sales of the shares outside the United States will be made in compliance with Regulation S under the Securities Act.

Prior to this offering there has been no public market for our shares. Application has been made to list our shares on the O-list of Stockholmsbörsen (the "Stockholm Stock Exchange") under the trading symbol "BVT."

Offering Price: SEK 100 per share

Investing in our shares involves risks
Please see the section entitled "Risk Factors" beginning on page 10.

Certain of our selling shareholders have granted Carnegie Investment Bank AB an option for a period of 30 calendar days from the commencement of trading in our shares to purchase up to an additional 1,000,000 of our shares solely to cover over-allotments, if any, in the offering. See "Plan of Distribution."

The securities offered hereby have not been and will not be registered under the Securities Act or any securities laws of any state within the United States or of any jurisdiction outside Sweden and may be offered and sold only in transactions that are exempt from, or not subject to, the registration requirements of the Securities Act. For a description of these and certain additional restrictions on resale or transfer, see "Transfer Restrictions."

The Managers (as defined herein) expect to cause delivery of the shares to purchasers on or about September 20, 2006 through the facilities of VPC AB ("VPC"), the Swedish central securities depository and clearing organization, against payment therefore in immediately available funds. The shares will be eligible for clearance through the facilities of VPC, Euroclear and Clearstream, Luxembourg.

Global Coordinator and Bookrunner

CARNEGIE

Co-Lead Manager

ABG SUNDAL COLLIER

September 14, 2006

A SEPARATE PROSPECTUS IN SWEDISH HAS BEEN REGISTERED WITH THE SWEDISH FINANCIAL SUPERVISORY AUTHORITY (SW. FINANSINSPEKTIONEN) (THE “SFSA”) IN ACCORDANCE WITH THE PROVISIONS OF CHAPTER 2, SECTION 26 OF THE SWEDISH FINANCIAL INSTRUMENTS TRADING ACT (1991:980). REGISTRATION BY THE SFSA DOES NOT IMPLY THAT THE SFSA GUARANTEES THE FACTUAL INFORMATION PROVIDED HEREIN IS CORRECT OR COMPLETE.

The shares have not been and will not be registered under the Securities Act, for offer or sale as part of their distribution and, subject to certain exceptions, may not be offered or sold in the United States.

No person is or has been authorized to give any information or to make any representation in connection with the offer or sale of the shares other than those contained in this offering memorandum, and, if given or made, such information or representations must not be relied upon as having been authorized. No representation or warranty, express or implied, is made by Carnegie Investment Bank AB (“Carnegie”) or the other managers named under the heading “Plan of Distribution” in this offering memorandum (collectively, the “Managers”) as to the accuracy or completeness of information contained in this offering memorandum. This offering memorandum does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates, or an offer to sell or the solicitation of an offer to buy such securities by any person under any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this offering memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Biovitrum since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

In making an investment decision, investors must rely on their own examination of the Company and the terms of this offering, including the merits and risks involved.

The distribution of this offering memorandum and the offer or sale of the shares in certain jurisdictions is restricted by law. No action has been or will be taken by the Company, the Selling Shareholders or the Managers to permit a public offering in any jurisdiction other than Sweden. Persons into whose possession this offering memorandum may come are required by the Company, the Selling Shareholders and the Managers to inform themselves about and to observe such restrictions. This offering memorandum may not be used for, or in connection with, any offer to, or solicitation by, any person in any jurisdiction or under any circumstances in which such offer or solicitation is not authorized or is unlawful. This offering memorandum does not constitute an offer to sell or a solicitation of an offer to buy any of the shares in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction. Further information with regard to restrictions on offers and sales of the shares and the distribution of this offering memorandum is set forth under “*Plan of Distribution—Selling Restrictions.*”

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

The securities offered hereby have not been recommended by any U.S. federal or state securities commission or regulatory authority. Furthermore, the aforementioned authorities have not confirmed the accuracy or determined the adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

The shares have not been and will not be registered under the Securities Act and, unless so registered, may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the shares are being offered and sold (a) in the United States, only to “qualified institutional buyers” (as defined in Rule 144A) (“QIBs”) in transactions exempt from the registration requirements of the Securities Act, and (b) outside the United States in accordance with Rule 903 of Regulation S of the Securities Act. Prospective investors in the United States are hereby notified that the Managers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. For certain restrictions on resale of the shares, see “*Transfer Restrictions*.”

In the United States, this offering memorandum is being furnished on a confidential basis solely for the purpose of enabling a prospective investor to consider purchasing the particular securities described herein.

The information contained in this offering memorandum has been provided by the Company and other sources identified herein. Distribution of this offering memorandum to any person other than the offeree specified by the Managers or their representatives, and those persons, if any, retained to advise such offeree with respect thereto, is unauthorized, and any disclosure of its contents, without prior written consent of the Company, is prohibited. Any reproduction or distribution of this offering memorandum in the United States, in whole or in part, and any disclosure of its contents to any other person is prohibited. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the shares.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

This offering memorandum is directed only at persons who (i) are outside the United Kingdom or (ii) have professional experience in matters relating to investments, or (iii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associates, etc.”) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons together being referred to as “relevant persons”). This offering memorandum must not be acted on or relied on by persons in the United Kingdom who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

NOTICE TO PROSPECTIVE INVESTORS IN CANADA

The shares have not been and will not be qualified for sale in Canada or any province or territory of Canada pursuant to a prospectus and may not be offered or sold directly or indirectly in any province or Territory of Canada except pursuant to an exemption from the applicable prospectus filing requirements, and in compliance with the applicable securities rules of such province or territory. Investors in Canada should refer to the section of this offering memorandum entitled “*Plan of Distribution—Selling Restrictions—Canada.*”

NOTICE TO PROSPECTIVE INVESTORS IN JAPAN

The shares have not been and will not be registered under the Securities and Exchange Law of Japan. The shares may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (including Japanese corporations) or to any persons for reoffering or resale, directly or indirectly, in Japan or to any resident of Japan, except pursuant to an exemption from the registration requirements of the Securities and Exchange Law available thereunder and in compliance with all other applicable laws and regulations of Japan.

NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA

This offering memorandum has been prepared on the basis that all offers of shares other than the offer contemplated in the offering memorandum in Sweden, once the offering memorandum has been approved by the competent authority in Sweden and published in accordance with the Prospectus Directive (2003/71/EC) as implemented in Sweden, will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the European Economic Area (“EEA”), from the requirement to produce a prospectus for offers of shares. Accordingly, any person making or intending to make any offer within the EEA of shares which are the subject of the placement contemplated in this offering memorandum should only do so in circumstances in which no obligation arises for the Company or any of the Managers to produce a prospectus for such offer. Neither the Company nor the Managers have authorized, nor do they authorize, the making of any offer of shares through any financial intermediary, other than offers made by the Managers which constitute the final placement of shares contemplated in this offering memorandum.

NOTICE TO PROSPECTIVE INVESTORS IN SWITZERLAND

Any shares offered hereby are being offered in Switzerland on the basis of a private placement. The offering memorandum does not constitute a prospectus within the meaning of Art. 652A of the Swiss Federal Code of Obligations.

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IN CONNECTION WITH THE OFFERING, CARNEGIE INVESTMENT BANK AB OR ITS AGENTS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SHARES AT LEVELS WHICH MIGHT NOT OTHERWISE PREVAIL. HOWEVER, THERE IS NO OBLIGATION ON THE PART OF CARNEGIE INVESTMENT BANK AB OR ANY OTHER PERSON ACTING FOR IT TO DO THIS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND WILL IN ANY EVENT BE DISCONTINUED 30 DAYS FOLLOWING THE FIRST DAY OF TRADING IN OUR SHARES ON THE STOCKHOLM STOCK EXCHANGE.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This offering memorandum contains various forward-looking statements that reflect management's current views with respect to future events and financial and operational performance. The words "believe," "expect," "anticipate," "intend," "may," "plan," "estimate," "will," "should," "could," "aim" or "might," or, in each case, their negative, or similar expressions, identify certain of these forward-looking statements. Other forward-looking statements can be identified in the context in which the statements are made. Forward-looking statements appear in a number of places in this offering memorandum, including, without limitation, in the sections entitled "*Risk Factors*," "*Operating and Financial Review and Prospects*" and "*Business*" and include, among other things, statements relating to:

- our strategy, outlook and growth prospect;
- our operational and financial targets;
- market demand for *ReFacto*[®] and our ability to continue to manufacture the *ReFacto*[®] drug substance;
- the timing for the launch of the next generation of *ReFacto*[®];
- the economic outlook in general and the global and regional markets for the drugs that we market or are in our product pipeline;
- our ability to successfully progress drug candidates from early clinical trials and through to registration and marketing;
- our ability to continue to discover drug candidates through our R&D efforts;
- the competitive environment in which we operate;
- our ability to successfully develop and market projects in collaboration with other pharmaceutical and biotechnology companies;
- our ability to expand our project portfolio through in-licensing and select acquisitions; and
- our ability to market the specialist prescription drugs that we develop ourselves through our marketing and sales force.

Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurances that they will materialize or prove to be correct. Because these statements are based on assumptions or are subject to risks and uncertainties, the outcome could differ materially from those set out in the forward-looking statements as a result of, among others:

- scientific and technological developments impacting our drug candidates and the drug candidates of our competitors;
- risks and uncertainties relating to the clinical trial processes for our drug candidates, including whether the results of these clinical trials will be adequate to support regulatory filings and/or approvals;
- developments or changes in our relationships with current or future collaborative partners;
- changes in the market demand for *ReFacto*[®] or subsequent generations thereof, any impairment in our ability to manufacture required quantities of the *ReFacto*[®] drug substance or subsequent generations thereof, or changes in our arrangements with Wyeth;
- risks associated with the timing of clinical trials for our drug candidates, including the rate of patient recruitment for these clinical trials;
- potential unforeseen safety issues resulting from administration of our product candidates in patients;
- competition from local and international pharmaceutical and biotechnology companies;
- the level of market acceptance of our potential future products;
- our ability to manage growth;
- our ability to raise additional needed capital or consummate collaborations for the development and commercialization of our product candidates on favorable terms or at all;

- dependence on third-party service providers, including clinical research organizations, and third-party manufacturers of our drug candidates;
- regulatory, legislative and judicial developments;
- our ability to retain key personnel;
- currency exposure;
- worldwide economic, political and business conditions; and
- changes in our business strategy or development plans.

Additional factors that could cause our actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “*Risk Factors*.”

These forward-looking statements speak only as of the date of this offering memorandum. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law or regulation. Accordingly, prospective investors are cautioned not to place undue reliance on any of the forward-looking statements herein.

ENFORCEABILITY OF LIABILITIES AND SERVICE OF PROCESS

We are a public limited liability company (*publikt aktiebolag*) incorporated under the laws of the Kingdom of Sweden with our registered office in the city of Stockholm, Sweden. Substantially all of our officers and directors reside in Sweden or other jurisdictions outside the United States. Substantially all of our assets and substantially all of the assets of our officers and directors are located outside the United States. As a result, it may not be possible for investors to effect service of process in the United States upon us, or upon our officers and directors, or to enforce against us, or them, judgments obtained in the U.S. courts predicated upon civil liability provisions of the federal securities laws or other laws of the United States.

Our Swedish counsel, White & Case Advokat AB, has advised us that the United States and Sweden do not currently have a treaty providing for reciprocal recognition and enforcement of judgments rendered in connection with civil and commercial disputes. As a result, a final judgment for the payment of damages based on civil liability rendered by a U.S. court, whether or not predicated solely upon the federal securities laws of the United States, would not be enforceable in Sweden. If the party in whose favor the final judgment is rendered brings a new suit in a competent Swedish court, the party may submit to the Swedish court the final judgment that has been rendered in the United States. Such judgment will only be regarded by a Swedish court as evidence of the outcome of the dispute to which the judgment relates, and a Swedish court may choose to rehear the dispute *ab initio*.

MARKET SHARE AND INDUSTRY DATA

This offering memorandum contains historical market data which have been obtained from industry publications, market research and other publicly available information. The industry publications generally state that the historical information they provide has been obtained from sources, and through methods, believed to be reliable, but that they do not guarantee the accuracy and completeness of this information. Similarly, market research, while believed to be reliable, has not been independently verified by us. Neither we, the Selling Shareholders nor any of the Managers represents that this historical information is accurate. Market statistics are inherently predictive and subject to uncertainty and are not necessarily reflective of actual market conditions. Such statistics are based on market research which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market. As a result, you should be aware that the industry forecasts and market data included in this offering memorandum may not be reliable indicators of our future results.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

Pursuant to Regulation 1606/2002/EC of the European Parliament and the Council of July 19, 2002 and related regulations, we adopted International Financial Reporting Standards (“IFRS”) effective as of January 1, 2005. Accordingly, our financial statements presented in this offering memorandum as of and for each of the years ended December 31, 2005 and 2004 have been prepared in accordance with IFRS, and audited by PricewaterhouseCoopers AB. In addition, we are also presenting herein our financial statements as of and for each of the years ended December 31, 2004 and 2003, as prepared in accordance with generally accepted accounting principles in Sweden prior to January 1, 2005 (“Swedish GAAP”). Accordingly, our financial statements as of and for the year ended December 31, 2004 have been prepared and are presented herein in accordance with both IFRS and Swedish GAAP. Our interim financial statements as of and for the six-month periods ended June 30, 2006 and 2005 have been prepared in accordance with IFRS. IFRS differs in certain material respects from Swedish GAAP and from generally accepted accounting principles in the United States (“U.S. GAAP”). Potential investors should consult their own professional advisors for an understanding of the differences between IFRS and Swedish GAAP and of the differences between IFRS and U.S. GAAP. For a discussion of significant differences between IFRS and Swedish GAAP, see note 42 to our 2005 audited consolidated financial statements.

We present our financial statements in Swedish kronor. In this offering memorandum, references to “krona,” “kronor” or “SEK” are to the lawful currency of Sweden, references to “euro” “EUR” or “€” are to the single currency of the participating Member States in the third stage of the European Economic Union pursuant to the Treaty establishing the European Community, and references to “dollar,” “dollars,” “USD” or “\$” are to the lawful currency of the United States. Solely for the convenience of the reader, this offering memorandum includes translations of certain Swedish krona amounts into euro at foreign exchange rates set forth herein. These translations should not be construed as a representation by us that the Swedish krona amounts actually represent the euro amounts, or vice versa, or that a conversion could be made at the rate indicated, or at any rate at all. Unless otherwise indicated, all translations in this offering memorandum of Swedish kronor amounts into euro are at the rate of SEK 9.224 per €1.00, the joint mid-price announced by each Swedish bank at 9:30 a.m. Central European Time (“CET”) on June 30, 2006 as established by OM Råntebörsen AB at 10:05 a.m. CET on June 30, 2006, as quoted by Sveriges Riksbank. On August 31, 2006, the mid-price rate was SEK 9.247 per €1.00. For information regarding rates of exchange between Swedish kronor and dollars and between Swedish kronor and euro, please see the section entitled “*Exchange Rate Information and Regulations.*”

Shares and Per-Share Data

Unless otherwise specifically provided herein or apparent from the context, number of shares and per-share data herein relating to periods prior to our two-for-one stock split effected on August 14, 2006 have been restated to reflect the stock split.

Other Information

As used herein:

- “Biovitrum,” “Company,” “we,” “us” and “our” refer to Biovitrum AB, a company organized under the laws of Sweden, together with its subsidiaries, depending on the context.
- “Nordic Capital” refers to a number of limited partnerships and other entities, which together constitute Nordic Capital Fund IV, including Nordic Capital IV, L.P., Nordic Capital IV Beta, C.V., Nordic Capital IV Gamma, C.V., Fyrfond KB and NC IV Limited. Pursuant to contractual arrangements and as the general partner of the limited partnerships, Nordic Capital IV Limited exercises management control over the holdings of these entities other than NC IV Limited.
- “MPM Capital” refers to a number of limited partnerships and other entities, comprised of MPM Asset Management Investors 2001 LLC, MPM BioVentures II, L.P., MPM BioVentures II-QP, L.P., and MPM BioVentures GmbH & Co. Parallel—Beteiligungs KG. MPM Asset Management II LLC, the general partner of MPM Asset Management II, L.P., which is the general partner of MPM BioVentures II, L.P. and MPM BioVentures II-QP, L.P. and the special limited partner of MPM BioVentures GmbH & Co. Parallel-Beteiligungs KG, exercises management control over the holdings of MPM BioVentures II, L.P., MPM BioVentures II-QP, L.P., and MPM BioVentures

GmbH & Co. Parallel-Beteiligungs KG. MPM Asset Management II LLC's managing members exercise management control over the holdings of MPM Asset Management Investors 2001 LLC.

- “Pharmacia” and its successor “Pfizer” refer to Pharmacia AB and Pfizer Inc., respectively, and their respective affiliates.
- “Principal Shareholders” refers to Nordic Capital and MPM Capital.
- “Institutional Shareholders” refers to Banque Carnegie Luxembourg S.A. Carnegie Fund 2 Biotechnology, Life Equity Sweden KB, ABN Amro Nordic Ventures N.V., Next Gear SPV Limited, MPM Bioequities Master Fund LP, H & B Capital LP, Alta Biopharma Partners II, L.P., Teachers Insurance and Annuity Association, HBM BioVentures (Cayman) Ltd, Lotus Bioscience Inv Holding Ltd, Stiftelsen för Främjande och Utveckling av Medicinsk Forskning vid Karolinska Institutet and Alta Embarcadero Biopharma Partners II L.L.C.
- “Selling Shareholders” refers to the Institutional Shareholders and the Principal Shareholders.
- “Wyeth,” in the context of our contractual relationship relating to *ReFacto*[®], refers to Genetics Institute, a subsidiary of Wyeth.

Certain amounts and percentages included in this offering memorandum have been rounded and accordingly may not add up exactly or correspond with our annual report.

ADDITIONAL INFORMATION AND REPORTING

We currently furnish, and intend to continue to furnish, to holders of our shares an annual report which will include our audited consolidated financial statements, prepared in accordance with IFRS. The financial statements included in the annual reports will be examined and reported upon, with an opinion expressed by, our independent auditors. As a listed company, we will also furnish to our shareholders quarterly reports which will include unaudited consolidated financial information prepared in accordance with IFRS.

We plan to issue our 2006 financial reports according to the following schedule:

- third quarter 2006 on November 14, 2006;
- announcement of preliminary results for 2006 on February 22, 2007; and
- annual report for 2006 in March 2007.

For so long as any of our shares remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), if at any time we are neither subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, we will furnish to each holder or beneficial owner of shares, or any prospective purchaser designated by such holder or beneficial owner, such information as will permit compliance with Rule 144A thereunder in connection with resales of shares. We will also furnish to each such owner all notices of shareholders’ meetings and other reports and communications that are made generally available to our shareholders.

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SUMMARY

The following summary does not contain all the information that may be important to you. Before making an investment decision, you should read this entire offering memorandum, including the sections entitled “Risk Factors” and “Operating and Financial Review and Prospects,” as well as the financial statements included herein. Unless otherwise stated, all information in this offering memorandum assumes that the Managers’ over-allotment option has not been exercised.

Our Business

We are a leading European biopharma company with integrated research and development (“R&D”), manufacturing and marketing and sales capabilities. We engage in a broad spectrum of R&D activities, from drug discovery to pre-clinical and clinical development, have significant operations in manufacturing and advanced process development of protein therapeutics, and conduct marketing and sales activities of specialist prescription drugs. We were formed out of various business units within Pharmacia (now Pfizer) that were based in Sweden and commenced independent operations in August 2001. We recorded aggregate revenues of approximately SEK 937 million in 2005 and SEK 708 million for the six-month period ended June 30, 2006.

Our portfolio of marketed products includes *ReFacto*[®], a protein drug used for the control and prevention of hemorrhagic episodes and for surgical prophylaxis in patients with hemophilia A, as well as five other specialist prescription drugs. Our project pipeline currently includes five projects in clinical development, twelve projects in pre-clinical development or lead optimization and approximately 15 projects currently in discovery. Our project pipeline includes projects both for the treatment of widespread diseases, such as diabetes, obesity, neuropathic pain and glaucoma, and for the treatment of niche indications, such as hemophilia and fat malabsorption in cystic fibrosis patients.

Our R&D activities focus on the discovery and development of new drugs in areas that we consider present a clear unmet medical need and that offer attractive commercial fundamentals. Our R&D organization, with approximately 250 employees, has expertise in all stages of discovery and clinical development and in both protein and small molecule medicines. Our projects originate from internal research, in-licensing and selective acquisitions and are developed either by ourselves internally or in collaboration with either major pharmaceutical companies, such as Amgen and GlaxoSmithKline, or smaller biotechnology companies, such as Santhera, Syntonix and Symphogen. For primary care drugs we seek to enter into agreements with other pharmaceutical companies relating to clinical development and commercialization, whereas for specialist prescription drugs our aim is to develop products all the way through to registration and thereafter to market them in selected geographical areas.

We offer biopharmaceutical manufacturing and advanced process development services for protein drugs to other pharmaceutical companies, including Wyeth, Amgen and Pfizer. We also utilize our process development expertise in relation to our own proprietary protein drug candidates. Our process development group, comprised of approximately 130 employees, approximately one-third of whom hold a Ph.D., and our manufacturing and quality control groups, comprised of approximately 100 employees, are active in many stages of biopharmaceutical production, including laboratory scale and commercial scale process development, manufacturing for toxicology and clinical trials and commercial production of protein drug substances, such as *ReFacto*[®].

Through our marketing and sales force, currently consisting of 12 employees located across the Nordic countries, we co-promote or distribute primarily in the Nordic region certain specialist prescription drugs.

Competitive Strengths

We are an integrated biopharma company with numerous competitive strengths, including:

Multiple sources of revenues and cash flows providing financial strength

Our integrated operations provide us with multiple sources of revenues and we have a strong cash flow that provides us with significant flexibility in research funding, allows us to further strengthen and diversify our R&D pipeline through in-licensing and strategic acquisitions and enables us to develop innovative drugs into later stage clinical phases. Our total revenues amounted to SEK 936.6 million in 2005 and SEK 787.4 million in 2004. As of June 30, 2006, we held liquid funds and short-term financial investments of approximately SEK 1.2 billion. Pursuant to our long-term agreement with Wyeth, we derive revenues for manufacturing and co-promotion of *ReFacto*[®] and from royalties on global sales thereof,

which in the aggregate amounted to SEK 406.0 million in 2005 and SEK 363.0 million in 2004, and SEK 455.1 million and SEK 133.1 million for the six-month periods ended June 30, 2006 and 2005, respectively. We also derive revenues from pharmaceutical and biotechnology companies for contract process development and manufacturing of protein drugs and from the co-promotion and distribution of specialist drugs in the Nordic region. In addition, we have in the past and may in the future receive substantial research funding, milestone payments and royalties from our collaborative programs, such as our collaboration with Amgen relating to 11 β -HSD₁ enzyme inhibitors for the treatment of metabolic diseases, including type 2 diabetes, and certain other medical disorders, in relation to which Amgen has paid \$99 million in license fees and will make periodic milestone payments potentially amounting to \$483 million (of which \$8.0 million has been paid to date) related to development progress, regulatory submissions and approvals for metabolic diseases.

Deep, broad and balanced pipeline

We are engaged in the discovery and development of drugs for the treatment of metabolic and chronic inflammatory diseases, including widespread diseases, such as diabetes, obesity, neuropathic pain and glaucoma, and niche indications, such as hemophilia and fat malabsorption resulting from cystic fibrosis. Our project pipeline is comprised of projects in various stages of pre-clinical and clinical development, including one project in Phase II, four projects in Phase I, twelve projects in pre-clinical development or lead optimization and approximately 15 projects in discovery. Our pipeline includes a number of drugs addressing common diseases for which we consider a clear unmet medical need to exist and if successfully developed and brought to market have the potential for substantial commercial success. We believe leveraging our know-how and actively cultivating a diverse project pipeline increases our potential for successfully developing and commercializing our drugs.

Extensive industry knowledge and established relationships

We are one of the most experienced biopharma companies in Europe and have been active in the biotechnology industry since the time it was founded more than 25 years ago. We have decades of experience identifying, developing and manufacturing drugs and have accumulated extensive R&D and biopharmaceuticals know-how and protein drug manufacturing capabilities and established well-documented standard operating procedures. Our extensive experience and the size of our operations benefit us in a number of ways, including the following:

- We have established business and networking relationships with several of the largest pharmaceutical and biotechnology companies in the world and we have a proven track record of entering into successful collaborative and out-licensing arrangements to maximize the value of our pipeline and capabilities.
- Our extensive biopharmaceutical manufacturing and advanced protein drug process development expertise attracts a regular client base consisting of both large pharmaceutical companies and smaller biotechnology companies and provides us with a key source of revenues.
- Our size, developmental know-how and manufacturing capabilities make us an attractive collaborative partner for smaller biotechnology companies seeking to enter strategic co-development and out-licensing relationships for their drugs. For example, we are currently co-developing with Symphogen a pre-clinical drug candidate for the prevention of Rh immunization and the treatment of idiopathic thrombocytopenia purpura, co-developing with Syntonix drug candidates relating to Factor IX for the treatment of hemophilia B and have in-licensed from Santhera inhibitors of the enzyme dipeptidyl peptidase-IV for the treatment of type 2 diabetes.

Experienced management

Our management team has significant experience in the pharmaceutical and biotechnology industries. Our CEO, Mats Pettersson, worked for Pharmacia and its predecessors for 25 years, principally in CFO and business development positions, and in such latter position was responsible for the merger transactions that transformed Pharmacia into a major international pharmaceutical company. Our CFO, Göran Arvidson, spent 18 years in various positions at Pharmacia and Procordia and has extensive experience in structuring and executing acquisitions and collaborative transactions in the pharmaceutical industry. Our Chief Scientific Officer, Anders Ullman, has over a 15 year period served in R&D leadership positions at Upjohn, Astra, AstraZeneca and Bayer, including as head of global clinical development at AstraZeneca and Head of Global Development in the Pharma division of Bayer AG. Our Head of Biopharmaceuticals

and Marketing & Sales, Hans Örström, has served in different positions in Pharmacia including as head of the Dutch subsidiary and head of the Plasma Products business unit with overall responsibility for the development of *ReFacto*[®]. Our Head of Commercial and Strategic Development, Paul de Potocki, has served in various international leadership positions in Pharmacia and Fresenius Kabi with responsibility for global sales, strategic marketing and business development.

Our Strategy

The key elements of our business strategy are as follows:

- **Continue to grow a broad and balanced project pipeline including drugs for the treatment of both common diseases and niche indications;**
- **Leverage our development capabilities to expand our project pipeline through a combination of internal discovery efforts, in-licensing and acquisitions;**
- **Maximize project value by pursuing a flexible clinical development and commercialization strategy;**
- **Continue to seek out marketing and sales opportunities and build up our own sales force for specialist prescription drugs in Europe; and**
- **Continue to provide biopharmaceutical manufacturing and process development services to pharmaceutical and biotechnology companies.**

Our headquarters are located at Karolinska Institutet, Berzelius väg 8 in Solna, Sweden; our mailing address is Biovitrum AB, SE-112 76 Stockholm, Sweden; and our telephone number is +46 8 697 20 00. Biovitrum AB (publ) is the parent company of the Biovitrum group. We conduct our business through our parent company and nine subsidiaries.

The Offering

The Offering	An aggregate of 6,700,000 shares are offered in the offering. The offering comprises a public offering of shares in Sweden and an international institutional offering, including a private placement in the United States. Shares are being offered (1) in the United States only to qualified institutional buyers as defined in, and in reliance on, Rule 144A under the Securities Act and (2) outside the United States in compliance with Regulation S under the Securities Act.
The Selling Shareholders	All of the shares offered hereby are being offered by the Selling Shareholders, which include the Principal Shareholders and the Institutional Shareholders described herein. Of the total number of shares offered, the Principal Shareholders are offering 3,683,866 shares in the aggregate and the Institutional Shareholders are offering 3,016,134 shares in the aggregate. For detailed information regarding the Selling Shareholders and the number of shares they are offering to sell pursuant to the offering, see “ <i>Principal and Selling Shareholders.</i> ”
Shares Outstanding after the Offering	43,302,600 shares, excluding any shares to be issued upon exercise of warrants outstanding under our warrant programs, of which 19,412,936 shares will be held by the Principal Shareholders (18,863,106 shares, assuming the over-allotment option is exercised in full). For a description of shares and warrants held by or issuable to our management, see “ <i>Management</i> ” and “ <i>Management—Incentive Programs—Warrant Programs.</i> ”
Offering Price	The offering price is SEK 100 per share.
Over-allotment Option	Certain of our Selling Shareholders have granted the Managers an option for a period of 30 days from the commencement of trading in our shares to purchase up to 1,000,000 additional ordinary shares solely to cover over-allotments, if any, in the offering. See “ <i>Plan of Distribution.</i> ”
Dividends	Holder of our shares will be eligible to receive dividends, if any, declared in respect of our financial year ending December 31, 2006, and subsequent periods. However, we currently intend to retain our future earnings, if any, to support the growth and development of our business, and we do not anticipate paying any dividends in the foreseeable future. See “ <i>Dividends and Dividend Policy.</i> ”
Lock-up	We have agreed with the Managers, subject to certain exceptions, that we will not submit to our shareholders any proposal for a capital increase, except a proposal made by a shareholder which we are required by law to submit, that would enable us to issue, offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any of our shares, or any security convertible into or exercisable for our shares, for a period of six months after the first day of trading, without the prior written consent of Carnegie. The Selling Shareholders and the group of eleven officers and four directors who hold our shares and/or our warrants, controlling an aggregate of approximately 88% of our fully diluted shares, have agreed not to offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any of our shares, or any security convertible into or exercisable for our shares, including our warrants, for a period of six months, in the case of the Selling Shareholders, and one year, in the case of the group of 15 officers and directors (provided that four directors may sell warrants prior to November 30, 2006, such that the aggregate consideration received does not exceed the aggregate cost

of exercising the remaining warrants after such sale), in each case after the first day of trading, without the prior written consent of Carnegie, such consent not to be unreasonably withheld. Moreover, the Selling Shareholders have entered into an agreement pursuant to which they have agreed, upon the expiration of the six-month period referred to above and prior to the earlier of March 31, 2008 or the date on which the Selling Shareholders collectively hold less than 25% of the aggregate number of shares outstanding, to conduct any sales of our shares not sold in this offering in a coordinated and orderly manner. See “*Plan of Distribution*” for more details regarding these restrictions and arrangements. See also “*Management—Incentive Programs—Warrant Programs.*”

- Voting Rights Each share carries the right to cast one vote on all matters submitted to a vote of our shareholders. We discuss these voting rights and procedures further in the “*Description of Share Capital—Shareholders’ Meetings and Voting Rights.*”
- Listing and Start of Trading Prior to the offering there has been no public market for our shares. We have applied to list the shares on the O-list of the Stockholm Stock Exchange. Dealings in our shares are expected to commence on or about September 15, 2006. The shares will trade in lots of 100.
- The identification numbers for our shares are as follows:
ISIN: SE0000872095
Trading Symbol: “BVT”
- Payment and Settlement The Managers expect to cause delivery of the shares to purchasers on or about September 20, 2006 through the facilities of VPC against payment therefore in Swedish kronor. The shares will be eligible for clearance through VPC, Euroclear and Clearstream, Luxembourg.
- Transfer Restrictions Our shares will be subject to certain restrictions on transfer as described in “*Transfer Restrictions.*”

Risk Factors

Please see “*Risk Factors*” and the other information included in this offering memorandum for a discussion of risks which should be considered before investing in our shares.

Summary Consolidated Financial and Other Data

The summary consolidated financial and other data set forth below as of and for each of the years ended December 31, 2005 and 2004 has been derived from our audited consolidated financial statements, prepared in accordance with IFRS. The summary consolidated financial and other data set forth below as of and for each of the six-month periods ended June 30, 2006 and 2005 has been derived from our unaudited interim financial statements, prepared in accordance with IFRS. IFRS differs in certain material respects from Swedish GAAP and from U.S. GAAP. Potential investors should consult their own professional advisors for an understanding of the differences between IFRS and Swedish GAAP and of the differences between IFRS and U.S. GAAP. For a discussion of significant differences between IFRS and Swedish GAAP, see note 42 to our 2005 audited consolidated financial statements.

The following information should be read in conjunction with “*Operating and Financial Review and Prospects*” and our audited and interim consolidated financial statements included elsewhere in this offering memorandum.

	Data prepared in accordance with IFRS					
	As of and for the years ended December 31,			As of and for the six months ended June 30,		
	2004	2005	2005	2005	2006	2006
	(Audited) (SEK)	(Audited) (SEK)	(Unaudited) (€) ⁽¹⁾	(Unaudited) (SEK)	(Unaudited) (SEK)	(Unaudited) (€) ⁽¹⁾
(in millions, unless otherwise stated)						
Income Statement Data						
Revenues:						
Licensing and milestone revenues	142.1	205.6	22.3	71.1	88.3	9.6
Research revenues	51.6	54.5	5.9	25.9	26.6	2.9
<i>ReFacto</i> [®] manufacturing	168.0	191.7	20.8	31.8	338.9	36.7
Contract development & manufacturing	202.9	224.7	24.4	108.7	109.6	11.9
Co-promotion revenues	90.9	103.8	11.3	47.3	65.1	7.1
Royalty income	131.8	156.0	16.9	73.1	79.5	8.6
Other	0.1	0.3	—	—	0.1	0.0
Total revenues	787.4	936.6	101.6	357.9	708.1	76.8
Cost of <i>ReFacto</i> [®] manufacturing	(75.7)	(86.0)	(9.3)	(10.5)	(110.8)	(12.0)
Cost of contract development & manufacturing	(172.6)	(184.7)	(20.0)	(93.9)	(79.6)	(8.6)
Total cost of goods and services sold . . .	(248.3)	(270.7)	(29.3)	(104.4)	(190.4)	(20.6)
Gross Profit	539.1	665.9	72.3	253.5	517.7	56.2
Other operating income ⁽²⁾	250.6	272.6	29.5	20.4	5.4	0.6
Operating expenses:						
Sales and marketing	(34.5)	(38.7)	(4.2)	(13.1)	(17.1)	(1.9)
General and administration	(148.4)	(151.2)	(16.4)	(55.3)	(66.2)	(7.2)
Research and development	(535.5)	(576.0)	(62.4)	(264.7)	(303.2)	(32.9)
Other operating expenses	(29.9)	(42.7)	(4.6)	(21.4)	(46.9)	(5.1)
Total operating expenses	(748.3)	(808.6)	(87.7)	(354.5)	(433.4)	(47.0)
Operating profit/loss	41.4	129.9	14.1	(80.6)	89.7	9.7
Interest income and similar items	53.3	49.4	5.4	31.1	3.5	0.4
Interest expense and similar items . . .	(1.4)	(1.5)	(0.2)	(0.1)	(0.3)	0.0
Profit/loss after financial items	93.3	177.8	19.3	(49.6)	92.9	10.1
Tax on profit/loss	2.3	(1.6)	(0.2)	(0.4)	0.5	0.1
Profit/loss for the period	95.6	176.2	19.1	(50.0)	93.4	10.1

Data prepared in accordance with IFRS

	As of and for the years ended December 31,			As of and for the six months ended June 30,		
	2004	2005	2005	2005	2006	2006
	(Audited) (SEK)	(Audited) (SEK)	(Unaudited) (€) ⁽¹⁾	(Unaudited) (SEK)	(Unaudited) (SEK)	(Unaudited) (€) ⁽¹⁾
(in millions, unless otherwise stated)						
Earnings per share:⁽³⁾						
Basic	1.83	3.37	0.36	(0.96)	1.93	0.21
Diluted ⁽⁴⁾	1.70	3.14	0.34	(0.96)	1.79	0.19
Weighted average number of shares outstanding:⁽³⁾						
Basic	52,331,400	52,331,400	—	52,331,400	48,390,653	—
Diluted ⁽⁴⁾	55,958,100	55,983,293	—	52,331,400	52,068,686	—
Shareholders' equity per share:⁽³⁾						
Basic	29.11	32.63	3.54	28.37	32.81	3.56
Diluted ⁽⁴⁾	27.16	30.50	3.31	28.37	30.16	3.27
Balance Sheet Data						
Assets:						
Fixed assets	452.7	677.1	73.4	593.8	687.9	74.6
Liquid funds and short term investments	1,585.1	1,621.3	175.8	1,361.3	1,176.3	127.5
Current assets	1,948.1	2,051.0	222.3	1,738.5	1,573.5	170.6
Total assets	2,400.8	2,728.1	295.7	2,332.3	2,261.4	245.2
Equity and Liabilities:						
Shareholders' equity	1,523.5	1,707.7	185.1	1,484.8	1,420.9	154.1
Long-term liabilities	390.8	409.3	44.4	319.9	228.1	24.7
Current liabilities	486.4	611.1	66.2	527.6	612.4	66.4
Total equity and liabilities	2,400.8	2,728.1	295.7	2,332.3	2,261.4	245.2
Key financial ratios and other data⁽⁵⁾						
Sales growth (%)	n/a	18.9	18.9	n/a	97.8	97.8
Gross margin (%)	68.5	71.1	71.1	70.8	73.1	73.1
EBITDA ⁽⁶⁾	123.0	247.0	26.8	(36.9)	126.5	13.7
EBITDA margin (%)	15.6	26.4	26.4	(10.3)	17.9	17.9
Operating margin (%)	5.3	13.9	13.9	(22.5)	12.7	12.7
Operating capital	(61.5)	86.4	9.3	123.5	244.6	26.6
Shareholders' equity	1,523.5	1,707.7	185.1	1,484.8	1,420.9	154.1
Equity-to-assets ratio (%)	63.5	62.6	62.6	63.7	62.8	62.8
Net interest-bearing debt (%)/EBIDTA (times)	n/a	n/a	n/a	n/a	n/a	n/a
Cash flow from operations before capital expenditure	(209.0)	(65.3)	(7.1)	(88.6)	51.6	5.6
Capital expenditure	(77.8)	(173.2)	(18.8)	(59.0)	(75.7)	(8.2)
Cash flow from operations after capital expenditure	(286.8)	(238.5)	(25.9)	(147.6)	(24.1)	(2.6)

(1) Solely for the convenience of the reader, amounts have been translated into euro based on the joint mid-price announced by each Swedish bank at 9:30 a.m. CET on June 30, 2006 as established by OM Råntebörsen AB at 10:05 a.m. CET on June 30, 2006, as quoted by Sveriges Riksbank, of €1.00 per SEK 9.224.

(2) Includes proceeds from real estate divestitures in financial years 2004 and 2005, amounting to SEK 193.2 million and SEK 244.9 million, respectively.

(3) Consistent with IFRS, number of shares and earnings per share data has been adjusted for all periods to reflect the two-for-one share split effected on August 14, 2006. Number of shares and earnings per share data has not been adjusted for all periods to reflect the redemption on April 12, 2006 of 9,028,800 shares held by Pfizer. However, as required pursuant to IFRS, number of shares has been adjusted for all periods to reflect the issuance to our existing shareholders of an aggregate of 4,811,400 new shares, as a bonus issue, related the redemption of the shares from Pfizer (all as described further under "Related Party Transactions").

(4) Number of diluted shares has been adjusted to give effect to our warrant program, based on the number of warrants outstanding. The share market price is based on the price per share in this offering of SEK 100. The warrant program is further described under "Management—Incentive Programs—Warrant Programs." Fully diluted shares do not reflect our contingent share-based milestone payments which, if payable in their entirety, would result in dilution to our shareholders and warrant holders of

approximately 10.6%. See “*Operating and Financial Review and Prospects—Major Transactions and Other Key Factors Affecting Our Results of Operations—Acquisitions and In-Licensing.*”

- (5) For definitions, see “*Selected Consolidated Financial and Other Data—Definitions for Key Financial Ratios and Other Data.*”
- (6) EBITDA is calculated as operating profit plus goodwill amortization plus depreciation of all assets. We believe that EBITDA is useful in evaluating our operating performance because a number of companies, including companies in the biopharmaceutical industry, also publish these figures as key performance indicators. EBITDA is not necessarily a measure of operating performance in accordance with IFRS, nor should EBITDA be considered a substitute for operating profit (loss), profit (loss) before tax, net profit (loss), cash flow from operating activities or other income or cash flow statement data as determined in accordance with IFRS, or as a measure of profitability or liquidity. EBITDA is included herein as a supplemental disclosure, because we believe that these measures, when considered in connection with cash flows from operating, investing and financing activities, provides useful comparative information to investors and helps investors evaluate the performance of our underlying business. Other companies may not calculate EBITDA the same way in which we do, and accordingly the presentation of EBITDA in this offering memorandum may not be comparable to a similarly titled measure of other companies.

BACKGROUND TO THE OFFERING

In July 2001, Nordic Capital and MPM led a syndicate of investors that acquired a majority of the outstanding shares of Biovitrum AB from Pharmacia. The strategy behind the acquisition was to create a company with a broad range of capabilities and the knowledge base of a large pharmaceutical company while capturing the innovative culture and entrepreneurial spirit of a start-up biotechnology company. Since the acquisition, our board of directors has considered an eventual stock exchange listing and offering of our shares at the appropriate juncture of our development to be a key component for providing greater financial flexibility for the future development and expansion of our business.

Over the course of the last five years we have progressively developed our operations with the aim of building an integrated and focused biopharma company with international operations. Our board of directors and shareholders believe that now is the appropriate time to list our shares on the O-list of the Stockholm Stock Exchange and to conduct an offering of our shares.

As of June 30, 2006, we held liquid funds and short-term investments of approximately SEK 1.2 billion. We have multiple sources of revenue providing us with sufficient cash to fund our operations, allowing us to use our cash position for strategic investments. In view of our financial position and the strength of our operations, and assuming that our clinical projects will proceed according to plan, we have no need to raise capital at this time.

In connection with the offering, the Selling Shareholders will divest a portion of their holdings, although they will continue to control approximately 68% of our shares, on a fully-diluted basis, after the offering (or 66%, assuming the over-allotment option is exercised in full). As such, we believe the Selling Shareholders and, in particular, our Principal Shareholders are committed to our strategic plan and will continue to take an active role in the development of our business.

In addition to giving us access to the Swedish and international capital markets, our board of directors expects that the contemplated stock exchange listing of our shares will increase the industry's knowledge about the Company and its operations and we believe that this will contribute to further enhancing our position as a leading European biopharma company.

RISK FACTORS

You should carefully consider each of the risks described below and all of the other information in the offering memorandum before deciding to invest in our shares. Our business, financial condition and results of operations could be materially adversely affected by any of these risks. The price of our shares may decline significantly if any of these risks materializes and you could lose all or part of your investment. The risks described below are not the only ones applicable to us. Additional risks not presently known to us may also impair our business operations. The order in which these risks are presented is not intended to provide an indication of the likelihood of their occurrence nor of their severity or significance.

This offering memorandum also contains forward-looking statements that are subject to future events, risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to the risks we face as described below and elsewhere in this offering memorandum.

Risks Relating to Our Non-R&D Operations

We are dependent on sales of ReFacto® for a substantial percentage of our revenues.

We rely on sales of ReFacto® for a substantial percentage of our revenues. Under our existing agreements with Wyeth, we generate revenues from manufacturing of the ReFacto® drug substance, co-promotion fees from sales of ReFacto® in the Nordic region and royalties from Wyeth's global sales of ReFacto®. In 2005, our revenues attributable to ReFacto® amounted to SEK 405.6 million, as compared to total revenues of SEK 936.6 million. For the six months ending June 30, 2006, our revenues attributable to ReFacto® amounted to SEK 455.1 million, as compared to total revenues of SEK 708.1 million in the period. Any material reduction in the revenues we derive from ReFacto® or subsequent generations of ReFacto®, whether as a result of a decrease in market demand, increased competition, any impairment in our ability to develop or manufacture required quantities of the composite drug substances or to successfully co-promote ReFacto® or subsequent generations, changes in our arrangements with Wyeth, or for other reasons, such as government policies relating to reimbursement of prophylactic treatment or the degree of continued migration of hemophilia A treatments from plasma-derived products to Factor VIII drugs such as ReFacto®, could have a material and adverse effect on our business, results of operations and financial condition. See also "Operating Financial Review and Prospects—Arrangements with Wyeth regarding ReFacto®" for a description of the expected impact of the transition to the next generation of ReFacto®.

Our revenues from contract process development activities are likely to decrease in the future.

We derive significant revenues from the contract process development services that we provide to large pharmaceutical companies. A significant portion of these revenues (in fiscal 2005, in excess of 65% of our total revenues from contract process development activities) are derived from the services that we provide to Amgen and Pfizer. We expect that these revenues will decrease over the short term, particularly as a result of the expiration of our long-term contracts with Pfizer and Amgen in August and September 2006, respectively, although we may continue to provide our services to these companies on a project-by-project basis. However, the continued demand by Amgen and Pfizer for process development services is uncertain, and a significant, long-term reduction in demand may have a material and adverse effect on our business, results of operations and financial condition.

We may experience losses in the future.

We have experienced losses in the past and may experience losses in the future. Although we were profitable in 2003, 2004 (under IFRS) and 2005, a significant portion of our revenues in each of those years were derived from one-off events, including extraordinary milestone payments and real estate divestitures. Excluding the impact of these events, we would have recorded net losses in each of our last three financial years. We generate substantial revenues from Wyeth in relation to ReFacto® and from the biopharmaceuticals services we provide to third parties and although we expect these to continue to be sources of revenue in the future, we cannot assure you that this will be the case or that our revenues will be sufficient to make us profitable in light of our research and other expenses.

If our commercial manufacturing facility is damaged, destroyed or closed for any reason, our ability to manufacture ReFacto® will be significantly affected, and we may lose substantial revenues.

We rely on the availability and condition of our manufacturing facility, located in Stockholm, Sweden, to manufacture ReFacto® and any future generations of ReFacto®. In 2005, our revenues from Wyeth for the manufacture of the ReFacto® drug substance and preparation for the next generation of ReFacto® amounted to SEK 192 million. For the six months ended June 30, 2006, our revenues from Wyeth for the same services amounted to SEK 338.9. If our facility or the equipment in our facility is significantly damaged, destroyed or closed for any reason, or if we are unable to replace or repair damaged facilities or equipment in a timely or cost-effective manner, we could experience a loss in revenues as a result of reduced production capacity which could have a material and adverse affect on our business, financial condition and results of operations. Moreover, while we hold property and business interruption insurance in amounts we believe are appropriate, there can be no assurance that we will be able to fully recover such amounts or that recovered amounts will be sufficient to cover our losses.

Our commercial manufacturing facilities and processes, and those of our co-development partners and licensees, are subject to regulatory approvals which may delay or disrupt our operations.

We are engaged in the manufacture of recombinant protein therapeutics. Moreover, we collaborate with pharmaceutical and biotechnology companies for the manufacture of drugs developed by us. Manufacturing of recombinant protein therapeutics requires precise, high-quality manufacturing processes and controls. As a result, we must ensure that all of our manufacturing processes, methods and equipment, and those of our collaborative partners, are compliant with applicable Good Manufacturing Practices, or GMP, requirements and we must conduct extensive audits of our vendors, contract laboratories, suppliers and collaborative partners that are subject to these requirements. GMP requirements govern all aspects of the manufacturing of drug products, including, among other things, quality control and quality assurance, manufacturing processes and procedures, and documentation. Compliance with these standards requires us and our vendors, contract laboratories, suppliers and collaborative partners to achieve and maintain high-quality manufacturing processes and controls sufficient to assure that the product meets applicable specifications and other requirements. Our manufacturing facilities are subject to inspection by regulatory agencies and our customers at any time. If an inspection by regulatory authorities or our customers indicates that there are deficiencies, we could be required to take remedial actions, stop production or close the facility, which would disrupt our manufacturing processes and negatively impact our revenues. If one of our collaborative partners were to fail to satisfy applicable standards, we may be unable to source our candidate drugs or any future products from such company. Further, our failure or our contractors' failure to achieve and maintain manufacturing standards compliant with GMP requirements could result in manufacturing errors, which could lead to patient injury or death, product recalls or withdrawals, delays or failures in product testing or delivery, cost overruns or other problems that could materially harm our business.

We may be unable to produce sufficient quantities of our protein drug candidates in a commercially viable manner.

Certain of our drug candidates in clinical and pre-clinical development, such as Exinalda™, are based on recombinant proteins. The manufacture of proteins for use as therapeutics in compliance with regulatory requirements is complex, time-consuming and expensive. We may encounter problems with, among other things: production yields; quality control and assurance; availability of qualified personnel; availability of raw materials; adequate training of new and existing personnel; on-going compliance with our standard operating procedures; on-going compliance with Food and Drug Administration ("FDA") and other applicable regulations; production costs; and development of advanced manufacturing techniques and process controls. Failure to successfully operate our manufacturing facility, or to obtain regulatory approval or to successfully produce commercial supplies on a timely basis could delay or prevent commercialization of our protein drug candidates.

Risks Related to Our R&D Activities

We may never develop or commercialize any products.

If we are unable to develop our current or future projects to an advanced stage of development, if successfully developed drugs cannot be produced cost-effectively or if any of our development programs

are delayed, we will not be able to successfully commercialize drugs, which could have a material adverse effect on our business, results of operations and financial condition.

If our candidate drugs do not meet safety or efficacy criteria during development, they will not receive regulatory approvals and we will be unable to commercialize them.

Prior to commercializing drugs, we and our collaboration partners must demonstrate that our drug candidates satisfy the rigorous safety and efficacy standards set by the regulatory authorities in the countries in which we seek to market the drug. We have not received regulatory approval from the FDA, the European Medicines Agency (“EMA”) or any other regulatory authority for any of the drugs in our project pipeline. The regulatory approval process typically requires extensive pre-clinical and clinical data, is extremely expensive and takes many years. The FDA, EMA and other regulatory agencies can delay, limit or deny approval for many reasons, including: a candidate drug may not be safe or effective; the manufacturing processes or facilities we have selected may not meet applicable requirements; and changes in regulatory approval policies or adoption of new regulations may require that we undertake additional developmental work. Moreover, even if our candidate drugs satisfy required safety and efficacy criteria in clinical trials, regulatory authorities may disagree with our interpretations of data from pre-clinical studies and clinical trials and deny approval. We cannot assure you that we will receive marketing authorization for any of the drugs in our current or future project pipeline. If we fail to obtain regulatory approval for these drug candidates we will be unable to market and sell them. Regulatory agencies may also approve candidate drugs for fewer indications than requested or may grant approval subject to the performance of post-marketing studies, either of which could prevent us from generating meaningful revenues from our candidate drugs.

Adverse events or delays in a clinical trial may prevent us or our collaboration partners from developing or commercializing products in a timely manner, or at all, and actual costs for our clinical trials may exceed budgeted costs.

We currently have five projects in clinical development and a number of projects in pre-clinical development. Since we commenced operations in 2001, we have only developed three candidate drugs through to Phase IIa clinical trials, the development of two of which have been discontinued. Before we can obtain marketing approval for any of our drug candidates, we must demonstrate their safety and efficacy in adequate and well-controlled pre-clinical studies and clinical trials. The number of pre-clinical studies and clinical trials required will vary depending on the drug candidate, the targeted indication, pre-clinical and clinical results and applicable regulations. We cannot accurately predict when our current clinical or pre-clinical trials will be completed, if at all, nor when planned clinical and pre-clinical trials will begin or be completed. Pre-clinical and clinical development is a lengthy and expensive process subject to many factors, including factors beyond our control, such as slower than expected patient enrollment and scheduling conflicts with participating clinicians and clinical institutions. It is also difficult to predict accurately the costs associated with conducting clinical trials and actual costs of conducting a clinical trial may exceed budgeted costs. Accordingly, the outcome and total costs of our projects in pre-clinical and clinical development is inherently uncertain.

During the course of clinical development, drug candidates may prove not to have the required efficacy or may prove to have undesirable or unintended side effects, toxicities or other characteristics that may interrupt, delay or halt clinical development, as well as preventing or limiting such product candidate’s commercial use. This could result in us, our collaboration partners or regulatory authorities with jurisdiction over the clinical trials suspending or terminating clinical trials at any time. The clinical development of two of our most developed candidate drugs were discontinued, both while in Phase IIa studies, because of concerns related to the safety of the compound and for lack of efficacy, respectively.

We cannot assure you that any of the drugs in our project pipeline will develop into drugs that are safe and effective for human use or that these drugs will receive the regulatory approvals necessary for commercialization. Any failure or delay in completing clinical trials will reduce or delay our ability to generate revenues from the commercialization of our drug candidates and may materially adversely affect our ability to maintain or replenish our project pipeline.

Success in early clinical trials may not be indicative of results obtained in later clinical trials.

The results of our early stage clinical trials are based on a limited number of patients and may, upon further review, be revised or negated by regulatory authorities or by later stage clinical results. Historically,

industry-wide results from preclinical testing and early clinical trials have often not been predictive of results obtained in later clinical trials. A number of new drug candidates have shown promising results in clinical trials but subsequently failed to establish sufficient safety and effectiveness data to obtain necessary regulatory approvals. Accordingly, we cannot assure you that the data collected from the pre-clinical studies and clinical trials of our candidate drugs will be sufficient to support FDA, EMEA or other regulatory approval.

The commercial success of the drugs in our project pipeline depends on their market acceptance among physicians, patients, health care payors and the medical community and the degree to which they become subject to legislation controlling treatments or prices.

Even if the drugs in our project pipeline obtain regulatory approval, our products, if any, may not gain market acceptance among physicians, patients, health care payors and the medical community. The degree of market acceptance of any of our approved drugs candidates will depend on a number of factors, including:

- our ability to provide acceptable evidence of safety and efficacy;
- relative convenience and ease of administration;
- the prevalence and severity of any adverse side effects;
- availability of alternative treatments;
- pricing and cost effectiveness;
- effectiveness of our or our co-development partners or licensees' sales and marketing strategy; and
- our ability to obtain sufficient third-party coverage or reimbursement.

In addition, our success will also depend upon the eligibility of any products that we develop for reimbursement through government sponsored or private healthcare payment systems. Recent legislation and regulatory proposals in various European countries and the United States include measures that would limit or prohibit payments for certain medical treatments or subject the pricing of drugs to governmental control. Reimbursement practices vary significantly by country, with certain countries requiring products to undergo a lengthy regulatory review in order to be eligible for government reimbursement.

If, despite being approved, our drugs do not gain market acceptance, are not eligible for reimbursement through government sponsored healthcare payment systems or private healthcare insurance or become subject to legislation controlling treatments or prices, our results of operation and financial condition could be materially and adversely affected.

We depend on collaborations with third parties for the development and commercialization of certain of our products.

Our business strategy includes entering into various collaborative arrangements, including co-development and licensing arrangements, with major pharmaceutical and smaller biotechnology companies for the development and commercialization of certain of our compounds. For example, we have out-licensed the development of our 11 β -HSD₁ enzyme inhibitors and 5-HT_{2C} agonists to Amgen and GlaxoSmithKline, respectively, and we are currently co-developing with Symphogen a pre-clinical drug candidate for the prevention of Rh immunization and the treatment of idiopathic thrombocytopenia purpura and are co-developing with Syntonix drug candidates relating to Factor IX for the treatment of hemophilia B. The success of our collaborative arrangements will to a large degree depend on the efforts and activities of our partners or licensees, which often retain significant discretion in determining the efforts and resources to be applied to these projects. Our partners and licensees may undergo internal changes in priorities, may take a contrary view on the results of clinical trials, may become financially distressed or may encounter staffing difficulties, any of which could adversely affect their willingness or ability to develop our compounds or otherwise pursue the collaboration with us. Moreover, many of our collaborative partners and licensees are also our competitors and there can be no assurances that they will not have interests that are adverse to ours.

In addition, we currently intend to rely primarily on our present and future collaborative partners and licensees of our compounds to conduct the advanced clinical trials for our internally developed drug candidates for the treatment of widespread diseases. As a result, we may have less control over the conduct of advanced clinical trials, the timing and completion of the trials, the trials' compliance with applicable

regulatory requirements, and the management of data developed through the trial than would be the case if we were relying entirely upon our own staff. It is also difficult to predict accurately the costs associated with conducting clinical and pre-clinical development and our actual costs may exceed our budgeted costs.

Our applications for regulatory approval of in-licensed or acquired candidate drugs could be delayed or denied due to problems with studies conducted before we in-licensed or acquired the candidate drug.

Many of the drugs in our project pipeline are based on compounds or technology developed by other pharmaceutical and biotechnology companies which we have in-licensed or otherwise acquired. Many of the pre-clinical and clinical studies conducted for these candidate drugs were carried out by other companies before we acquired rights to the candidate drug. Problems with studies conducted before we in-licensed or acquired candidate drugs could cause our regulatory applications to be delayed or rejected, and, even if prior studies are acceptable to regulatory authorities, we may have to spend additional time and effort analyzing and presenting the results of the studies, the cost of which could be significant. Moreover, problems with prior studies could require us to repeat some or all of those studies, which could result in unanticipated costs or delays.

We may not be successful in our efforts to enhance our project portfolio through in-licensing or otherwise acquiring rights to candidate drugs.

An important element of our strategy is to complement our internally discovered drug candidates with potential new drugs in-licensed or otherwise acquired from third parties. The licensing and acquisition of pharmaceutical products is a competitive area and we may be unable to license or acquire additional suitable candidate drugs from third parties. A number of more established companies are pursuing similar acquisition strategies in the fields in which we concentrate. These companies may have a competitive advantage over us due to their size, cash resources and greater clinical development and commercialization capabilities. If we fail to obtain rights to novel drug candidates from third parties, we may be unable to enhance and expand our candidate drug pipeline, which could materially adversely affect our business, results of operations and financial condition. Moreover, we may need to obtain financing in order to fund our future licensing and acquisition activities, which may not be available when we need it or may not be available on favorable terms. If we are unable to obtain adequate financing on a timely basis, we may be required to significantly curtail our licensing or acquisition plans or development programs.

Conflicts may arise between us and our collaborators that could delay, prevent or otherwise impair the development or commercialization of our drug candidates.

From time to time, conflicts and disagreements develop with our collaborators and other counter-parties concerning, for example, the interpretation of clinical data, the achievement of milestones, the interpretation of financial provisions or the ownership of intellectual property developed during the collaboration. Any such conflicts or disagreements could result in a delay of, or may prevent or otherwise impair, the development or commercialization of our drug candidates, and may have a material adverse effect on our business, financial condition and results of operations.

Other Operational Risks

Competition in the pharmaceutical industry is intense, and our competitors may develop and market drugs that are more effective, safer or less expensive than our candidate drugs.

Our competitors include multinational pharmaceutical companies, specialized biotechnology firms and universities and other research institutions. A number of our largest competitors, including Amgen, AstraZeneca, Sanofi-Aventis, Bristol-Myers Squibb, Eli Lilly, GlaxoSmithKline, Johnson & Johnson, Merck, Novartis, Novo Nordisk, Pfizer and Roche are pursuing the development or commercialization of drugs that target the same diseases that we are targeting, including diabetes, obesity, inflammation, hemophilia, glaucoma and other metabolic inflammation and hematological disorders. Many of our competitors have substantially greater financial, technical and human resources than we do and have significantly greater experience than we do in undertaking pre-clinical testing and human clinical studies of new drug candidates and in obtaining necessary regulatory approvals. Consequently, our competitors may succeed in obtaining regulatory approval for products more rapidly than us, which could give them a marketing advantage with respect to products with similar potential uses as the drugs that we are developing. Our competitors may also have greater manufacturing and product distribution efficiency and sales and marketing capabilities than we do.

We are dependent on hiring and retaining highly qualified management and other employees and the loss of the services of key management personnel could adversely affect our business or prospects.

The success of our business depends on the services of key management personnel. See “*Management*.” Given their expertise in the pharmaceuticals and biotechnology industry generally, and within Biovitrum in particular, the loss of the services of one or more of these individuals could have a material and adverse effect on our business, results of operations and financial condition. Our future success also depends on our continued ability to hire and retain scientists and other qualified personnel with the level of expertise necessary to conduct our biopharmaceuticals operations and R&D activities. If we fail to continue to attract and retain, on acceptable terms, we may not be able to sustain or further develop our business.

We may undertake acquisitions in the future and any difficulties we encounter relating to the integration of such acquisitions could negatively impact our results of operation and financial condition.

We recently acquired Cambridge Biotechnology and Arexis and may in the future acquire additional businesses or products that complement or augment our existing operations or project pipeline. Future acquisitions of businesses or products may entail numerous operational and financial risks, including:

- failure of acquired drugs to be successfully developed and failure of successfully developed drugs to gain market acceptance;
- exposure to unknown liabilities;
- higher than expected acquisition and integration costs;
- difficulty and cost in combining the operations and personnel of acquired businesses with our operations and personnel;
- impairment of relationships with key suppliers or customers of acquired businesses due to changes in management and ownership;
- inability to retain key employees of acquired businesses; and
- incurrence of substantial debt or dilutive issuances of securities to pay for acquisitions.

Although we may periodically engage in preliminary discussions with respect to acquisitions of companies, we are not currently a party to any agreements or commitments and we have no plans, arrangements or understandings with respect to any such acquisitions.

We are exposed to product liability claims.

While we are not aware of any current material product liability claims against us, the manufacture and sale of pharmaceutical products entails a significant risk of product liability claims. While we believe that our product liability insurance is adequate, there can be no assurances that the amount of such insurance will be sufficient to satisfy claims made against us in the future. Product liability claims could result in significant litigation costs and damages awards, and a successful claim brought against us in excess of available insurance coverage, or any claim that results in significant adverse publicity, could have a material adverse effect on our business, results of operations and financial condition.

Any claims relating to our improper handling, storage or disposal of biological and hazardous materials could be time-consuming and costly.

Our R&D activities involve the controlled use of biological and hazardous materials and waste. We are subject to laws and regulations governing the use, manufacture, storage, handling and disposal of these materials and waste products. Although we believe that our safety procedures for handling and disposing of these materials comply with legally prescribed standards, we cannot completely eliminate the risk of accidental contamination or injury from these materials. In the event of an accident, we could be held liable for damages or penalized with fines, and this liability could exceed our financial resources. In addition, we may incur significant costs to comply with future environmental laws and regulations.

We are exposed to the risk of currency fluctuations and these fluctuations may have a negative effect on our results of operations and financial position.

We are subject to exposure from fluctuations in foreign exchange rates. While most of our facilities are located in Sweden and most of our expenses are incurred in Swedish kronor, a significant portion of our revenues are denominated in currencies other than Swedish kronor. For example, revenues from our current collaboration agreements with Amgen and GlaxoSmithKline are denominated in dollars and the royalties we receive from Wyeth's global sales of *ReFacto*[®] are primarily based on euro-denominated sales. Consequently, any significant decrease in the value of the dollar or the euro, or other currencies in which we derive revenues, against the Swedish kronor could negatively affect our results of operation and financial position. See "Exchange Rate Information and Regulations."

We are subject to various tax exposures as a result of the many significant restructurings and other transactions we have entered into.

We are subject to various tax exposures as a result of the many significant restructurings and other transactions we have entered into, including restructurings in which we have disposed of businesses and real property. Moreover, our significant employee ownership and our various warrant programs expose us to complex Swedish tax rules which, if we fail to adhere to these rules in every respect, may result in additional financial exposures. While we believe that all such transactions have been properly implemented, accounted for and reported in accordance with applicable tax laws and regulations (including interpretive guidance), there can be no assurances that our interpretation of these rules or regulations will prevail or that our positions will not be challenged by the tax authorities. Our fiscal year 2004 is currently being audited by the Swedish tax authorities, and while no indication has been given by the tax auditor of any adverse treatment or ruling, there can be no assurances that there will not be an adverse treatment or ruling upon completion of the audit. Any such challenge by the tax authorities, whether as a result of this tax audit or otherwise, may result in our paying additional taxes, and potentially penalties for late payment of taxes, any of which may be material.

We are subject to numerous complex regulatory requirements which may change from time to time and failure to comply with these regulations, or the cost of compliance with these changes may harm our business.

The regulatory requirements relating to the manufacturing, testing, and marketing of the drugs in our project pipeline and our products may change from time to time. For example, at present, most member states in the European Union ("EU") have incorporated into their domestic laws the provisions contained in the EU Directive on the implementation of good clinical practice in the conduct of clinical trials. In many member states the Directive imposes more onerous requirements in relation to certain aspects of the conduct of clinical trials than the requirements previously in place. Such changes in regulatory requirements may impact our ability to conduct our biopharmaceuticals and R&D activities, notably clinical trials. In addition, the EU rules concerning marketing approval for drugs have recently been amended by EU Council Regulation and EU Directive notably with a view to imposing centralized drug approval procedures for certain types of medicinal products and improving the cooperation between EU member states in the context of mutual recognition procedures. The final impact of these EU regulations on our business cannot be known at this time. Changes in the regulations governing pharmaceuticals and biological products could increase our costs, impair our ability to conduct biopharmaceutical process development and manufacturing activities or to develop our drug candidates and have a negative impact on our ability to generate revenues.

Certain of our shareholders will be able to exert significant control over us after the offering and their interests may differ from those of our other shareholders.

After the offering, approximately 44% of our shares will be under the management control (including the right to vote the shares) of Nordic Capital and MPM Capital. If these shareholders act in concert, or even individually, they may be able to significantly influence matters submitted to a vote of all of our shareholders. Nordic Capital and MPM Capital may also have the power to prevent a change of control and could take other actions that may be favorable to either or both of them and unfavorable to other shareholders.

Risks Relating to Intellectual Property

If we are unable to obtain protection for the intellectual property incorporated into our products, the value of our technology and products will be adversely affected.

Our success will depend in large part on our ability or the ability of our licensors to obtain protection in the United States, European Union and other countries for the intellectual property incorporated into the products we market and sell. The patentability, validity and enforceability of patents in the field of biotechnology and pharmaceuticals generally are highly uncertain and involve complex legal and factual questions. Neither we nor our licensors may be able to obtain issued patents relating to our products and technology. Even if issued, patents may be challenged, invalidated or circumvented, which could both limit our ability to prevent competitors from marketing similar products and decrease the length of time of the patent protection we may have for our products. In addition, our patents and our licensors' patents may not afford us sufficient protection against competitors with similar products or technology. Because patent applications in the United States and many foreign jurisdictions are typically not published until 18 months after filing, or in some cases not at all, and because publications of discoveries in scientific literature often lag behind actual discoveries, neither we nor our licensors can be certain that we were the first to make the inventions claimed in issued patents or pending patent applications, or that we were the first to file for protection of the inventions described in these patent applications. In the event that a third party has also filed a patent application covering our products or technology, we may have to participate in an adversarial proceeding to determine priority of invention. The costs of these proceedings could be substantial and it is possible that our effort could be unsuccessful, resulting in a loss of our patent position.

If we fail to comply with our obligations in the agreements under which we license development or commercialization rights to products or technology from third parties, we could lose license rights that are important to our business.

We are a party to a number of technology licenses that are important to our business and expect to enter into additional licenses in the future. We have entered into license agreements with Amgen, Wyeth, Santhera, Syntonix, Symphogen and a number of other collaborative partners. These licenses impose various commercialization, milestone payment, royalty, insurance, and other obligations on us. If we fail to comply with these obligations, the licensor may have the right to terminate the license, in which event we would not be able to market products to which we are entitled under the relevant license agreement.

If we are unable to protect the confidentiality of our proprietary information and know-how, the value of our technology and products could be adversely affected.

In addition to patented products or technology, we rely upon proprietary technology, processes, and know-how that are not protected by patents. We seek to protect this information in part by confidentiality agreements with our employees, consultants and third party collaborators. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, our trade secrets may otherwise become known or be independently developed by competitors. If our proprietary information and know-how cannot be protected, for whatever reason, our business could be materially and adversely affected.

Third parties may own or control patents or patent applications that our technologies, drug targets or candidate drugs infringe. This could cause us to become involved in expensive patent litigation or other proceedings, which could result in our incurring substantial costs and liability for damages and could require us to cease some of our development and commercialization efforts or pay royalties and license fees in the future.

Third parties may own or control patents or patent applications in the United States, the European Union and other countries that would be infringed by technologies that we use in our research, drug targets that we select or candidate drugs that we seek to develop and commercialize. These third parties could bring claims against us or our collaborative partners that would cause us to incur substantial expenses and, if successful, could cause us to pay substantial damages. Further, if a patent infringement suit were brought against us or our collaborative partners, we or they could be forced to cease or delay research, development, manufacturing or sales of the product or candidate drug that is the subject of the suit. As a result, we or our collaborative partners may choose to seek, or be required to seek, a license from the third party and would most likely be required to pay license fees or royalties or both. These licenses

may not be available on acceptable terms, or at all. Even if we or our collaborative partners were able to obtain a license, the rights may be non-exclusive, which would give our competitors access to the same intellectual property. Ultimately, we could be prevented from commercializing a product, or be forced to cease some aspect of our business operations, as a result of patent infringement claims, which could harm our business significantly.

There has been substantial litigation and other proceedings regarding patents and other intellectual property rights in the pharmaceutical and biotechnology industries. In addition to infringement claims against us, we may become a party to other patent litigation and other proceedings, including interference proceedings declared by the United States Patent and Trademark Office and opposition proceedings in the European Patent Office, regarding intellectual property rights with respect to our projects, products and technology. We are currently involved in opposition proceedings against a number of third-party patents in the European Patent Office. There is no guarantee that any of these proceedings will be resolved in our favor. Even if resolved in our favor, the cost to us of these proceedings could be significant. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their substantially greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace. Patent litigation and other proceedings may also absorb significant management time.

Risks Relating to this Offering

The absence of a prior public market for our shares and possible volatility in our share price could impair your investment.

There has been no prior public market for our shares. We have applied to list our shares on the O-list of the Stockholm Stock Exchange. We do not know whether investor interest will lead to the development of a trading market on this exchange. If a trading market develops, that market may not be liquid. The initial offering price for our shares, and any shares sold by the Selling Shareholders, will be determined through negotiations among the Selling Shareholders and Carnegie. You may not be able to resell your shares at or above this initial offering price. The price at which our shares will trade will depend on a number of factors, including:

- the occurrence of any of the risks described in this offering memorandum;
- our historical and anticipated results of operations;
- announcements by us or our competitors, particularly in relation to clinical trials of drug candidates;
- changes in financial estimates by securities analysts regarding us, our industry, our suppliers or our competitors;
- conditions and trends in the industries in which we or our competitors compete;
- the timing, size and nature of other offerings that may be outstanding or forthcoming on the Swedish or other equity markets; and
- general market and economic conditions.

Issuance of shares under stock plans and outstanding warrants will dilute current stockholders.

We have long-term incentive programs, which include warrant programs pursuant to which we have sold or granted warrants to directors, officers and employees. As of August 31, 2006, warrants exercisable for a total of 8,626,436 shares were outstanding, 6,000,300 of which are exercisable through November 30, 2006. Although in conjunction with the offering we have launched an offer to repurchase some of the outstanding warrants that are exercisable through November 30, 2006, we will not repurchase all of these warrants and we do not presently intend to repurchase our other warrants that are outstanding. In addition, we may issue additional warrants or options in the future. You will incur dilution upon exercise of any outstanding options or warrants.

Issuance of shares as milestone payments under acquisition agreements with our subsidiaries could dilute current stockholders.

Our acquisition agreements with Cambridge Biotechnology and Arexis AB contain share-based milestone payments for project progress. Achievement of such progress and payment of the milestones in

their entirety would result in a dilution to our current shareholders and warrant holders of approximately 10.6%.

The sale of a substantial number of our shares could adversely affect the price of our shares.

Except for shares sold in the offering by the Selling Shareholders (including any additional shares sold pursuant to the over-allotment option), we, the Selling Shareholders and certain members of our senior management and board of directors have agreed, subject to certain exceptions, not to issue, offer, pledge, sell, contract to sell, sell any option or contract to purchase or otherwise transfer or dispose of any shares, or any securities convertible into or exercisable or exchangeable for shares for a certain period of time, except, in each case, with the prior written consent of Carnegie. We are subject to such restrictions for a period of six months after the first day of trading in the shares. The aforementioned group of senior management and board of directors is subject to such restrictions for a period of one year after the first day of trading in the shares. The Selling Shareholders are subject to such restrictions for a period of six months after the first day of trading in the shares. The Selling Shareholders have agreed amongst themselves that, upon the expiration of the six-month lock-up period and prior to the earlier of March 31, 2008 or the date on which the Selling Shareholders collectively hold less than 25% of the aggregate number of shares outstanding, to conduct any such sales in a coordinated and orderly manner. See “*Plan of Distribution*” for more details on the applicable lock-up periods and the orderly sell-down agreement. After the expiry of the applicable lock-up periods, these persons will be free to sell our shares, and until the expiration of the period during which the orderly sell-down agreement is in place, such sales can be expected to be executed in a coordinated manner. Our share price could decline as a result of sales of our shares in the market after the offering, or the perception that these sales could occur. These sales also might make it difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

We do not anticipate paying any cash dividends in the foreseeable future.

We currently intend to retain our future earnings, if any, to fund the development and growth of our businesses and, therefore, we do not anticipate paying any cash dividends in the foreseeable future.

We may be a passive foreign investment company for U.S. federal income tax purposes.

A non-U.S. corporation will be a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes for any taxable year if either (1) at least 75% of its gross income is passive income or (2) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during the taxable year) is attributable to assets that produce or are held for the production of passive income. Based in part on our estimates of the value of our assets, as determined by estimates of the expected price of our shares in this offering, we do not expect to be a PFIC for our current taxable year ending December 31, 2006. However, our status as a PFIC for our current taxable year ending December 31, 2006 will not be determinable until the close of such taxable year. Due to, among other things, the significant amount of liquid funds and short-term investments we will have throughout the year and the fact that the value of our assets will be based in part on the price of our shares following the offering (which may be especially volatile as we are a biopharmaceutical company), it is possible that we will be a PFIC for our current taxable year. In addition, we may be a PFIC in any future taxable year. If we are a PFIC during any taxable year in which a U.S. Holder holds our shares, such U.S. Holder generally would be subject to adverse U.S. federal income tax consequences with respect to any gain recognized on the disposition of, and certain distributions received on, the shares. In the event that our shares are “marketable stock,” a U.S. Holder may make a “mark-to-market” election with respect to such holder’s shares to help mitigate the adverse tax consequences resulting from us being a PFIC. If such election is made, such U.S. Holder generally would be required to include as ordinary income, or take as a deduction (but only to the extent of prior income inclusions with respect to the shares), any difference between the fair market value of the shares and the adjusted tax basis of the shares at the end of each taxable year. Prospective purchasers of our shares that are U.S. Holders should consult with their own tax advisors as to the applicability of the PFIC rules and as to the availability of, and advisability of making, the mark-to-market election described above. See “*Taxation—U.S. Taxation—Passive Foreign Investment Company Status.*”

Pre-emptive rights may not be available to U.S. or other holders outside Sweden.

Under Swedish law, unless otherwise resolved at a general meeting of shareholders, prior to the issuance of any new shares for cash we must offer such shares to current shareholders on the basis of their pre-emptive rights. Holders of our shares in the United States or other jurisdictions outside Sweden may,

however, be unable to exercise any pre-emptive rights to subscribe for securities in respect of their shares, in the case of United States holders, unless a registration statement under the Securities Act is effective in respect of such rights or an exemption from the registration requirements under the Securities Act is available, or in the case of holders in other jurisdictions outside Sweden, the shares or any rights or other securities being offered have been registered with the relevant authorities in such jurisdiction. We are under no obligation, and do not intend, to file a registration statement under the Securities Act or in any other jurisdiction outside Sweden in respect of any of our shares, and make no representation as to the availability of any exemption from the registration requirement under the Securities Act or under the laws of any other jurisdiction outside Sweden in respect of any such rights in the future. To the extent that our shareholders are not able to exercise their pre-emptive rights, their proportional interests in our company will be reduced.

EXCHANGE RATE INFORMATION AND REGULATIONS

Exchange Rate Information

The following table sets forth, for the periods and dates indicated, certain information regarding the mid-price fixing rates for the Swedish krona, expressed in Swedish kronor per euro and Swedish kronor per U.S. dollar, in each case, rounded to the nearest three decimal places. The mid-prices are based on fixing rates which are calculated by each Swedish bank daily at 9:30 a.m. CET as the average of buying and selling rates. OM Råntebörsen AB establishes a joint mid-price daily at 10:05 a.m. CET by calculating the average of the banks' fixing rates, excluding the highest and lowest estimates. No representation is made that Swedish krona amounts have been, could have been or could be converted into euro or U.S. dollars, or *vice versa*, at such exchange rates or at any other exchange rate.

Year	SEK per one EUR			
	Period End ⁽¹⁾	Average Rate ⁽²⁾	High ⁽³⁾	Low ⁽³⁾
2001	9.419	9.252	9.941	8.840
2002	9.193	9.163	9.515	8.977
2003	9.094	9.125	9.297	8.899
2004	9.007	9.127	9.273	8.892
2005	9.430	9.285	9.649	9.004
2006 (through August 31, 2006)	9.257	9.297	9.468	9.151

(1) Represents the joint mid-price fixing rate on the last business day of the relevant period.

(2) Represents the joint mid-price fixing rates on every business day during the relevant period.

(3) Represents the high or low of the joint mid-price fixing rates on every business day during the relevant period.

Year	SEK per one USD			
	Period End ⁽¹⁾	Average Rate ⁽²⁾	High ⁽³⁾	Low ⁽³⁾
2001	10.668	10.326	10.995	9.265
2002	8.825	9.724	10.728	8.805
2003	7.275	8.089	8.800	7.275
2004	6.613	7.350	7.750	6.583
2005	7.953	7.478	8.253	6.663
2006 (through August 31, 2006)	7.192	7.496	7.982	7.085

(1) Represents the joint mid-price fixing rate on the last business day of the relevant period.

(2) Represents the joint mid-price fixing rates on every business day during the relevant period.

(3) Represents the high or low of the joint mid-price fixing rates on every business day during the relevant period.

We describe the effects of exchange rate fluctuations on our business in “*Risk Factors—We are exposed to the risk of currency fluctuations, particularly between euro, dollars and Swedish kronor and these fluctuations may have a negative effect on our results of operations and financial condition.*”

Exchange Control Regulations in Sweden

There are currently no foreign exchange control restrictions in Sweden, other than in certain national crisis situations, that would restrict the payment of dividends to a shareholder outside Sweden, and there are currently no restrictions that would affect the right of shareholders who are not residents of Sweden to dispose of their shares and receive the proceeds from a disposal outside Sweden. There is no maximum transferable amount either to or from Sweden, although transferring banks are required to report to the Swedish tax authorities any payments to or from Sweden exceeding SEK 150,000. Such information may also be forwarded to authorities in the countries where the holders of shares are resident.

DIVIDENDS AND DIVIDEND POLICY

We currently intend to retain our future earnings, if any, to support the growth and development of our business, and we do not anticipate paying any dividends in the foreseeable future. Our ability and desire to pay dividends in the future will depend on our financial condition, results of operations, capital requirements, and other factors that our board of directors may deem relevant, and any proposal by the board of directors will be subject to the approval of our shareholders. In addition, the Swedish Companies Act limits our ability to declare and pay dividends from funds legally available for that purpose. See “*Description of Share Capital.*”

CAPITALIZATION

We are not raising capital through the issuance and sale of newly issued shares pursuant to this offering. The table below sets forth our cash and short-term liquid investments, short-term indebtedness, long-term borrowings, shareholders' equity, capitalization and net interest bearing debt as of June 30, 2006, (i) on an actual basis and (ii) as adjusted to give effect to our warrant repurchase program and the potential exercise of outstanding warrants, as described in "*Management—Compensation—Warrant Programs.*"

This table should be read in conjunction with "*Operating and Financial Review and Prospects,*" our audited and interim consolidated financial statements included elsewhere in this offering memorandum.

	As of June 30, 2006			
	Actual		As Adjusted for Repurchases and Exercises of Warrants ⁽¹⁾	
	(SEK)	(€) ⁽²⁾	(SEK)	(€) ⁽²⁾
	(in millions)			
Cash and short-term liquid investments	1,176.3	127.5	1,189.2	128.9
Short-term indebtedness	—	—	—	—
Long-term borrowings	—	—	—	—
Shareholders' equity				
Share capital	1,420.9	154.0	1,433.8	155.4
Total reserves	—	—	—	—
Total shareholders' equity	1,420.9	154.0	1,433.8	155.4
Total capitalization	1,420.9	154.0	1,433.8	155.4
Net interest bearing debt	—	—	—	—

- (1) Based on (i) SEK 150 million utilized to repurchase warrants from the holders thereof, pursuant to the terms of our warrant repurchase program, at a price of SEK 100 per share, the price per share in this offering, and (ii) that all remaining currently outstanding warrants, including the recently-issued warrants under our employee option program, are exercised pursuant to the terms thereof. See "*Management—Compensation—Warrant Programs.*"
- (2) Solely for the convenience of the reader, amounts have been translated into euro based on the joint mid-price announced by each Swedish bank at 9:30 a.m. CET on June 30, 2006 as established by OM Råntebörsen AB at 10:05 a.m. CET on June 30, 2006, as quoted by Sveriges Riksbank, of €1.00 per SEK 9.224.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The selected consolidated financial and other data set forth below as of and for each of the years ended December 31, 2005 and 2004 has been derived from our audited consolidated financial statements, prepared in accordance with IFRS. The selected consolidated financial and other data set forth below as of and for each of the six-month periods ended June 30, 2006 and 2005 has been derived from our unaudited interim financial statements, prepared in accordance with IFRS. IFRS differs in certain material respects from Swedish GAAP and from U.S. GAAP. Potential investors should consult their own professional advisors for an understanding of the differences between IFRS and Swedish GAAP and of the differences between IFRS and U.S. GAAP. For a discussion of significant differences between IFRS and Swedish GAAP, see note 42 to our 2005 audited consolidated financial statements.

The following information should be read in conjunction with “*Operating and Financial Review and Prospects*” and our audited and interim consolidated financial statements included elsewhere in this offering memorandum.

	Data prepared in accordance with IFRS					
	As of and for the years ended December 31,			As of and for the six months ended June 30,		
	2004	2005	2005	2005	2006	2006
	(Audited) (SEK)	(Audited) (SEK)	(Unaudited) (€) ⁽¹⁾	(Unaudited) (SEK)	(Unaudited) (SEK)	(Unaudited) (€) ⁽¹⁾
	(in millions, unless otherwise stated)					
Income Statement Data						
Revenues:						
Licensing and milestone revenues	142.1	205.6	22.3	71.1	88.3	9.6
Research revenues	51.6	54.5	5.9	25.9	26.6	2.9
ReFacto [®] manufacturing	168.0	191.7	20.8	31.8	338.9	36.7
Contract development & manufacturing	202.9	224.7	24.4	108.7	109.6	11.9
Co-promotion revenues	90.9	103.8	11.3	47.3	65.1	7.1
Royalty income	131.8	156.0	16.9	73.1	79.5	8.6
Other	0.1	0.3	—	—	0.1	0.0
Total revenues	787.4	936.6	101.6	357.9	708.1	76.8
Cost of ReFacto [®] manufacturing	(75.7)	(86.0)	(9.3)	(10.5)	(110.8)	(12.0)
Cost contract development & manufacturing	(172.6)	(184.7)	(20.0)	(93.9)	(79.6)	(8.6)
Total cost of goods and services sold	(248.3)	(270.7)	(29.3)	(104.4)	(190.4)	(20.6)
Gross Profit	539.1	665.9	72.3	253.5	517.7	56.2
Other operating income ⁽²⁾	250.6	272.6	29.5	20.4	5.4	0.6
Operating expenses:						
Sales and marketing	(34.5)	(38.7)	(4.2)	(13.1)	(17.1)	(1.9)
General and administration	(148.4)	(151.2)	(16.4)	(55.3)	(66.2)	(7.2)
Research and development	(535.5)	(576.0)	(62.4)	(264.7)	(303.2)	(32.9)
Other operating expenses	(29.9)	(42.7)	(4.6)	(21.4)	(46.9)	(5.1)
Total operating expenses	(748.3)	(808.6)	(87.6)	(354.5)	(433.4)	(47.0)
Operating profit/loss	41.4	129.9	14.2	(80.6)	89.7	9.7
Interest income and similar items	53.3	49.4	5.4	31.1	3.5	0.4
Interest expense, and similar items	(1.4)	(1.6)	(0.2)	(0.1)	(0.3)	0.0
Profit/loss after financial items	93.3	177.8	19.3	(49.6)	92.9	10.1
Tax on profit/loss	2.3	(1.6)	(0.2)	(0.4)	0.5	0.1
Profit/loss for the period	95.6	176.2	19.1	(50.0)	93.4	10.1

Data prepared in accordance with IFRS

	As of and for the years ended December 31,			As of and for the six months ended June 30,		
	2004	2005	2005	2005	2006	2006
	(Audited) (SEK)	(Audited) (SEK)	(Unaudited) (€) ⁽¹⁾	(Unaudited) (SEK)	(Unaudited) (SEK)	(Unaudited) (€) ⁽¹⁾
	(in millions, unless otherwise stated)					
Earnings per share:⁽³⁾						
Basic	1.83	3.37	0.36	(0.96)	1.93	0.21
Diluted ⁽⁴⁾	1.71	3.15	0.34	(0.96)	1.79	0.19
Weighted average number of shares outstanding:⁽³⁾						
Basic	52,331,400	52,331,400	—	52,331,400	48,390,653	—
Diluted ⁽⁴⁾	55,958,100	55,983,293	—	52,331,400	52,068,686	—
Shareholders' equity per share:⁽³⁾						
Basic	29.11	32.63	3.54	28.37	32.81	3.56
Diluted ⁽⁴⁾	27.23	30.49	3.31	28.37	30.25	3.28
Balance Sheet Data						
Assets:						
Intangible fixed assets	5.4	362.7	39.3	129.8	409.2	44.4
Tangible fixed assets	434.6	300.6	32.6	451.3	249.1	27.0
Financial fixed assets	12.7	13.9	1.5	12.7	29.6	3.2
Fixed assets	452.7	677.2	73.4	593.8	687.9	74.6
Inventories	84.2	126.3	13.7	141.2	120.1	13.0
Current receivables, non-interest- bearing	278.8	303.4	32.9	236.0	277.1	30.0
Liquid funds and short term investments	1,585.1	1,621.3	175.8	1,361.3	1,176.3	127.5
Short-term investments	536.7	562.7	61.0	757.8	537.7	58.3
Liquid funds	1,048.4	1,058.6	114.8	603.6	638.6	69.2
Current assets	1,948.1	2,051.0	222.3	1,738.5	1,573.5	170.6
Total assets	2,400.8	2,728.1	295.7	2,332.3	2,261.4	245.2
Equity and Liabilities:						
Shareholders' equity	1,523.5	1,707.7	185.1	1,484.8	1,420.9	154.0
Long term liabilities, non-interest bearing	390.8	409.3	44.4	319.9	228.1	24.7
Long-term liabilities	390.8	409.3	44.4	319.9	228.1	24.7
Current liabilities, non-interest bearing	486.4	611.1	66.2	527.6	612.4	66.4
Current liabilities	486.4	611.1	66.2	527.6	612.4	66.4
Total equity and liabilities	2,400.8	2,728.1	295.7	2,332.3	2,261.4	245.2
Cash Flow Data						
Net result	95.6	176.2	19.1	(50.0)	93.4	10.1
Adjustment for items not affecting cash flow:						
Depreciation and Write down . . .	81.6	117.1	12.7	43.7	36.8	4.0
Other items	(351.0)	(267.0)	(28.9)	(71.1)	(61.9)	(6.7)
Cash flow from operations before changing in working capital	(173.8)	26.3	2.9	(77.4)	68.3	7.4
Change in working capital	(35.3)	(91.7)	(9.9)	(11.2)	(16.7)	(1.8)
Cash flow from operations	(209.0)	(65.3)	(7.0)	(88.6)	51.6	5.6

Data prepared in accordance with IFRS

	As of and for the years ended December 31,			As of and for the six months ended June 30,		
	2004	2005	2005	2005	2006	2006
	(Audited) (SEK)	(Audited) (SEK)	(Unaudited) (€) ⁽¹⁾	(Unaudited) (SEK)	(Unaudited) (SEK)	(Unaudited) (€) ⁽¹⁾
	(in millions, unless otherwise stated)					
Divestment of operation	—	—	—	—	—	—
Investment in subsidiary	—	(223.3)	(24.2)	(84.6)	—	—
Investment in intangible fixed assets	—	(50.9)	(5.5)	(4.5)	(53.6)	(5.8)
Investment in tangible fixed assets	(77.8)	(122.3)	(13.2)	(54.5)	(22.1)	(2.4)
Divestment of tangible fixed assets	266.0	492.0	53.3	0.1	—	—
Investment/Divestment of short- term financial assets	(305.2)	(25.9)	(2.8)	(221.0)	(15.7)	(1.7)
Cash flow from investing activities . .	(117.0)	69.6	7.6	(364.5)	(91.4)	(9.9)
Loans—Raising/Amortization	—	—	—	—	—	—
Redemption of shares	—	—	—	—	(378.9)	(41.1)
Issue of warrants	—	0.8	0.1	1.2	—	—
Re-purchase of warrants	—	(0.1)	—	(0.1)	—	—
Cash flow from financing activities . .	—	0.7	0.1	1.1	(378.9)	(41.1)
Net change in cash	(326.0)	5.0	0.6	(452.1)	(418.7)	(45.4)
Liquid funds at the beginning of the period	1,374.4	1,048.4	113.6	1,048.4	1,058.6	(114.8)
One-time effect implement IAS39	—	4.5	0.5	4.5	—	—
Translation difference in cash flow	—	0.7	0.1	2.8	(1.3)	(0.1)
Liquid funds at the end of the period	1,048.4	1,058.6	114.8	603.6	638.6	69.2
Short-term investments	536.7	562.7	61.0	757.7	537.7	58.3
Liquid funds and short-terms investments at the end of the period	1,585.1	1,621.3	175.8	1,361.3	1,176.3	127.5
Key financial ratios and other data⁽⁵⁾						
Sales growth (%)	n/a	18.9	18.9	n/a	97.8	97.8
Gross margin (%)	68.5	71.1	71.1	70.8	73.1	73.1
EBITDA ⁽⁶⁾	123.0	247.0	26.8	(36.9)	126.5	13.7
EBITDA margin (%)	15.6	26.4	26.4	(10.3)	17.9	17.9
Operating margin (%)	5.3	13.9	13.9	(22.5)	12.7	12.7
Operating capital	(61.5)	86.4	9.3	123.5	244.6	26.6
Shareholders' equity	1,523.5	1,707.7	185.1	1,484.8	1,420.9	154.1
Equity-to-assets ratio (%)	63.5	62.6	62.6	63.7	62.8	62.8
Net interest-bearing debt (%)/ EBIDTA (times)	n/a	n/a	n/a	n/a	n/a	n/a
Cash flow from operations before capital expenditure	(209.0)	(65.3)	(7.1)	(88.6)	51.6	5.6
Capital expenditure	(77.8)	(173.2)	(18.8)	(59.0)	(75.7)	(8.2)
Cash flow from operations after capital expenditure	(286.8)	(238.5)	(25.9)	(147.6)	(24.1)	(2.6)

(1) Solely for the convenience of the reader, amounts have been translated into euro based on the joint mid-price announced by each Swedish bank at 9:30 a.m. CET on June 30, 2006 as established by OM Råntebörsen AB at 10:05 a.m. CET on June 30, 2006, as quoted by Sveriges Riksbank, of €1.00 per SEK 9.224.

(2) Includes proceeds from real estate divestitures in financial years 2004 and 2005, amounting to SEK 193.2 million and SEK 244.9 million, respectively.

(3) Consistent with IFRS, number of shares and earnings per share data have been adjusted for all periods to reflect the two-for-one share split effected on August 14, 2006. Number of shares and related earnings per share data has not been adjusted for all periods to reflect the redemption on April 12, 2006 of 9,028,800 shares held by Pfizer. However, as required pursuant to IFRS, number of shares has been adjusted for all periods to reflect the issuance to our existing shareholders of an aggregate of 4,811,400 new shares, as a bonus issue, related the redemption of the shares from Pfizer (all as described further under “*Related Party Transactions*”).

- (4) Number of diluted shares has been adjusted to give effect to our warrant program, based on the number of warrants outstanding. The share market price is based on the price per share in this offering of SEK 100. The warrant program is further described under “*Management—Compensation—Warrant Program.*” Fully diluted shares do not reflect our contingent share-based milestone payments which, if payable in their entirety, would result in dilution to our shareholders and warrant holders of approximately 10.6%. See “*Operating and Financial Review and Prospects—Major Transactions and Other Key Factors Affecting Our Results of Operations—Acquisitions and In-Licensing.*”
- (5) For definitions, see “*Selected Consolidated Financial and Other Data—Definitions for Key Financial Ratios and Other Data.*”
- (6) EBITDA is calculated as operating profit plus goodwill amortization plus depreciation of all assets. We believe that EBITDA are useful in evaluating our operating performance because a number of companies, including companies in the biopharmaceutical industry, also publish these figures as key performance indicators. EBITDA is not necessarily a measure of operating performance in accordance with IFRS, nor should EBITDA be considered a substitute for operating profit (loss), profit (loss) before tax, net profit (loss), cash flow from operating activities or other income or cash flow statement data as determined in accordance with IFRS, or as a measure of profitability or liquidity. EBITDA is included herein as a supplemental disclosure, because we believe that these measures, when considered in connection with cash flows from operating, investing and financing activities, provides useful comparative information to an investor and helps investors evaluate the performance of our underlying business. Other companies may not calculate EBITDA the way we do, and accordingly the presentation of EBITDA in this offering memorandum may not be comparable to a similarly titled measure of other companies.

The selected consolidated financial and other data set forth below as of and for each of the years ended December 31, 2004 and 2003 has been derived from our audited consolidated financial statements, prepared in accordance with Swedish GAAP. For a discussion of the impact on our financial statements from the transition from Swedish GAAP to IFRS, see “*Operating and Financial Review and Prospects—Major Transactions and Other Factors Affecting Our Results of Operations—Transition to IFRS,*” and note 42 to our 2005 audited consolidated financial statements.

	Data prepared in accordance with Swedish GAAP	
	As of and for the period ended December 31,	
	2003	2004
	(Audited)	(Audited)
	(SEK in millions, except per share data)	
Income Statement Data		
Total revenues	1,657.0	645.3
Cost of goods and services sold	(612.0)	(248.3)
Gross profit	1,045.4	397.0
Sales and marketing expenses	(37.2)	(34.5)
Administration expenses	(115.0)	(129.2)
Research and development expenses	(583.2)	(534.7)
Result from divestment of real estate property	—	193.2
Other operating revenues	59.8	57.4
Other operating expenses	(36.1)	(29.9)
Operating profit/loss	333.8	(80.7)
Interest income and similar items	36.8	52.2
Interest expense and similar items	(0.9)	(0.3)
Total profit/loss from financial items	35.9	51.9
Profit/loss after financial items	369.7	(28.8)
Taxes	—	2.3
Net profit/loss	369.7	(26.5)
Earnings per share (basic) ⁽¹⁾	7.06	(0.51)
Earnings per share (diluted) ⁽¹⁾⁽²⁾	6.62	(0.51)
Weighted average number of shares outstanding (basic) ⁽¹⁾	52,331,400	52,331,400
Weighted average number of shares outstanding (diluted) ⁽¹⁾⁽²⁾	55,876,441	52,331,400
Balance Sheet Data		
Intangible fixed assets	8.8	5.4
Tangible fixed assets	501.6	434.6
Financial fixed assets	—	16.4
Inventories	66.9	84.2
Current receivables	189.6	294.2
Short-term investments	1,485.1	1,527.0
Cash and bank balances	120.9	58.1
Total assets	2,372.9	2,420.0
Shareholders' equity	2,096.1	2,075.6
Appropriations/Provisions	0.8	—
Current liabilities	276.9	344.4
Total shareholders' equity, liabilities and provisions	2,372.9	2,420.0
Shareholders' equity per share (basic) ⁽¹⁾	40.05	39.66
Shareholders' equity per share (diluted) ⁽¹⁾⁽²⁾	37.51	37.09

	Data prepared in accordance with Swedish GAAP	
	As of and for the period ended December 31,	
	2003	2004
	(Audited)	(Audited)
	(SEK in millions, except per share data)	
Cash Flow Data		
Cash flow from operation before changes in working capital	503.0	(154.6)
Cash flow from operations	755.6	(209.0)
Cash flow from investing activities	(153.7)	(117.0)
Cash flow from financing activities	(0.5)	—
Net change in cash	602.4	(326.1)

- (1) Number of shares and earnings per share data have not been adjusted to reflect the two-for-one share split effected on August 14, 2006. Number of shares and earnings per share data has not been adjusted for all periods to reflect our redemption on April 12, 2006, of 9,028,800 shares held by Pfizer. Number of shares has been adjusted to reflect the issuance to our existing shareholders of an aggregate of 4,811,400 new shares, as a bonus issue, related to the redemption of the shares from Pfizer (all as described further under “*Related Party Transactions*”).
- (2) Number of diluted shares has been adjusted to give effect to our warrant program, based on the number of warrants outstanding. The share market price is based on the price per share in this offering of SEK 100. The warrant program is further described under “*Management—Compensation—Warrant Program*.” Fully diluted shares do not reflect our contingent share-based milestone payments which, if payable in their entirety, would result in dilution to our shareholders and warrant holders of approximately 10.6%. See “*Operating and Financial Review and Prospects—Major Transactions and Other Key Factors Affecting Our Results of Operations—Acquisitions and In-Licensing*.”

Definitions of Key Financial Ratios and Other Data

The key ratios and certain other operating and per share data are provided in accordance with recommended Swedish market practice and are defined as follows:

Sales growth (%)	Increase in total revenues from the previous period.
Gross margin (%)	The ratio of gross profit (loss) to total revenues.
EBITDA	EBITDA is calculated as operating profit plus goodwill amortization plus depreciation of all assets.
EBITDA margin (%)	The ratio of EBITDA to total revenues.
Operating margin (%)	The ratio of operating profit (loss) to total revenues.
Operating capital	Total assets—less liquid funds and short-term investments, long-term non-interest-bearing liabilities and current non-interest bearing liabilities.
Equity-to-asset ratio (%)	Shareholders’ equity/total assets.
Net interest-bearing debt	Interest-bearing debt less liquid funds and short-term investments.
Net interest-bearing debt/EBITDA (times)	Net interest-bearing debt/EBITDA for the preceding 12 months.
Capital expenditure	Investments in tangible and intangible assets.

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OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following commentary together with the “Selected Consolidated Financial and Other Data” and our consolidated financial statements included elsewhere in this offering memorandum. We currently prepare our financial statements in accordance with IFRS, and the discussion below is based on our results and financial position as accounted for pursuant to IFRS. IFRS differs in significant respects from Swedish GAAP and from U.S. GAAP. For a discussion of significant differences between IFRS and Swedish GAAP, see note 42 to our audited consolidated financial statements prepared in accordance with IFRS and included elsewhere in this offering memorandum. Unless otherwise expressly stated, the discussion below is based on financial data prepared in accordance with IFRS. The following discussion contains forward-looking statements that are subject to various risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those described under “Cautionary Note Regarding Forward-Looking Statements” and elsewhere in this offering memorandum, including under “Risk Factors.”

Overview and Trends

We are a leading European biopharma company with integrated R&D, manufacturing and marketing and sales capabilities. We engage in a broad spectrum of R&D activities, from drug discovery to pre-clinical and clinical development, have significant operations in manufacturing and advanced process development of protein therapeutics, and conduct marketing and sales activities of specialist prescription drugs primarily in the Nordic region. We recorded aggregate revenues of approximately SEK 937 million in 2005 and approximately SEK 708 million for the six-month period ended June 30, 2006.

Our revenues consist of licensing fees, milestone payments and research funding from our research and development collaborations, payments relating to the biopharmaceuticals manufacturing and process development services we provide to third parties and distribution and co-promotion fees and royalties from sales of specialist prescription drugs.

We derive a large portion of our revenues from Wyeth relating to *ReFacto*[®], primarily from our manufacturing of the *ReFacto*[®] drug substance but also from our co-promotion of *ReFacto*[®] in the Nordic region and from royalties on Wyeth’s global sales of *ReFacto*[®]. While we expect that our overall revenue from Wyeth relating to *ReFacto*[®] and the next generation of *ReFacto*[®] will increase over the next two-to-three years as a result of the expected inventory build-up by Wyeth and concurrent production of validation batches for the next generation of *ReFacto*[®], we anticipate that at such time as Wyeth has converted its sales to the next generation of *ReFacto*[®], our revenue from Wyeth will reduce somewhat and then grow in line with the expected growth of sales of the next generation of *ReFacto*[®].

The majority of our expenses relate to our R&D activities. We anticipate that our overall R&D expenses will increase over the next couple of years as a result of increased spending associated with an increased number and size of clinical trials, notwithstanding the significant cost savings we have realized and expect to realize as a result of the recent restructurings of our R&D operations.

We expect that our revenues derived from biopharmaceutical services provided to third parties will decrease somewhat over the short term, particularly as a result of the expiration of our long-term contracts with Pfizer and Amgen in August and September 2006, respectively, although we expect to continue to provide our biopharmaceutical services to these companies on a project-by-project basis. We intend to utilize any resulting excess capacity towards the development of our internal specialist protein drug candidates and at the same time intend to broaden our biopharmaceutical service offerings by entering into strategic partnerships, including partnerships which will allow us to offer large-scale manufacturing and process development services to third parties.

In addition, we plan to continue to build our marketing and sales infrastructure in order to support the commercialization of our specialist prescription drugs, as well as to co-promote and distribute drugs developed by third parties.

Major Transactions and Other Key Factors Affecting Our Results of Operations

We have entered into a number of significant transactions and have been affected by several other significant events and factors during the periods presented herein that have had a material impact on our results of operations, certain of which may impact our results of operations going forward, including the following:

- Our agreements with Wyeth;

- Our agreements with Amgen;
- The process development services we provide to third parties;
- Our acquisitions and in-licensing of technology and compounds;
- The restructuring of our R&D operations; and
- Our real estate divestitures.

We discuss these transactions and other factors below.

Arrangements with Wyeth Regarding ReFacto®

Pursuant to our agreements with Wyeth, we are the exclusive manufacturer of the *ReFacto*® drug substance, we receive royalties from Wyeth's global sales of *ReFacto*® and we generate revenues from our co-promotion of *ReFacto*® in the Nordic region. We have made similar arrangements with Wyeth in relation to future generations of *ReFacto*®, including the next generation of *ReFacto*® which is currently in Phase III clinical trials. See “*Business—Marketed Products and Project Pipeline—Marketed Products—ReFacto*®” and “*Material Contracts—Wyeth*.” Our revenues from *ReFacto*® are generally dependent on market acceptance of *ReFacto*®, the availability and competitiveness of competing drugs in the marketplace and the effectiveness of regional and global sales and marketing efforts.

The table below sets forth by category the revenues we derived from *ReFacto*®, and cost of goods sold for each of manufacturing and process development of *ReFacto*®, for the years ended December 31, 2004 and 2005 and for the six-month periods ended June 30, 2005 and 2006.

	Year ended December 31,		Six months ended June 30,	
	2004	2005	2005	2006
			(SEK millions)	
Manufacturing	168.0	191.7	31.8	338.9
Process development	18.5	2.6	2.6	—
Royalties ⁽¹⁾	131.8	156.0	73.1	79.3
Co-promotion revenues	44.7	55.3	25.6	36.9
Total revenues	363.0	405.6	133.1	455.1
Cost of manufacturing	75.8	86.0	10.4	110.8
Cost of process development	11.6	2.5	2.7	—
Total costs of goods and services sold	87.4	88.5	13.1	110.8
Gross profit	275.6	317.1	120.0	344.3

(1) Represents net cash received by us after payment to Pfizer of 50% of the total royalty fees.

Manufacturing and Process Development

In 2004, Wyeth decided to cease all production of *ReFacto*® at its own facilities and we agreed to become the exclusive manufacturer of the *ReFacto*® drug substance. In 2004 and early 2005, we implemented new production methods necessary to support full-scale production of *ReFacto*®, during which time our manufacturing facilities were not operating at full capacity and our production of *ReFacto*® was limited and partly dedicated to the production of validation batches. We began full-scale production of *ReFacto*® during the second quarter of 2005 and our revenues from manufacturing of *ReFacto*® increased in 2005 as compared to 2004 as a result of the commencement of full-scale production. The significant increase in our revenues from the manufacturing of *ReFacto*® for the six-month period ended June 30, 2006 as compared to the comparable 2005 period is primarily attributable to the fact that we were not producing *ReFacto*® at full-scale in the first quarter of 2005. Based on our current understanding of Wyeth's global sales, we expect full-scale production of *ReFacto*® to continue for the remainder of 2006 and in 2007.

In 2004, 2005 and the six-month period ended June 30, 2005, we also conducted process development for the next generation of *ReFacto*®, from which we derived revenues of SEK 18.5 million, SEK 2.6 million and SEK 2.6 million, respectively.

We expect that Wyeth will build up inventory of *ReFacto*® in anticipation of the switch-over from *ReFacto*® to the next generation, which we believe could take place in mid-2008. Accordingly, we expect

that Wyeth will increase its orders for *ReFacto*[®] in the years leading up to the launch of the next generation. We expect that the combination of the build-up of Wyeth's inventory and increased orders for validation batches of the next generation will result in a peak in our manufacturing revenues from Wyeth in the year in which the next generation is launched. Assuming the next generation of *ReFacto*[®] is accepted in the market and effectively replaces *ReFacto*[®], we anticipate that production of *ReFacto*[®] will cease in the year following the launch of the next generation and that manufacturing revenues from the next generation will increase in the long-term in line with underlying market growth. We do not believe that our fixed costs relating to the production of the next generation of *ReFacto*[®] will change materially from our current fixed cost levels and we expect production of the next generation to require less production capacity. Assuming any excess production capacity can be applied elsewhere such as to new customers, which we believe will be the case, our unit cost of production of the next generation of *ReFacto*[®] is likely to be lower than our unit cost of production of *ReFacto*[®].

Pursuant to our agreement with Wyeth, Wyeth is required to make binding one year advance rolling forecasts for sales of *ReFacto*[®]; although in practice Wyeth typically provides us with three year non-binding rolling forecasts in addition to the required one year rolling forecasts. Wyeth will also be required to provide us with binding one year rolling forecasts for future generations of *ReFacto*[®].

Royalties

We receive royalties on Wyeth's global sales of *ReFacto*[®] based on an agreed percentage of all sales, which we are required to split on a 50/50 basis with Pfizer. The royalty rates to which we are entitled with respect to the next generation, should it be successfully launched, are lower than the rate currently applicable to *ReFacto*[®]. The royalty structure for the next generation is similar to the royalty structure for *ReFacto*[®], although the royalty rate decreases by an agreed percentage upon sales of the next generation achieving agreed volumes. Assuming the next generation is commercialized by mid-2008, we would expect to begin to experience a reduction in royalty revenues beginning in 2009, although over time we expect to see growth in royalty revenues in line with the expected increased sales of the next generation of *ReFacto*[®].

Co-Promotion

Wyeth has granted us co-promotion rights to *ReFacto*[®] and future generations of *ReFacto*[®] in the Nordic region and the Middle East. Currently, Wyeth is not marketing *ReFacto*[®] in the Nordic region. We earn a commission based on combined net sales in co-promotion territories. We do not currently market or sell *ReFacto*[®] in the Middle East and to date have not generated revenues from sales in the Middle East. The co-promotion arrangements for the next generation will be substantially similar to the arrangements currently in place for *ReFacto*[®]. See "*Material Contracts—Wyeth*" for a further description of our agreements with Wyeth.

Our Agreements with Amgen

Amgen is developing our 11 β -HSD₁ enzyme inhibitors for the treatment of metabolic diseases and certain other medical disorders. Amgen also funds certain of our research relating to 11 β -HSD₁ enzyme inhibitors and has granted us co-promotion rights to three of its marketed products in the Nordic region and/or the European Union. We also conduct biopharmaceutical process development work for Amgen. Our revenues from Amgen are dependent on Amgen's success in developing our 11 β -HSD₁ enzyme inhibitors, Amgen's demand for our process development services in the future, the market acceptance of the Amgen drugs that we co-promote or receive royalties from, the competitive environment and the effectiveness of our sales and marketing efforts in relation to these drugs.

The table below sets forth the total revenues we derived from our arrangements with Amgen during the years ended December 31, 2004 and 2005 and the six-month periods ended June 30, 2005 and 2006.

	Year ended December 31,		Six months ended June 30,	
	2004	2005	2005	2006
	(SEK millions)			
11 β -HSD ₁ enzyme inhibitors program				
License fees	142.1	142.1	71.1	88.3
Milestone payments	—	63.5	—	—
Research funding	51.6	54.4	25.7	26.4
Process development	49.3	67.0	31.8	38.2
Co-promotion revenues/royalties	46.3	48.5	21.7	28.2
Total	289.3	375.5	150.3	181.1

11 β -HSD₁ enzyme inhibitors program

Pursuant to our 2003 development and marketing collaboration agreement with Amgen, we granted Amgen the exclusive right to fund and conduct all further development and related commercialization activities relating to our 11 β -HSD₁ enzyme inhibitors for the treatment of metabolic diseases and certain other medical disorders in North and South America, the European Union, Australia and New Zealand. In consideration for this arrangement, Amgen paid us an up-front licensing fee of \$86.5 million which we received in the fourth quarter of 2003 (included in our accounts as SEK 710.5 million). We have deemed the earnings period for the payment to be five years, based on the design of the project and the terms of the agreement. Accordingly, we will recognize the payment ratably over a five year period ending in September 2008. We recognized SEK 142.1 million of the licensing fee as income in each of 2004 and 2005 and will recognize SEK 142.1 million as income annually until September 2008.

In December 2005, the arrangement was expanded to grant Amgen exclusive development and commercialization rights to our 11 β -HSD₁ enzyme inhibitors for the treatment of metabolic diseases and certain other medical disorders worldwide. In consideration for expanding Amgen’s rights, Amgen paid us an up-front licensing fee of \$12.5 million, which we recorded at SEK 97.8 million in the fourth quarter of 2005. We will recognize the payment ratably over the period remaining for recognition of Amgen’s initial 2003 up-front licensing fee. Accordingly, we recognized SEK 2.9 million of the licensing fee as income in 2005 and will recognize SEK 34.5 million as income annually until 2008.

Amgen will make milestone payments to us upon achieving agreed upon development, regulatory and sales milestones. We received a milestone payment of SEK 63.5 million in 2005. We do not anticipate that any milestone payments will be made in 2006 or 2007. In addition, we are entitled to receive royalties on future sales of all products that are developed pursuant to the arrangement. Amgen also agreed to fund certain of our research relating to 11 β -HSD₁ enzyme inhibitors through October 2006. We expect that the research funding will not be renewed after October 2006.

Biopharmaceuticals

Pursuant to a separate agreement entered into in September 2003, we agreed to perform biopharmaceutical process development work funded and directed by Amgen over a three-year period. The agreement will terminate in September 2006 and the activities under the agreement are expected to end in November 2006, after which we may conduct process development work for Amgen, if requested, on a project-by-project basis. We discuss the revenues we derive from the provision of these services to Amgen under “*Process Development Services*” below.

Kineret[®], Mimpara[®] and Kepivance[®]

In September 2003, we entered into an agreement with Amgen pursuant to which Amgen granted us co-promotion rights for *Kineret[®]* (anakinra) in the European Union and for *Kineret[®], Mimpara[®]* (cinacalcet HCl) and *Kepivance[®]* (palifermin) in the Nordic region. *Kineret[®]* was launched in 2002, *Mimpara[®]* was launched in February 2005 and *Kepivance[®]* was launched in November 2005 in the relevant co-promotion territory. We receive co-promotion payments based on a fixed percentage of combined net sales of *Kineret[®]* in the European Union, including the Nordic region. The co-promotion payments we are entitled to receive from sales of *Mimpara[®]* and *Kepivance[®]* are based on fixed percentages of combined net sales in the Nordic region, which increase each year through the third year following launch of the respective

product. *Kineret*[®], *Mimpara*[®] and *Kepivance*[®] are approved by the EMEA and sold in all major European countries. These products are discussed in further detail in “*Business—Marketing and Sales.*”

Process Development Services

We provide contract process development services to Pfizer and Amgen, which together accounted for more than two-thirds of our revenues from these services in 2005, and a number of other biopharmaceutical companies. Our revenues from the provision of contract development services amounted to SEK 109.6 million for the six months ended June 30, 2006 compared to SEK 108.7 million for the six months ended June 30, 2005, and amounted to SEK 224.7 million in 2005 compared to SEK 202.9 million in 2004. We provide these services pursuant to umbrella agreements or on a project-by-project basis.

We expect that the revenues we derive from the biopharmaceutical process development services we provide to third parties will decrease in the short term, particularly as a result of the expiration of our long-term contracts with Pfizer and Amgen in August and September 2006, respectively, although we may continue to provide biopharmaceutical services to these companies, if requested, on a project-by-project basis. We also continuously enter into new customer agreements and expect to increase the number of new customers as capacity becomes available. We intend to dedicate any resulting excess capacity toward the development of our internal specialist protein drug candidates and, at the same time, intend to broaden our process development service offerings by entering into strategic partnerships, including partnerships which will allow us to offer large scale manufacturing and process development services to third parties.

Acquisitions and In-Licensing

One of our strategies is to expand our product pipeline through acquisitions and by entering into in-licensing or co-development arrangements with biotechnology companies. In connection with our acquisitions, such as our acquisitions of Cambridge Biotechnology and Arexis, and the in-licensing and co-development arrangements that we enter into, such as our arrangements with Syntonix, Symphogen and Santhera, we generally make a one-time up-front payment and are typically required to make milestone payments in relation to the acquired and/or in-licensed compounds and/or technology upon the achievement of agreed developmental milestones.

The total amount of licensing and milestone fees we paid for the six month periods ended June 30, 2006 and June 30, 2005 was SEK 51.6 million and SEK 6.8 million, respectively, and in 2005 and 2004 was SEK 63.3 million and SEK 10.6 million, respectively. Assuming the projects in our pipeline progress according to the development plan, we could potentially be required to pay up to approximately SEK 100 million in milestones payments in 2006 and up to SEK 170 million in 2007.

Our aggregate share-based milestone payments agreed in connection with the acquisitions of Cambridge Biotechnology and Arexis are 5.6 million shares in Biovitrum, which, if paid in their entirety, would result in a dilution to our current shareholders and warrant holders of approximately 10.6%.

We discuss our recent acquisitions of Cambridge Biotechnology and Arexis AB, and our arrangements with Syntonix, Symphogen and Santhera, below.

Cambridge Biotechnology

On April 18, 2005, we acquired all of the outstanding shares of Cambridge Biotechnology, a privately-owned drug discovery company based in Cambridge, England. The acquisition expanded our product pipeline to include one neuropathic pain project in Phase Ib clinical development and one obesity project in pre-clinical development. On completion of the acquisition, we paid approximately £7.4 million in cash (which included approximately £0.5 million of fees and expenses of the sellers which we reimbursed) and issued loan notes currently convertible into approximately 2.4 million shares of Biovitrum. We funded the acquisition from cash on hand. The agreement contains a total of six milestones distributed among two different projects. In July 2005, we made a milestone payment of €2.0 million in connection with the A_{2A} receptor agonist project commencing Phase I and in August 2006 we made an aggregate payment of €4.5 million in connection with the project proceeding to Phase II. In total, we could be required to make additional milestone payments potentially amounting to approximately EUR 11 million in cash and 2.4 million Biovitrum shares.

Arexis AB

On August 17, 2005, we acquired all the capital stock of Arexis AB, a privately-owned Swedish biotechnology and pharmaceutical company specializing in the development of pharmaceuticals for the treatment of metabolic and inflammatory diseases. The acquisition expanded our pipeline to include several projects in, or close to, clinical phase, among them one project for the treatment of fat malabsorption in cystic fibrosis patients, which is currently in Phase II clinical development. We paid a total of SEK 125.0 million in cash for Arexis. The agreement sets forth a total of 17 milestones relating to five projects. In total, we could be required to make additional milestone payments in cash and shares to the former Arexis owners amounting in the aggregate to approximately SEK 337 million in cash and approximately 3.2 million Biovitrum shares.

In 2005, the impact on our consolidated income attributable to Cambridge Biotechnology and Arexis was a reduction of SEK 74.4 million, after taxes, primarily due to increased R&D costs. Had the acquisitions taken place as of January 1, 2005, it would have resulted in a further reduction in our reported profit for the year of approximately SEK 50 million.

Syntonix, Symphogen and Santhera

In January 2006, we entered into an agreement with Syntonix Pharmaceuticals, Inc. (“Syntonix”) to jointly develop and commercialize recombinant Factor IX to treat hemophilia. We paid Syntonix an up-front licensing fee in cash of \$4.0 million and made a further investment of \$2.0 million in shares of Syntonix. In total, we could be required to make additional milestone payments to Syntonix amounting in the aggregate to \$12 million in cash. For additional information regarding our agreement with Syntonix see “*Material Contracts—Syntonix.*”

In January 2006, we entered into an agreement with Symphogen A/S (“Symphogen”) to jointly develop and commercialize Symphogen’s anti-Rhesus D polyclonal antibody for the treatment and prophylaxis of certain blood disorders. We paid Symphogen an up-front fee in cash. We could be required to make additional milestone payments to Symphogen in the future. For additional information regarding our agreement with Symphogen see “*Material Contracts—Symphogen.*”

In July 2005, we entered into a license and collaboration agreement with Santhera Pharmaceuticals (Deutschland) AG (“Santhera”) pursuant to which we were granted the exclusive worldwide rights to Santhera’s DPP-IV inhibitor program to select and develop compounds and sell future drugs for a range of metabolic diseases, including type 2 diabetes, obesity and metabolic syndrome. In consideration for these rights we paid Santhera an up-front licensing fee in cash of €3.0 million and provided Santhera with research funding of €1 million. In total, we could be required to make additional milestone payments to Santhera of up to €10 million in cash. We may also have to pay royalties based on worldwide net sales of commercialized products. If we out-license the program we will split resulting milestones and royalties with Santhera. For additional information regarding our agreement with Santhera see “*Material Contracts—Santhera.*”

Agreement with GlaxoSmithKline

In October 2002, we entered into a global agreement with GlaxoSmithKline pursuant to which GlaxoSmithKline acquired rights for all further development and commercialization of our 5-HT_{2C} receptor agonists for the treatment of obesity. In consideration for the development and commercialization rights, GlaxoSmithKline paid us an initial licensing fee amounting to \$15.0 million in 2002 and is required to make periodic milestone payments related to development results, registration and approval by applicable regulatory authorities. For a description of the developmental progress of our 5-HT_{2C} receptor agonists projects, see “*Business—Our Pre-Clinical, Lead Optimization and Discovery Projects—5-HT_{2C} Receptor Agonist.*” No payments under the GlaxoSmithKline agreement were made to us in 2005 or 2004. We do not expect that any payments will be made under the GlaxoSmithKline agreement during 2006 or 2007.

Restructuring of R&D Operations/R&D Expenses

2004 Restructuring

During the second half of 2004, we implemented a restructuring in relation to our R&D operations, which included workforce lay-offs and other cost-cutting measures. The restructuring included the laying-off of 75 employees, primarily engaged in early discovery and administration. We recorded costs of

the restructuring in 2004 of SEK 42 million. The 2004 restructuring, which was fully implemented in 2005, resulted in cost savings in 2005 of approximately SEK 65 million, due to reduced personnel costs, primarily in early research, and administrative overhead. We believe the cost savings attributable to the restructuring will result in similar cost savings on an annual basis going forward.

2005 Restructuring

During the second half of 2005, we further restructured our R&D and administrative functions, which resulted in personnel reductions and further cost savings within both R&D and administrative areas. As part of this restructuring, in April 2006 we transferred approximately 35 employees from our early research teams to iNovacia AB, an independent contract research organization (“iNovacia”), which we had established and funded for this purpose. As part of the restructuring, almost 90% of the shares of iNovacia was sold to Asinex Ltd. and the employees of iNovacia. See “*Related Party Transactions*” for a discussion of this transaction and the purchase commitments we entered into with the iNovacia. The 2005 restructuring also involved an internal reorganization of our R&D organization to create two discovery units that function separately from our clinical and pre-clinical development teams, as well as workforce lay-offs of approximately 45 employees, primarily in early research but also in administration.

We established provisions for restructuring charges during 2005 of SEK 94.0 million, of which: SEK 44.0 million related to personnel, SEK 29.7 million of which have been utilized thus far in 2006; SEK 26.0 million related to write-down of assets, SEK 22.5 million of which have been utilized thus far in 2006; and SEK 24.0 million related to future rents of vacated premises, SEK 11.9 million of which have been utilized thus far in 2006. Costs related to the spin-out of iNovacia, which amounted to SEK 42.0 million as of June 30, 2006, were expensed in the first six months of 2006. Cost savings of the 2005 restructurings is expected to be approximately SEK 80 to 100 million annually, due to reductions in personnel expenses, administrative overhead, lease expenses, building depreciation and information technology costs. We anticipate that the cost savings from the restructuring will be fully realized in our 2007 fiscal year.

R&D Expenses

The following table summarizes our research and development expenses, broken down by stage of development, for the years ended December 31, 2004 and 2005 and for the six months ended June 30, 2005 and 2006:

	Year ended December 31,		Six months ended June 30,	
	2004	2005	2005	2006
	(SEK in millions)			
External Project Expenses ⁽¹⁾	29.9	72.3	24.4	64.2
Development ⁽²⁾	182.6	287.0	142.3	157.0
Discovery ⁽³⁾	323.0	216.7	98.0	82.0
Total research and development expenses	535.5	576.0	264.7	303.2

(1) Consists of payments to third party clinical service providers for outsourced services.

(2) Consists of expenses relating to projects in clinical and pre-clinical development.

(3) Consists of expenses relating to discovery activities.

Impact of Real Estate Transactions

2004 Real Estate Divestiture

In July 2004, we divested our real property located at Paradiset 12-14, Stockholm, consisting of laboratory and office space. The net proceeds from the sale was SEK 266.0 million, with a capital gain (after transaction expenses) amounting to SEK 193.0 million. Concurrent with the sale, we agreed to lease the same property for a 15 year term.

2005 Real Estate Divestiture

During 2005, in connection with the relocation of our Stockholm-based R&D, management and staff functions to the Karolinska Institute, we sold our property at Hornsberg 10, Stockholm, for net proceeds of SEK 492.0 million, with a capital gain (after transaction expenses) of SEK 245.0 million. We will continue

to conduct our process development and production operations, as well as our pharmaceutical sales activities, from rented premises in Hornsberg 10, pursuant to a two year sub-lease.

Transition to IFRS

As of January 1, 2005, we adopted IFRS and commenced the preparation of our financial statements pursuant to IFRS. As required by IFRS, we recalculated our 2004 figures to be able to present a comparison period in our 2005 financial statements.

The transition to IFRS resulted in only marginal differences as compared to our accounts prepared under Swedish GAAP, with one significant exception. In 2003 we recorded revenue of SEK 710.5 million, reflecting the payment of the up-front license fee under our agreement with Amgen. Under Swedish GAAP, this fee was recognized in its entirety in our income statement in 2003. Pursuant to IFRS, this fee is to be recognized over the term of the contract with Amgen, five years, and we are thus recognizing SEK 142.0 million annually of this license fee in each of the years 2004 through 2008.

Presentation of Financial Information

We have prepared our consolidated accounts for the years ended 2005 and 2004 in accordance with the International Financial Reporting Standards (IFRS) and the statements issued by the International Financial Reporting Interpretations Committee as adopted by the European Commission. We discuss the accounting policies applicable to our financial statements in the notes to our audited consolidated financial statements included elsewhere in this offering memorandum.

Revenues

Our revenues consist of licensing fees, milestone payments and research funding from our research and development collaborations, payments from biopharmaceuticals manufacturing and process development services provided to third parties and distribution and co-promotion fees and royalties from sales of specialist prescription drugs.

Pursuant to co-development and out-licensing arrangements that we enter into in respect of our drug compounds, we typically receive a one-time up-front payment and additional payments conditioned upon our compounds successfully achieving agreed developmental milestones. According to the milestone method, continuous “milestones” are considered separate from the initial license fee. Generally, the initial license fees are allocated over the duration of the underlying agreement, as a separate earning period is not considered to have been completed when they were received. Subsequent milestone payments, however, are considered to belong to an individual, completed, portion of the agreement. This portion is reported as income immediately upon receipt, that is, when it is earned. We also receive research funding from our collaborative partners in certain instances. We recognize revenues for funded research on a monthly basis upon completion and approval of the work.

We derive revenues from the process development and manufacturing services we provide to large pharmaceutical companies, including Wyeth, Amgen and Pfizer, among others. We typically receive payments from contracting parties in the manufacturing process at complete production (*i.e.* from cultivation to drug substance). We also generate revenues from process development services. We recognize revenue for production of drug substances upon shipment of finished drug substances to our contracting parties. Revenue from purification and process development services is recognized upon completion of work and approval of the product by the contracting party. Revenue from service assignments is required when the economic outcome for the completed assignment can be calculated in a reliable manner and the economic benefits accrue to the Company.

Royalties from *ReFacto* sales and royalties and co-promotion and distribution revenues from the drugs that we market are based on sales and, though typically paid to us 60 days after the end of each quarter, are recognized monthly based on monthly sales plans. Any adjustment of revenues is recorded in the following quarter. Co-promotion revenues are set at the time we receive reports containing sales figures from Wyeth and Amgen. Occasionally, when we do not receive such reports prior to closing the accounts for the relevant month, we estimate the revenues for such month based on sales in previous months. We make any necessary adjustments to revenues that we have estimated upon receiving final reports. We generally receive payment approximately 45 to 60 days after the end of each quarter. Our commission is based on net sales.

Cost of Goods and Services Sold

Cost of goods and services sold consists of cost of biopharmaceuticals manufacturing and cost of biopharmaceuticals process development. Cost of biopharmaceutical manufacturing consists primarily of costs for our personnel and also includes certain raw material costs, primarily chemicals, as well as depreciation related to equipment used in the manufacturing process and our pilot plants. Cost of process development consists primarily of the personnel costs for staff that are providing process development services and depreciation related to machinery and equipment.

Other Operating Income

Other operating income is primarily related to rental income and proceeds from real estate divestitures. To a lesser extent, this line item also includes foreign exchange effects.

Sales and Marketing Expenses

Sales and marketing expenses primarily include expenses related to our sales and marketing activities and personnel costs for our in-licensing and co-development efforts.

General and Administration Expenses

General and administrative expenses include salaries and bonuses to our personnel in management and staff functions. General and administration expenses also includes restructuring costs, information technology costs related to group functions such as finance, human resources, legal and business development, and to a lesser extent depreciation expense on information technology infrastructure. In addition, this line-item includes communications costs, including costs for annual and quarterly reports and general corporate profile communications.

Research and Development Expenses

Our research and development expenses primarily include salaries, bonuses and other labor costs for our employees engaged in research and development, costs for raw materials and equipment used in research, depreciation of plant and equipment and payments for contract services. We expense research and development costs as incurred, except for expenses for development projects which are reported as intangible fixed assets if we can show that it is technically possible to complete the project and it is profitable to commercialize the results, and then only if the expenses for the project can be measured in a reliable manner. If development expenses fail to meet the above criteria, they are expensed as incurred.

Other Operating Expenses

Other operating expenses are primarily related to costs for maintenance and other costs for our leasehold premises. Buildings are depreciated over 30 to 50 years, plant and machinery over 3 to 10 years and equipment, tools, fixtures and fittings over three to seven years. Other operating expenses also include restructuring costs not included in general and administrative expenses. To a lesser extent, this line item also includes foreign exchange effects.

Taxes

Taxes comprise current tax on the results of our operations and changes in deferred tax. We carry forward our tax losses. We had SEK 95.0 million of tax loss carry-forwards at the end of 2004, and SEK 265.3 million of tax loss carry-forwards at the end of 2005. A deferred tax asset of SEK 12.4 million has been recognized related to our tax loss carry-forward as of December 31, 2005 (see note 30 to our 2005 audited consolidated financial statements).

Results of Operations

As Reported under IFRS

The following table sets forth certain consolidated profit and loss data (pursuant to IFRS) for the periods indicated:

	For the years ended December 31,		For the six months ended June 30,		For the three months ended March 31,	
	2004	2005	2005	2006	2005	2006
	(audited)		(unaudited)		(unaudited)	
	(SEK in millions, unless otherwise stated)					
Income Statement Data						
Revenues:						
Licensing and milestone revenues . . .	142.1	205.6	71.1	88.3	35.5	44.2
Research revenues	51.6	54.5	25.9	26.6	13.4	12.3
ReFacto® manufacturing	168.0	191.7	31.8	338.9	30.5	222.4
Contract development & manufacturing	202.9	224.7	108.7	109.6	53.5	53.0
Co-promotion revenues	90.9	103.8	47.3	65.1	21.4	32.8
Royalty income	131.8	156.0	73.1	79.5	32.9	38.3
Other	0.1	0.3	—	0.1	—	0.3
Total revenues	787.4	936.6	357.9	708.1	187.2	403.3
Cost of ReFacto® manufacturing . . .	(75.7)	(86.0)	(10.5)	(110.8)	(12.9)	(65.0)
Cost contract development & manufacturing	(172.6)	(184.7)	(93.9)	(79.6)	(45.4)	(44.5)
Total cost of goods and services sold .	(248.3)	(270.7)	(104.4)	(190.4)	(58.3)	(109.5)
Gross Profit	539.1	665.9	253.5	517.7	128.9	293.7
Other operating income	250.6	272.6	20.4	5.4	10.7	4.3
Operating expenses:						
Sales and marketing	(34.5)	(38.7)	(13.1)	(17.1)	(5.1)	(8.4)
General and administration	(148.4)	(151.2)	(55.3)	(66.2)	(20.7)	(27.5)
Research and development	(535.5)	(576.0)	(264.7)	(303.2)	(127.6)	(136.7)
Other operating expenses	(29.9)	(42.7)	(21.4)	(46.9)	(11.2)	(43.1)
Total operating expenses	(748.3)	(808.6)	(354.5)	(433.4)	(164.6)	(215.7)
Operating profit/loss	41.4	129.9	(80.6)	89.7	(25.1)	82.4
Interest income and similar items . .	53.3	49.4	31.1	3.5	14.6	3.9
Interest expense, and similar items .	(1.4)	(1.5)	(0.1)	(0.3)	0.0	(0.0)
Profit/loss after financial items	93.3	177.8	(49.6)	92.9	(10.5)	86.3
Tax on profit/loss	2.3	(1.6)	(0.4)	0.5	0.0	—
Profit/loss	95.6	176.2	(50.0)	93.4	(10.5)	86.3

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Revenues

Total revenues amounted to SEK 708.1 million for the six-month period ended June 30, 2006 compared to SEK 357.9 million for the six-month period ended June 30, 2005, an increase of SEK 350.2 million, or 97.8%. This significant increase in revenue primarily reflected the shift to full-scale manufacturing of ReFacto® during the latter half of 2005. See “Major Transactions and Other Key Factors Affecting Our Results of Operations—Arrangements with Wyeth Regarding ReFacto®.”

Revenues from licensing and milestone payments amounted to SEK 88.3 million for the six-month period ended June 30, 2006, compared to SEK 71.1 million for the six-month period ended June 30, 2005, an increase of SEK 17.2 million, or 24.2%. The increase in revenues was primarily attributable to the recognition in the first six months of 2006 of the allocated portion of the licensing fee from Amgen paid in connection with the 2005 expansion of our collaboration agreement.

Research revenues amounted to SEK 26.6 million for the six-month period ended June 30, 2006 compared to SEK 25.9 million for the six-month period ended June 30, 2005, a marginal increase of SEK 0.7 million, or 2.7%. We expect that our research revenues will decline or disappear significantly towards the end of 2006 as we expect our research funding from Amgen to terminate in October 2006.

Revenues from the manufacture of *ReFacto*[®] amounted to SEK 338.9 million for the six-month period ended June 30, 2006 compared to SEK 31.8 million for the comparable 2005 period, an increase of SEK 307.1 million, or 965.7%. The significant increase in revenues was primarily attributable to the fact that full-scale production of *ReFacto*[®] commenced in the second quarter of 2005.

Revenues from biopharmaceuticals contract development and manufacturing (other than revenues from *ReFacto*[®]) amounted to SEK 109.6 million for the six-month period ended June 30, 2006 compared to SEK 108.7 million for the six-month period ended June 30, 2005, a marginal increase of SEK 0.9 million, or 0.8%. These revenues will decline towards the end of 2006 when our current contracts with Pfizer and Amgen expire in August and November, respectively, and are replaced by project-by-project service arrangements.

Co-promotion revenues amounted to SEK 65.1 million for the six-month period ended June 30, 2006 compared to SEK 47.3 million for the comparable 2005 period, an increase of SEK 17.8 million, or 37.6%. The increase in revenues was primarily attributable to increased sales of *ReFacto*[®] and *Mimpara*[®] in the Nordic region.

Royalties from Wyeth from global sales of *ReFacto*[®] amounted to SEK 79.3 million for the six-month period ended June 30, 2006 compared to SEK 73.1 million for the six-month period ended June 30, 2005, an increase of SEK 6.2 million, or 8.5%. The increase was attributable to increased global sales of *ReFacto*[®].

Cost of goods and services sold/Gross profit

The cost of *ReFacto*[®] manufacturing was SEK 110.8 million for the six-month period ended June 30, 2006 compared to SEK 10.5 million for the six-month period ended June 30, 2005, an increase of SEK 100.3 million, or 955.2%. The increased cost of manufacturing was primarily attributable to increased volume of *ReFacto*[®] manufacturing upon commencement of full-scale manufacturing in the second quarter of 2005, partly offset by lower production cost per unit. Our gross profit increased to SEK 517.7 million for the six-month period ended June 30, 2006 from SEK 253.5 million for the six-month period ended June 30, 2005, an increase of SEK 264.2 million, or 104.2%.

Other operating income

Other operating income was SEK 5.4 million for the six-month period ended June 30, 2006 compared to SEK 20.4 million for the six-month period ended June 30, 2005, a decrease of SEK 15 million, or 73.5%. The decrease was primarily attributable to the elimination of external rental revenues upon the consummation of our 2005 real estate divestiture.

Sales and marketing expenses

Sales and marketing expenses were SEK 17.1 million for the six-month period ended June 30, 2006 compared to SEK 13.1 million for the comparable 2005 period, an increase of SEK 4.0 million, or 30.5%. The increase in sales and marketing expenses was primarily attributable to the build-up of and additional hiring in our sales and marketing organization.

General and administration expenses

General and administration expenses were SEK 66.2 million for the six-month period ended June 30, 2006 compared to SEK 55.3 million for the comparable 2005 period, an increase of SEK 10.9 million, or 19.7%. The increase in general and administration expenses is primarily attributable to costs relating to our initial public offering.

Research and development expenses

Research and development expenses were SEK 303.2 million for the six-month period ended June 30, 2006 compared to SEK 264.7 million for the six-month period ended June 30, 2005, an increase of SEK 38.5 million, or 14.5%. The increase was primarily attributable to increased project expenses and

costs associated with our acquisitions of Cambridge Biotechnology and Arexis, partially offset by cost savings realized as a result of the 2005 restructuring of our R&D operations.

Other operating expenses

Other operating expenses were SEK 46.9 million for the six-month period ended June 30, 2006 compared to SEK 21.4 million for the six-month period ended June 30, 2005, an increase of SEK 25.5 million, or 119.1%. The increase was primarily attributable to the costs relating to our spin-out of iNovacia in April 2006, partially offset by decrease in expenses resulting from our 2005 real estate divestiture.

Profit from financial items

Profit from financial items was SEK 3.2 million for the six-month period ended June 30, 2006 compared to SEK 31.0 million for the six-month period ended June 30, 2005, a decrease of SEK 27.8 million, or 89.7%. The decrease was primarily attributable to decreases in the value of our bond portfolio and some currency exchange losses.

Taxes

We recorded a tax benefit of SEK 0.5 million for the six-month period ended June 30, 2006. We accrued taxes of SEK 0.4 million for the six-month period ended June 30, 2005 due to tax loss carry-forwards.

Profit/Loss

Our net profit was SEK 93.4 million for the six-month period ended June 30, 2006 compared to a net loss of SEK 50.0 million for the six-month period ended June 30, 2005.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Revenues

Total revenues amounted to SEK 936.6 million in 2005 compared to SEK 787.4 million in 2004, an increase of SEK 149.2 million, or 19%, reflecting increased revenues across our businesses.

Revenues from licensing and milestone payments amounted to SEK 205.6 million in 2005 compared to SEK 142.1 million in 2004, an increase of SEK 63.5 million, or 44.7%. The increase in revenues was attributable to a SEK 63.5 million milestone payment from Amgen relating to our 11 β -HSD₁ enzyme inhibitors collaboration. Other licensing revenue consisted of the portion the up-front license fee from Amgen paid in connection with entering into the 11 β -HSD₁ enzyme inhibitors collaboration allocated to 2005 in an amount of SEK 142.1 million and the portion of the fee from Amgen paid in connection with the 2005 expansion of development and marketing collaboration agreement allocated to 2005.

Research revenues amounted to SEK 54.5 million in 2005 compared to SEK 51.6 million in 2004, a marginal increase of SEK 2.9 million, or 5.6%.

Revenues from the production of *ReFacto*[®] amounted to SEK 191.7 million in 2005 compared to SEK 168.0 million in 2004, an increase of SEK 23.7 million, or 14.1%. The increase in revenues was primarily attributable to our commencement of full-scale manufacturing of *ReFacto*[®] beginning in the second quarter of 2005.

Revenues from biopharmaceuticals contract development and manufacturing (other than revenues from *ReFacto*[®]) amounted to SEK 224.7 million in 2005 compared to SEK 202.9 million in 2004, an increase of SEK 21.8 million, or 10.7%. The increase resulted from an increase in the number of our customers.

Co-promotion and distribution revenues amounted to SEK 103.8 million in 2005 compared to SEK 90.9 million in 2004, an increase of SEK 12.9 million, or 14.2%. The increase in revenues was attributable to increased co-promotion revenues from our *ReFacto*[®] sales in the Nordic market, which increased by SEK 10.6 million, or 23.7%, from SEK 44.7 million in 2004 to SEK 55.3 million in 2005. Co-promotion and distribution revenues from sales of other drugs increased from SEK 46.2 million to SEK 48.6 million during 2005. *Mimpara*[®] was launched in 2005, but only had a small effect on our revenues for that year.

Royalties from Wyeth for global sales of *ReFacto*[®] amounted to SEK 156.0 million in 2005 compared to SEK 131.8 million in 2004, an increase of SEK 24.2 million, or 18.4%. The increase was attributable to Wyeth's increased sales of *ReFacto*[®] in 2005 of \$268.4 million as compared to \$249.4 million in 2004, an increase of \$19.0 million, or 7.6%, and beneficial U.S. dollar to Swedish kronor exchange rate developments.

Cost of goods and services sold/Gross profit

The cost of *ReFacto*[®] manufacturing was SEK 86.0 million for 2005 compared to SEK 75.7 million for 2004, an increase SEK 10.3 million, or 13.6%. The increased cost of manufacturing is primarily attributable to the delivery of higher volumes of validation batches of the next generation of *ReFacto*[®] and of commercial supply of *ReFacto*[®] in 2005 and was in line with the increase in revenues from the manufacturing of *ReFacto*[®] during the periods. The cost of contract development and manufacturing services was SEK 184.7 million in 2005 compared to SEK 172.6 million in 2004, an increase of SEK 12.1 million, or 7.0%. The increase was primarily attributable to an increase in the number of our customers and was in line with the increase in revenues from provision of the development and manufacturing services in the period. Our gross profit increased to SEK 665.9 million in 2005 from SEK 539.1 million in 2004, an increase of SEK 126.8 million, or 23.5%.

Other operating income

Other operating income was SEK 272.6 million in 2005 compared to SEK 250.6 million in 2004, an increase of SEK 22.0 million, or 8.8%. The income in both 2005 and 2004 principally reflects our real estate divestitures in each of those respective years.

Sales and marketing expenses

Sales and marketing expenses were SEK 38.7 million in 2005 compared to SEK 34.5 million in 2004, a marginal increase of SEK 4.2 million, or 12%. The increase in sales and marketing expenses was primarily attributable to the build-up of our sales and marketing organization.

General and administration expenses

General and administration expenses were SEK 151.2 million in 2005 compared to SEK 148.4 million in 2004, an increase of approximately 1.9%. General and administration expenses for 2005 include SEK 68.8 million in restructuring costs. The remaining restructuring costs of SEK 25.6 million were reported as other operating expenses.

Research and development expenses

Research and development expenses were SEK 576.0 million in 2005 compared to SEK 535.5 million in 2004, an increase of SEK 40.5 million, or 7.6%. The increase in R&D expenses was primarily attributable to the additional R&D staff acquired through the acquisitions of Cambridge Biotechnology and Arexis and an increase in direct project expenses, partially offset by decreased costs resulting from reduced R&D personnel as a result of our restructurings. Cost savings arising from the 2004 restructuring have compensated for increased project costs in an amount of SEK 72.3 million in 2005 compared to SEK 29.9 million in 2004.

Other operating expenses

Other operating expenses were SEK 42.7 million in 2005 compared to SEK 29.9 million in 2004, an increase of SEK 12.8 million, or 42.8%. The increase was primarily attributable restructuring costs of SEK 26 million related to our 2005 restructuring.

Profit from financial items

Profit from financial items was SEK 47.9 million for 2005 compared to SEK 51.9 million for 2004, a decrease of SEK 4.0 million, or 7.7%.

Taxes

Taxes amounted to SEK 1.6 million in 2005. Tax for the year was attributable to profit generated in one of Biovitrum's real estate limited partnerships, which cannot be applied to tax loss carry-forwards from

previous years. We had SEK 95.0 million of tax loss carry-forwards at the end of 2004, and SEK 265.3 million of tax loss carry-forwards at the end of 2005. A deferred tax asset of SEK 12.4 million has been recognized related to our tax loss carry-forward as of December 31, 2005 (see note 30 to our 2005 audited consolidated financial statements).

Profit/Loss

Our net profit was SEK 176.2 million for 2005 compared to a net profit of SEK 95.6 million for 2004, an increase of SEK 80.6 million, or 84%.

As Reported under Swedish GAAP

The table below sets forth certain consolidated profit and loss data (pursuant to Swedish GAAP) for the periods indicated:

	As of and for the period ended December 31,	
	2003	2004
	(Audited)	(Audited)
	(SEK in millions, except per share data)	
Total revenues	1,657.0	645.3
Cost of goods and services sold	(612.0)	(248.3)
Gross profit	1,045.4	397.0
Sales and marketing expenses	(37.2)	(34.5)
Administration expenses	(115.0)	(129.2)
Research and development expenses	(583.2)	(534.7)
Result from divestment of real estate property	—	193.2
Other operating revenues	59.8	57.4
Other operating expenses	(36.1)	(29.9)
Operating profit/loss	333.8	(80.7)
Interest income and similar items	36.8	52.2
Interest expense and similar items	(0.9)	(0.3)
Total profit/loss from financial items	35.9	51.9
Profit/loss after financial items	369.7	(28.8)
Taxes	—	2.3
Net profit/loss	369.7	(26.5)

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Revenues

Total revenues amounted to SEK 645.3 million in 2004 compared to SEK 1,657.0 million in 2003, a significant decrease of approximately SEK 1,011.7 million, or 61%, principally reflecting the SEK 711.0 million up-front license fee we recorded under Swedish GAAP in 2003, and to decreased *ReFacto*[®] manufacturing revenues, from SEK 516.5 million in 2003 to SEK 168.0 million in 2004. The decrease was due to expiration in 2003 of the three-year agreement with Wyeth for the purification of material cultivated in Wyeth's plant in St. Louis. Co-promotion revenues amounted to SEK 90.9 million in 2004 compared to SEK 40.5 million in 2003. The increase derived mainly from sales of *Kineret*[®], but also from increased sales of *ReFacto*[®]. Royalty revenues increased from SEK 122.0 million in 2003 to SEK 132.0 million in 2004.

Cost of goods and services sold/Gross profit

Cost of goods and services sold amounted to SEK 248.3 million in 2004 compared to SEK 612.0 million in 2003. The decrease was primarily attributable to decreased *ReFacto*[®] manufacturing, but also that 2003 included SEK 146.0 million in non-recurring items. The non-recurring items included expenses of SEK 30.0 million attributable to the renegotiation of our royalty arrangements with Pfizer regarding *ReFacto*[®], the write down of inventory of SEK 42.0 million, SEK 50.0 million for a contract with

Octapharma and restructuring charges reflecting personnel layoffs in product development and manufacturing of SEK 24.0 million.

Other operating revenues

Other operating revenues were SEK 57.4 million in 2004 compared to SEK 59.8 million in 2003, a marginal decrease of 2.4 million, or 4%.

Sales and marketing expenses

Sales and marketing expenses were SEK 34.5 million in 2004 compared to SEK 37.2 million in 2003, a marginal decrease of SEK 2.7 million, or 7.2%. The decrease in sales and marketing expenses was primarily attributable to that Biovitrum took over the promotion of *ReFacto*[®] from Octapharma in July 2004. Up until June 2004 Octapharma provided the promotion according to the agreement in 2002.

Administration expenses

Administration expenses were SEK 129.2 million in 2004 compared to SEK 115.0 million in 2003, an increase of approximately 12.3%. This increase in administration expense reflected the restructuring charges in 2004 amounted to SEK 42.0 million, approximately SEK 35.0 million of which related to restructuring costs consisting of personnel layoffs in administration and R&D.

Research and development expenses

Research and development expenses were SEK 534.7 million in 2004 compared to SEK 583.2 million in 2003, a decrease of SEK 48.5 million, or 8%. The decrease in R&D expenses was primarily attributable to decreased expenses for clinical trials in 2004.

Other operating income

Other operating income was SEK 57.4 million in 2004 compared to SEK 59.8 million in 2003, a decrease of SEK 2.4 million, or 4.2%.

Other operating expenses

Other operating expenses were SEK 29.9 million in 2004 compared to SEK 36.1 million in 2003, a decrease of SEK 6.2 million or 17.2%. The decrease was primarily attributable to a decrease in exchange rate losses on operating receivables/liabilities.

Profit from financial items

Profit from financial items was SEK 51.9 million for 2004 compared to SEK 35.9 million for 2003, an increase of SEK 16.0 million, or 44.6%, reflecting net interest earnings on our cash deposits.

Taxes

We recorded no tax in 2003, whereas in 2004 we recorded a tax cost of SEK 2.3 million.

Profit/Loss

We recorded a net loss of SEK 26.5 million in 2004, as compared to a net profit of SEK 369.7 million in 2003, principally reflecting the license fee of SEK 711.0 million recorded in 2003.

Liquidity and Capital Resources

Cash Flow Statement Data

The table below summarizes our cash flow for the years ended December 31, 2004 and 2005 and for the six-month periods ended June 30, 2005 and June 30, 2006:

	Year ended December 31,		Six months ended June 30,	
	2004	2005	2005	2006
	(SEK in millions)			
Cash flow from operations	(209.0)	(65.3)	(88.6)	51.6
Cash flow from investing/divesting activities	(117.0)	69.6	(364.5)	(91.4)
Cash flow from financing activities	—	0.6	1.1	(378.9)
Net cash flow	(326.0)	4.9	(452.0)	(418.7)

The decrease in our cash outflow from operations in 2005 as compared to 2004 was primarily attributable to the up-front payment from Amgen of SEK 97.8 million relating to the expansion of our collaborative agreement and the milestone payment of SEK 63.5 million received from Amgen. The increase in our cash flow from operations in the six-month period ended June 30, 2006 compared to the six-month period ended June 30, 2005 was attributable to increased revenues from our manufacturing of *ReFacto*[®]. Our cash flow from investing/divesting activities increased in 2005 as compared to 2004 as a result of increased cash flow from our 2005 real estate divestiture partially offset by cash outflow from our investments in Cambridge Biotechnology and Arexis. Our cash flows from financing activities were relatively stable in 2005 and 2004. Our cash outflows from financing activities increased during the six-month period ended June 30, 2006 as compared to the six-month period ended June 30, 2005, primarily as a result of our redemption of 9,028,800 shares held by Pfizer Health AB for an amount of SEK 378.9 million in cash.

Cash and Funding Sources

As of June 30, 2006 we had liquid funds and short-term investments of approximately SEK 1.2 billion, SEK 537.7 million of which consisted of short-term investments. We believe we have sufficient cash to fund our operations for at least the next 12 months.

We currently have no outstanding long-term indebtedness. We finance our operations principally through the revenues generated from the provision of our biopharmaceutical services to third parties; royalties and co-promotion fees from sales of *ReFacto*[®]; and licensing fees, milestone payments and research funding provided by our R&D collaborations.

Contractual Obligations

Our major outstanding contractual obligations relate to our equipment and facilities leases and obligations under a number of in-licensing and co-development agreements to make milestone payments to other parties to these agreements.

We have summarized in the table below our fixed contractual cash obligations over the periods indicated. The table does not include potential future milestone or royalty payments (some of which are payable in cash and some in Biovitrum shares) we may be required to make in connection with our acquired and in-licensed projects and technology as the timing and likelihood of such payments are not known.

	Less than 1 year	1–2 years	3–5 years	5 years and more	Total
	(SEK in millions)				
Contractual obligations					
Service Contract	23.8	15.0	—	—	38.8
Equipment Leases	1.9	1.7	0.07	—	3.7
Property Leases	66.2	134.0	103.3	213.7	517.2
Total	91.9	150.7	103.4	213.7	559.7

Other than the potential milestone and royalty payments agreed in connection with the acquisitions of Cambridge Biotechnology and Arexis and our agreements with Syntonix, Symphogen and Santhera, we

currently have no material ongoing commercial commitments, such as lines of credit, guarantees or standby purchase orders, that would affect out liquidity over the next five years.

Off Balance Sheet Arrangements

Historically, we have not used special-purpose vehicles or similar financing arrangements. In addition, we do not have any off-balance sheet financing arrangements with any of our affiliates or with unconsolidated entities.

Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of loss that may result from the potential change in the value of a market risk sensitive instrument as a result of fluctuations in foreign exchange and interest rates, counterparty risk and other risks, including changes to various legal and regulatory requirements. Our exposure to market risk is related to our role as a biopharmaceutical company with contracts, sales and regulatory requirements in multiple countries and our manufacturing functions.

Interest Rate Risk

We invest the cash and cash equivalents that exceed our near term funding needs in short term interest-bearing financial instruments. As of June 30, 2006, such short-term investments amounted to approximately SEK 1.2 billion, with an average duration of 3 months. Due to the short-term nature of these investments, we do not believe they give rise to any material exposure to interest rate risk.

Counter-party Risk

Our financial transactions may also carry an element of credit risk if our counterparties are unable to fulfill their obligations. We mitigate the risk that the counterparty is unable to fulfill its commitments partially through the choice of credit-worthy counterparties and partially through the limitation of the respective counterparty's commitment.

Foreign Exchange Rate Risk

We are subject to currency transaction exposure as a substantial part of our operations and costs are based in Sweden and denominated in Swedish kronor, whereas a significant portion of the revenues from our current collaboration agreements are denominated in other currencies. For example, our collaboration agreement with Amgen is denominated in U.S. dollars and our royalty agreement with Wyeth is primarily based on euro denominated sales. In addition, a minor portion of our Biopharmaceuticals revenues are in U.S. dollars. Further, transaction exposure arises when we pay for imported goods in foreign currency. The Swedish krona has moved significantly relative to both the U.S. dollar and the euro over the last three years. See "*Exchange Rate Information and Regulations.*" We aim to hedge our dollar-based revenues by entering into forward contracts.

Conversion exposure

Our results are affected by exchange rate fluctuations when our non-Swedish based subsidiaries' results are converted to SEK. We normally do not hedge this conversion. In addition, the Company's shareholders' equity is affected by exchange rate fluctuations when our non-Swedish based subsidiaries' assets and liabilities are converted to Swedish krona. The hedging of this exposure is assessed on a case-by-case basis and is currently not being done.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with IFRS. In the section entitled "*Biovitrum AB Audited Consolidated Financial Statements*" we describe certain significant accounting policies that are a significant part of our consolidated financial statements. The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts and disclosures.

We believe the following items are critical accounting policies. By "critical accounting policies" we mean policies that are both important to the portrayal of our financial condition and financial results and require critical management judgments and estimates about matters that are inherently uncertain.

Although we believe that our judgments and estimates are appropriate, actual future results may differ from our estimates.

Impairment testing of acquired R&D and other intangible assets

In the calculation of future cash flows for acquired projects for the Company's assessment of impairment of acquired R&D, assumptions regarding future circumstances and estimations of key parameters have been made. However, it is the opinion of Company management that potential changes, on the basis of currently available information, will not have such significant effects that the recoverable amounts would be reduced to a value lower than the reported value.

Assumptions in the calculation of pension benefits

The actuarial calculations of pension commitments and pension costs are based on actuarial assumptions as specified in note 26 to our audited financial statements prepared in accordance with IFRS included elsewhere in this offering memorandum. A change in any of these assumptions could result in a significant effect on the calculated pension commitments and pension costs. None of the assumptions in note 26 deviate from what can be understood as accepted practice in the Swedish market.

Indirect production costs

Costs for production consist of direct production costs such as raw materials, consumables, media, and labor, as well as indirect costs such as personnel costs, depreciation, maintenance, etc.

The indirect production costs are calculated based on a method for the calculation of standard costs. This method is regularly revised in order to ensure a reasonable calculation of the degree of usage, lead times and other relevant factors. Changes in the method for calculation of indirect production costs, including degree of usage, lead times, etc, can have an effect on the gross margin and the overall valuation of inventories.

Revenue Recognition

We deem the likelihood of future economic benefit accruing to the Company on the basis of a number of factors, including the customer's payment history and credit-worthiness. On certain occasions, the Company requests payment in advance, a signing fee, from the customer. If the Company deems a receivable as doubtful, a provision is made for the receivable until it is possible to determine whether or not the Company will receive payment. According to the Company's routines for advances, advance payments are reported as other current and non-current liabilities until they are earned.

In addition, we report allocated income from licensing agreements. According to the milestone-method, continuous milestones are considered as separate from the initial licensing fee. The initial licensing fee is allocated over the agreement's estimated useful lifetime, as no separate earning period is considered to have been completed at the time it is received. However, subsequent milestone payments are considered to belong to a particular, completed portion of the agreements. This portion is recognized as income immediately upon receipt, *i.e.* when it is earned.

Taxes

Deferred tax receivables have been reported by the Company based on an assessment that it will be possible to utilize them to lower tax payments in the future. Deferred tax is calculated according to the balance sheet method, based on the temporary differences between reported and tax values of assets and liabilities. The amounts are calculated based on the manner in which temporary differences are expected to be offset and with the application of the tax rates and tax regulations that have been established or announced on the reporting date.

Leasing/Rent

We have made an assessment of the current value of future minimum leasing charges and related these to the selling prices indicated in the property sales agreements in 2004 and 2005. The minimum leasing charges are, in this case, the rental costs that are established in the leasing agreements. Variable fees and any maintenance costs and taxes are excluded. The distribution of minimum leasing fees between land and buildings shall, according to IAS 17, be based on the fair value of the respective assets. The

Company has utilized the property's tax assessment value as the basis of distribution in order to divide minimum leasing charges between buildings and land.

Land that is not transferred to the lessor on expiration of the leasing agreement continues to always be an operational leasing agreement. In this case ownership rights to the land are not transferred to Biovitrum at the end of the term of the lease, which is the reason no calculation of minimum leasing charges has been made. In the context of the fact that the current value of the minimum leasing charges does not constitute a significant portion the property Paradiset's fair value, this cannot be seen to be an indication of a financial leasing agreement. In conjunction with the sale of Hornsberg 10, Biovitrum signed an agreement with Index Real Estate for two years, which is the reason the company deems the rental to be an operational lease.

Recent Accounting Pronouncements

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for Biovitrum's accounting periods beginning on or after January 1, 2006 or later periods:

IAS 1 Amendment—Formation of the financial statements: Capital Disclosures

The amendment comes in effect January 1, 2007. It is at present deemed that this amendment will result in increased supplementary disclosure regarding, among other items, the definition of capital, capital structure, and policy for the management of capital.

IAS 19 Amendment—Employee Benefits

IAS 19 was changed in December 2004. The amendment came into effect January 1, 2006. Biovitrum has decided not to apply the possibility of reporting actuarial gains and losses, as permitted by the amendment. However, the expanded disclosure requirements will have an effect on reporting in the annual report for 2006.

IAS 21 Amendment—Effect of change in exchange rates

IAS 21 was changed in December 2005. The amendment came into effect January 1, 2006. At present, these changes to the standard are not deemed to have any effect on Biovitrum's reporting.

IAS 39 Amendment—Cash Flow Hedge Accounting of Forecast Intragroup Transactions

The amendment allows, if certain criteria are met, the foreign currency risk of a highly probable forecast intra group transaction to qualify as a hedged item in the consolidated financial statements. The amendment came into effect January 1, 2006. This amendment is currently not relevant to Biovitrum, as the Company does not have any intragroup transactions that would qualify as a hedged item.

IAS 39 Amendment—The Fair Value Option

This amendment changes the definition of financial instruments classified at fair value through profit and loss and restricts the ability to designate financial instrument as part of this category. This amendment came into effect January 1, 2006. Biovitrum does not expect this amendment to have any effect on the Company's results of operations or financial position.

IAS 39 and IFRS 4 Amendment—Financial Guarantee Contracts

This amendment came into effect January 1, 2006. The amendment requires issued financial guarantees, other than insurance contracts, to be initially recognized at fair value and subsequently measured at the higher of (a) the unamortized balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. This amendment is currently not considered to have any significant effect on the Company's results of operations or financial position.

IFRS 7 Financial Instruments: Disclosure

The standard comes into effect January 1, 2007. For Biovitrum, the standard is not deemed to result in further disclosures compared with those provided in this annual report.

IFRIC 4 Determination of whether an agreement constitutes a leasing agreement

The interpretation statement came into effect January 1, 2006. According to IFRIC 4, a decision regarding whether an agreement is, or contains, a leasing agreement is based on the substance of the agreement. An assessment shall be made of whether (a) the agreement's completion is dependent upon the use of a particular asset or assets and (b) the agreement transfers a right to use the asset or assets. The current assessment is that IFRIC 4 will not result in existing agreements being reclassified as leasing agreements.

IFRIC 7 Translation in conjunction with transition to high-inflation reporting

The interpretation statement came into effect May 1, 2006 and applies to financial years beginning after May 1, 2006. Biovitrum currently has no operations in countries in which a transition to high-inflation accounting is a matter of current interest.

IFRIC 8 Scope of application of IFRS 2

The interpretation statement came into effect May 1, 2006 and applies to financial years beginning after May 1, 2006. According to IFRIC 8, the rules in IFRS 2 apply to goods and services received in exchange for an equity instrument, even if such goods or services cannot be specifically identified, either in part or in their entirety.

BUSINESS

Overview

We are a leading European biopharma company with integrated research and development (“R&D”), manufacturing and marketing and sales capabilities. We engage in a broad spectrum of R&D activities, from drug discovery to pre-clinical and clinical development, have significant operations in manufacturing and advanced process development of protein therapeutics, and conduct marketing and sales activities of specialist prescription drugs. We recorded aggregate revenues of approximately SEK 937 million in 2005 and SEK 708 million for the six-month period ended June 30, 2006.

Our portfolio of marketed products includes *ReFacto*[®], a protein drug used for the control and prevention of hemorrhagic episodes and for surgical prophylaxis in patients with hemophilia A, as well as five other specialist prescription drugs. Our project pipeline includes five projects in clinical development, twelve projects in pre-clinical development or lead optimization and approximately 15 projects currently in discovery. Our project pipeline includes projects both for the treatment of widespread diseases, such as diabetes, obesity, neuropathic pain and glaucoma, and for the treatment of niche indications, such as hemophilia and fat malabsorption in cystic fibrosis patients.

Our R&D activities focus on the discovery and development of new drugs in areas that we consider present a clear unmet medical need and that offer attractive commercial fundamentals. Our R&D organization, with approximately 250 employees, has expertise in all stages of discovery and clinical development and in both protein and small molecule medicines. Our projects originate from internal research, in-licensing and selective acquisitions and are developed either by ourselves internally or in collaboration with either major pharmaceutical companies, such as Amgen and GlaxoSmithKline, or smaller biotechnology companies, such as Santhera, Syntonix and Symphogen. For primary care drugs we seek to enter into agreements with other pharmaceutical companies relating to clinical development and commercialization, whereas for specialist prescription drugs our aim is to develop products all the way through to registration and thereafter to market them in selected geographical areas.

We offer biopharmaceutical manufacturing and advanced process development services for protein drugs to other pharmaceutical companies, including Wyeth, Amgen and Pfizer. We also utilize our process development expertise in relation to our own proprietary protein drug candidates. Our process development group, comprised of approximately 130 employees, approximately one-third of whom hold a Ph.D., and our manufacturing and quality control groups, comprised of approximately 100 employees, are active in many stages of biopharmaceutical production, including laboratory scale and commercial scale process development, manufacturing for toxicology and clinical trials and commercial production of protein drug substances, such as *ReFacto*[®].

Through our marketing and sales force, currently consisting of 12 employees located across the Nordic countries, we co-promote or distribute primarily in the Nordic region certain specialist prescription drugs.

History and Development

Biovitrum AB commenced independent operations in August 2001. We were formed out of various business units within Pharmacia (now Pfizer) that were based in Sweden, including its metabolic diseases research group, biopharmaceutical development unit and its plasma products business. The history of Biovitrum extends back to Vitrum, the first pharmaceutical company to be established in Sweden in 1877. Vitrum was involved in the development of insulin in the 1930's and became one of the first companies in the world to manufacture insulin.

In 1972, Vitrum merged with Kabi, a Swedish pharmaceutical company that pioneered the development of pituitary-derived human growth hormone. In 1978, the merged entity, Kabi Vitrum, signed an agreement with Genentech to produce human growth hormone based on recombinant DNA technology using the bacteria *E. coli* as the host organism. This product, sold under the name *Genotropin*[®], is currently the leading recombinant human growth hormone in the world. Kabi Vitrum later founded its own biotechnology company named KabiGen, which focused on research in the recombinant biotechnology field. Our biopharmaceutical competences and certain basic pharmaceutical technologies that we still use today have their roots in KabiGen. KabiGen was integrated into Pharmacia's operations in 1990 following the merger of KabiVitrum and Pharmacia. Following the merger of Pharmacia and Upjohn in 1996, a metabolic disease research group was formed within the combined entity.

In July 2001, Nordic Capital and MPM led a syndicate of investors that acquired Biovitrum from Pharmacia. The strategy behind the acquisition was to create a company with a broad range of capabilities

and the knowledge base of a large pharmaceutical company while capturing the innovative culture and entrepreneurial spirit of a start-up biotechnology company.

Since the acquisition, we have progressively rationalized our operations with the aim of building an integrated and focused business. In 2002, we divested our plasma business to Octapharma with a view to focusing on protein and small molecule drugs. We have also established a sales force in the Nordic region to profitably leverage the regional market knowledge we had gained as a part of our predecessor organizations and to market specialist products to which we have co-promotion or distribution rights. In order to enhance productivity, we have reorganized our R&D organization into early discovery, on the one hand, and pre-clinical and clinical development, on the other hand. In connection with this reorganization, we also outsourced our screening unit into a new contract research organization and divided our discovery operations into two separate discovery units. In April 2005, we acquired Cambridge Biotechnology Ltd. in the United Kingdom, which now comprises one of our discovery units, and in August 2005 we acquired Arexis AB in Gothenburg, Sweden. In addition, during 2004 and 2005, we divested substantially all of our real estate holdings.

Competitive Strengths

We are an integrated biopharma company with numerous competitive strengths, including:

Multiple sources of revenues and cash flows providing financial strength

Our integrated operations provide us with multiple sources of revenues and we have a strong cash flow that provides us with significant flexibility in research funding, allows us to further strengthen and diversify our R&D pipeline through in-licensing and strategic acquisitions and enables us to develop innovative drugs into later stage clinical phases. Our total revenues amounted to SEK 936.6 million in 2005 and SEK 787.4 million in 2004. As of June 30, 2006, we held liquid funds and short-term financial investments of approximately SEK 1.2 billion. Pursuant to our long-term agreement with Wyeth, we derive revenues from manufacturing and co-promotion of *ReFacto*[®] and from royalties on global sales thereof, which revenues in the aggregate amounted to SEK 405.6 million in 2005 and SEK 363.0 million in 2004, and SEK 455.1 million and SEK 133.1 million for the six-month periods ended June 30, 2006 and 2005, respectively. We also derive revenues from pharmaceutical and biotechnology companies for contract process development and manufacturing of protein drugs and from the co-promotion and distribution of specialist drugs in the Nordic region. In addition, we have in the past and may in the future receive substantial research funding, milestone payments and royalties from our collaborative programs, such as our collaboration with and out-licensing to Amgen relating to 11 β -HSD₁ enzyme inhibitors for the treatment of metabolic diseases, including type 2 diabetes, in relation to which Amgen has paid license fees of \$99 million and is required to make periodic milestone payments potentially amounting to \$483 million (of which \$8.0 million has been paid to date) related to development progress, regulatory submissions and approvals.

Deep, broad and balanced pipeline

We are engaged in the discovery and development of drugs for the treatment of metabolic and chronic inflammatory diseases, including widespread diseases, such as diabetes, obesity, neuropathic pain and glaucoma, and niche indications, such as hemophilia and fat malabsorption resulting from cystic fibrosis. Our project pipeline is comprised of projects in various stages of pre-clinical and clinical development, including one project in Phase II, four projects in Phase I, twelve projects in pre-clinical development or lead optimization and approximately 15 projects in discovery. Our pipeline includes a number of drugs addressing widespread diseases for which we consider a clear unmet medical need to exist and if successfully developed and brought to market have the potential for substantial commercial success. We believe leveraging our know-how and actively cultivating a diverse project pipeline increases our potential for successfully developing and commercializing our drugs.

Extensive industry knowledge and established relationships

We are one of the most experienced biopharma companies in Europe and have been active in the biotechnology industry since the time it was founded more than 25 years ago. We have decades of experience identifying, developing and manufacturing drugs and have accumulated extensive R&D and biopharmaceuticals know-how and manufacturing capabilities of protein drugs and established

well-documented standard operating procedures. Our extensive experience and the size of our operations benefit us in a number of ways, including the following:

- We have established business and networking relationships with several of the largest pharmaceutical and biotechnology companies in the world and we have a proven track record of entering into successful collaborative and out-licensing arrangements to maximize the value of our pipeline and capabilities. We receive substantial research funding, milestone payments and royalties from our collaborative programs, such as our collaboration with and out-licensing to Amgen relating to 11 β -HSD₁ enzyme inhibitors for the treatment of diabetes.
- Our extensive biopharmaceutical manufacturing and advanced process development expertise of protein drugs attracts a regular client base consisting of both large pharmaceutical companies and smaller biotechnology companies and currently provides us with a key source of revenues.
- Our size, developmental know-how and manufacturing capabilities make us an attractive collaborative partner for smaller biotechnology companies seeking to enter strategic co-development and out-licensing relationships for their drugs. For example, we are currently co-developing with Symphogen a pre-clinical drug candidate for the prevention of Rh immunization and the treatment of idiopathic thrombocytopenia purpura, co-developing with Syntonix drug candidates relating to Factor IX for the treatment of hemophilia B and have in-licensed from Santhera inhibitors of the enzyme dipeptidyl peptidase-IV for the treatment of type 2 diabetes.

Experienced management

Our management team has significant experience in the pharmaceutical and biotechnology industries. Our CEO, Mats Pettersson, worked for Pharmacia and its predecessors for 25 years, principally in CFO and business development positions, and was in such latter position part of the team responsible for the merger transactions that transformed Pharmacia into a major international pharmaceutical company. Our CFO, Göran Arvidson, spent 18 years in various positions at Pharmacia and Procordia and has extensive experience in structuring and executing acquisitions and collaborative transactions in the pharmaceutical industry. Our Chief Scientific Officer, Anders Ullman, has over a 15 year period served in R&D leadership positions at Upjohn, Astra, AstraZeneca and Bayer, including as head of global clinical development at AstraZeneca and Head of Global Development in the Pharma division of Bayer AG. Our Head of Biopharmaceuticals and Marketing & Sales, Hans Örström, has served in different positions in Pharmacia including as head of the Dutch subsidiary and head of the Plasma Products business unit with overall responsibility for the development of *ReFacto*[®]. Our Head of Commercial and Strategic Development, Paul de Potocki, has served in various international leadership positions in Pharmacia and Fresenius Kabi with responsibility for global sales, strategic marketing and business development.

Our Strategy

The key elements of our business strategy are as follows:

Continue to grow a broad and balanced project pipeline including drugs for the treatment of both widespread diseases and niche indications

We are engaged in the research and development of drugs for the treatment of diseases afflicting large segments of the population, such as type 2 diabetes, obesity and neuropathic pain, as well as diseases afflicting more limited populations, such as hemophilia and cystic fibrosis. We will continue to maintain and grow a balanced project pipeline that includes both primary care and specialist drugs, protein and small molecule medicines and early stage and clinical projects.

Leverage our development capabilities to expand our project pipeline through a combination of internal discovery efforts, in-licensing and acquisitions

We maintain focused and flexible R&D capabilities throughout the whole development chain with a special focus on late lead optimization, preclinical and clinical development. We will continue to enhance our clinical pipeline by complementing new drug candidates discovered in our early stage research units with promising preclinical and clinical candidates in-licensed from biotechnology companies, such as our in-licensing agreement with Santhera. We may also co-develop attractive drug candidates with biotechnology companies, such as pursuant to our co-development agreements with Symphogen and Syntonix. In addition, we may acquire complete portfolios of compounds or development projects through

strategic acquisitions of small biotechnology companies, such as our recent acquisitions of Cambridge Biotechnology and Arexis.

Maximize project value by pursuing a flexible clinical development and commercialization strategy

We intend to continue to pursue a flexible clinical development and commercialization strategy. Depending on drug type, its developmental status, prevalence of the disease it addresses and the commercial potential, we may commercialize the drug ourselves or we may enter into co-development, out-licensing or other collaborative arrangements with large pharmaceutical companies. For primary care drugs, we will seek to collaborate with large pharmaceutical companies in order to take advantage of their expertise in clinical development, share significant trial and manufacturing costs or benefit from their substantial sales forces in certain geographical regions. We have entered into collaboration and out-licensing arrangements with Amgen and GlaxoSmithKline and we intend to continue to seek out collaborations with major pharmaceutical companies for the development of new drugs in primary care areas beyond Phase IIa clinical trials and their commercialization. At the same time, we intend to develop specialist drugs internally and to market and sell them through our own dedicated sales force.

Continue to seek out marketing and sales opportunities and build up our own sales force

We have established a dedicated marketing and sales force consisting of twelve employees located across the Nordic countries. Pursuant to agreements with four pharmaceutical companies, Wyeth, Amgen, Mitsubishi Pharma and Helsinn Healthcare, we have obtained long-term co-promotion and distribution rights to six drugs, primarily in the Nordic region: *ReFacto*[®], *Kineret*[®], *Mimpara*[®], *Kepivance*[®], *Novastan*[®] and *Aloxi*[®]. Our objective is to secure similar co-promotion or distribution rights from other pharmaceutical and biotechnology companies and, over time, to build a sales force with the capability of actively marketing specialist prescription drugs in Europe. Over the longer term, we will continue to grow our marketing and sales force and establish our marketing infrastructure with the objective of achieving full capability to market our own proprietary specialist prescription drugs across Europe.

Continue to provide biopharmaceutical manufacturing and process development services to pharmaceutical and biotechnology companies

In addition to applying our process development expertise toward the development of our internally discovered protein drug candidates, we derive significant revenues from biopharmaceutical manufacturing and advanced process development services provided to third parties. We currently provide our services to large pharmaceutical companies, such as Amgen, as well as to small and medium-sized biotechnology companies. We will continue to provide our biopharmaceutical services to third parties and seek out new opportunities and customers in the future in order to secure this revenue source, fund our development projects and solidify our working relationships with leading industry participants.

Marketed Products and Project Pipeline

We currently co-promote or distribute primarily in the Nordic region six specialist prescription drugs developed by others, including *ReFacto*[®], and our project pipeline includes approximately 30 projects in various stages of pre-clinical and clinical development and discovery. The products that we market and our project pipeline include drugs for the treatment of a range of diseases, including widespread diseases, such as diabetes, obesity, neuropathic pain and glaucoma, and niche indications, such as hemophilia and cystic fibrosis.

The following table sets forth information relating to the products we currently market and the most advanced projects in our project pipeline, the disease area each drug addresses, its marketing or development status and, where relevant, the company we collaborate with on the project. With respect to development status, “lead optimization” refers to efforts intended to improve the potency and specificity of lead compounds and reduce their toxicity. “Pre-clinical” refers to testing designed to determine manufacturing methods, measure toxicity in animal models and develop a suitable formulation in preparation for human clinical testing. “Phase I” refers to initial clinical studies designed to evaluate safety, typically in healthy volunteers. “Phase II” refers to clinical studies designed to test safety and dosage as well as initial efficacy of a product candidate in a limited patient population with the targeted disease. “Phase III” refers to expanded controlled and uncontrolled clinical trials intended to gather additional information about effectiveness and safety needed to evaluate the overall benefit-risk relationship of the product and to provide an adequate basis for extrapolating the results to the general population and transmitting that information in the physician labeling.

Generally, Phase I clinical trials can be expected to last from 6 to 18 months, Phase II clinical trials can be expected to last from 12 to 24 months and Phase III clinical trials can be expected to last from 18 to 36 months. However, clinical development timelines vary widely, as do the likelihood of success and total costs of clinical trials. We will continue to make determinations as to which research and development projects to pursue and how much funding to direct to each project on an ongoing basis in response to the scientific and clinical success of each product candidate, as well as an ongoing assessment of its market potential.

	Product/ Project	Indication Area	Collaborative Partner	Stage of Marketing or Development						
				Lead Optim.	Preclin dev	Phase I	Phase II	Phase III	Approved	Market
Marketed Products	ReFacto [®] (1)(2)	Hemophilia	Wyeth							
	Novastan [®] (1)	Anticoagulation	Mitsubishi							
	Mimpara [®] (1)	Parathyroid hormone disorder	Amgen							
	Kineret [®] (1)	Rheumatoid arthritis	Amgen							
	Kepivance TM (1)	Mucositis in Cancer	Amgen							
	Aloxi [®] (1)(3)	Nausea in Cancer	Helsinn							
Clinical Projects	Exinalda TM	Cystic Fibrosis								
	11β-HSD ₁	Diabetes	Amgen							
	A _{2A}	Neuropathic Pain								
	5-HT _{2A} ⁽⁴⁾	Glaucoma								
	5-HT ₆	Obesity								
Pre-Clinical Projects	Anti Rh D	Rh immunization	Symphogen							
	Anti Rh D	Thrombocytopenia	Symphogen							
	Leptin	Obesity								Hematology
	5-HT _{2C}	Obesity	GSK							Metabolic (Protein)
	Kiobrina	Preterm Nutrition								Metabolic (Small Mol.)
	DPP IV	Diabetes	Santhera							Inflammation
	FIX:Fc	Hemophilia	Syntonix							Other

- (1) The products listed consist of products to which we have been granted co-promotion and/or distribution rights by other pharmaceutical companies and are not Biovitrum's proprietary products.
- (2) We have co-promotion rights to the next generation of *ReFacto*[®] which is expected to be commercialized in mid-2008. See "Material Contracts—Wyeth."
- (3) Scheduled to launch in the second half of 2006.
- (4) Has received the required regulatory and ethics committee approval for planned Phase IIa study, which we believe will commence in the second half of 2006.

Marketed Products

We have distribution or co-promotion rights to six specialist prescription drugs, primarily in the Nordic region. We currently derive revenues from sales in the Nordic region of five of these drugs. In 2005 and the six-month period ended June 30, 2006, our aggregate revenues from co-promotion of *ReFacto*[®], the core product that we market, amounted to SEK 55.3 million and SEK 36.9 million, respectively, and our aggregate revenues from sales of the other drugs that we market amounted to SEK 48.5 million and SEK 28.2 million, respectively.

ReFacto[®]

ReFacto[®] is a recombinant Factor VIII drug used for control and prevention of hemorrhagic episodes and for surgical prophylaxis in patients with hemophilia A. *ReFacto*[®] was developed by Pharmacia and sold by Pharmacia to Wyeth in 1997. *ReFacto*[®] was launched by Wyeth in 1999, and in connection with our spin-off from Pharmacia, most of the rights and obligations under Pharmacia's agreements with Wyeth were transferred to us. According to Wyeth's 2006 second quarter report, *ReFacto*[®] achieved global sales of \$147.5 million for the six months ended June 30, 2006.

Hemophilia is a group of bleeding disorders caused by genetic defects resulting in lack of blood clotting factors necessary to stop bleeding. Patients suffering from hemophilia A need injections of Factor VIII to stop and prevent frequent bleedings that would otherwise lead to irreversible joint damage and possibly life-threatening hemorrhages. According to The World Federation of Hemophilia, hemophilia A affects approximately 93,000 people globally. Market growth for recombinant protein products for the treatment of hemophilia A is primarily driven by migration from plasma-derived products and increased acceptance of prophylactic treatment. According to Thomson Pharma, global sales of recombinant Factor VIII drugs amounted to approximately \$2.5 billion in 2005. According to Wyeth's 2005 financial report, *ReFacto*[®] achieved global sales of \$268.4 million in 2005, representing a growth rate of 7.6% compared to 2004.

The market for Factor VIII for the treatment of hemophilia A is highly competitive. The most important competing products are *Recombinate*[™] and *Advate*[™], marketed by Baxter, *Kogenate*[®] marketed by Bayer and *Helixate*[®] marketed by ZLB Behring.

Pursuant to our various agreements with Genetics Institute (a subsidiary of Wyeth), we conduct manufacturing of the *ReFacto*[®] drug substance, receive royalties from Wyeth's sales of *ReFacto*[®] and have co-promotion rights. Our revenues from manufacturing of *ReFacto*[®] amounted to SEK 191.7 million in 2005 and SEK 338.9 million for the six months ended June 30, 2006. For additional information regarding our manufacturing and supply agreement with Wyeth relating to *ReFacto*[®] see "*Material Contracts—Wyeth*."

According to the co-promotion agreement, Wyeth has also granted us co-promotion rights to *ReFacto*[®] in the Nordic region and the Middle East. We earn a commission based on combined sales by Wyeth, if any, and us in co-promotion territories. According to PharmX Nordic, the market for recombinant Factor VIII for the treatment of hemophilia A in the Nordic region (consisting of Sweden, Norway, Finland, and Denmark) amounted to approximately €68 million in 2005, of which *ReFacto*[®] had a market share of 28%. In 2005, *ReFacto*[®] achieved sales of SEK 169.0 million in the Nordic region, representing a growth of 20% compared to 2004. Our revenues from co-promotion of *ReFacto*[®] in the Nordic countries amounted to SEK 55.3 million in 2005 and SEK 36.9 million for the six months ended June 30, 2006. We do not currently market or sell *ReFacto*[®] in the Middle East.

Pursuant to the *ReFacto*[®] purchase agreement with Wyeth, we receive royalties on Wyeth's worldwide sales of *ReFacto*[®], based on an agreed percentage of all sales, which we are required to split on a 50/50 basis with Pfizer. In 2005, our royalties from global *ReFacto*[®] sales amounted to SEK 156 million. For the six months ended June 30, 2006, our royalties from global *ReFacto*[®] sales amounted to SEK 79.3 million.

Our agreements with Wyeth also entitle us to manufacturing, co-promotion and royalty rights in respect of the next generation of *ReFacto*[®].

See "*Material Contracts—Wyeth*" for more information regarding our agreements with Wyeth.

Other Marketed Products

We market and sell four other specialist prescription drugs treating a number of niche indications. Amgen has granted us co-promotion rights in the Nordic region and the EU to *Kineret*[®], for the treatment of the signs and symptoms of rheumatoid arthritis in combination with methotrexate in patients with an inadequate response to methotrexate alone, and in the Nordic region to *Mimpara*[®], for the treatment of secondary hyperparathyroidism in patients with chronic kidney disease on dialysis and for the treatment of hypercalcemia in patients with parathyroid carcinoma, and *Kepivance*[®], indicated to reduce the incidence and duration of severe oral mucositis in patients with hematological malignancies receiving myeloablative therapy associated with a high incidence of severe mucositis and requiring autologous hemopoietic stem cell support. Mitsubishi Pharma has granted us exclusive distribution rights in the Nordic region to *Novastan*[®], a synthetic direct thrombin inhibitor which acts as an anticoagulant for use in adult patients with heparin-induced thrombocytopenia type II requiring parenteral anticoagulation treatment. In addition, Helsinn Healthcare S.A. has granted us exclusive distribution rights in the Nordic region in relation to *Aloxi*[®], a drug indicated for the prevention of acute nausea and vomiting associated with highly emetogenic cancer chemotherapy and the prevention of nausea and vomiting associated with moderately emetogenic cancer chemotherapy. *Aloxi*[®] has been approved but has not yet been launched in the Nordic region and to date we have derived no revenues from sales of *Aloxi*[®]. *Aloxi*[®] is scheduled to be launched in

the Nordic region in the second half of 2006. For a more detailed description of each of these products, see “Marketing and Sales.”

Project Pipeline

Our project pipeline consists of five projects in clinical development, five projects in pre-clinical development, seven projects in lead optimization and approximately 15 projects currently in discovery. Our projects originate from internal research, in-licensing and acquisitions and are developed by ourselves and in collaboration with external partners.

Our Clinical Projects

Our clinical projects are being developed to treat the following diseases: fat malabsorption resulting from cystic fibrosis, type 2 diabetes, neuropathic pain, glaucoma and obesity. A detailed description of each of our clinical projects is set forth below.

Exinalda™—Treating Fat Malabsorption in Cystic Fibrosis Patients

We are developing recombinant human bile salt-stimulated lipase (“BSSL”) for the treatment of fat-malabsorption due to exocrine pancreatic insufficiency in cystic fibrosis patients, which we have registered under the trade name *Exinalda™*. This project was in-licensed to Arexis, and we acquired it as part of our acquisition of Arexis in 2005. Cystic fibrosis is a monogenic disease characterized by impaired mucous secretion in multiple organs, including the lung, heart, stomach and intestines. According to the Center for Disease Control, more than 85% of adult cystic fibrosis patients suffer from pancreatic insufficiency, leading to fat malabsorption, and require life-long enzyme supplementation. Datamonitor estimates the number of cystic fibrosis patients in the United States, Japan and the five largest European countries to be approximately 65,000.

Current standard treatment for fat malabsorption is based on enzyme supplementation using a mixture of pancreatic enzymes derived from pig pancreas. According to IMS, in 2005, the total value of the digestive enzyme supplementation market, including pancreatic enzyme supplementation, was approximately \$792 million, representing a compound annual growth rate of 4.1% from \$731 million in 2003. No industry data relating to the portion of the digestive enzyme supplementation market relating to pancreatic insufficiency is available. The leading enzyme supplementation product is *Creon®*, produced by Solvay, and other leading companies are Axcan and Ortho-McNeill. A majority of the enzyme supplementation products that are currently available have been on the market for more than 50 years and are not marketed pursuant to drug applications approved by the FDA or other applicable regulatory authorities. Because of the varying efficacy of these products and lack of batch-to-batch consistency, the FDA announced in 2004 that all pancreatic enzyme supplementation products will have to undergo full clinical and manufacturing documentation and renewed regulatory applications will need to be submitted for each product before mid-2008 if they are to remain on the U.S. market. EMEA has not issued any requests for new applications for enzyme supplementation products marketed in the EU.

Based on public letters to the FDA from manufacturers of pancreas enzyme supplementation products, we believe that it may be difficult and time-consuming to document the old formulations to meet the new requirements. In addition, for many patients current treatments based on pig pancreas extracts are not fully effective and in many cases may require an inconveniently large number of capsules to be taken at each meal. Moreover, enzymes derived from pig pancreas may cause side effects such as colonic strictures.

The active ingredient in our cystic fibrosis product candidate is human BSSL, which is a key pancreatic enzyme secreted to the gut responsible for fat degradation. We believe that, contrary to other non-human pancreatic lipase supplementation treatments available, treatment with recombinant human BSSL has the potential to degrade a significantly broader spectrum of lipids, thereby more effectively normalizing the fat absorption. Because *Exinalda™* can provide a more potent enzyme replacement therapy than therapies based on pig pancreas extract, we believe that treatment with *Exinalda™* may allow the number of capsules required to be taken by patients to be reduced.

Exinalda™ is currently in clinical Phase II trials. To date, we have performed two Phase IIa patient studies in which we treated twelve and nine patients, respectively, between 12 and 35 years of age with unformulated human BSSL manufactured through a pilot method. The exploratory studies tested the efficacy of *Exinalda™* after single-dose administration in addition to 25% and 50%, respectively, of normal dose levels of established pig pancreas-based products. The studies demonstrated an additional benefit

measured by biomarkers for fat absorption when *Exinalda*[™] was added to established products based on pig pancreas extract. No safety or tolerability issues were observed. In these two pilot studies, *Exinalda*[™] was administered in combination with a reduced dose of *Creon*[®], however, the objective is to develop *Exinalda*[™] as a monotherapy. Our next development step is to establish cost-effective commercial scale manufacturing methods and a suitable oral formulation of *Exinalda*[™]. We are currently planning two smaller clinical trials, one bioactivity study in pancreatic insufficiency patients and one Proof of Principle study in cystic fibrosis patients, to take place during the first half of 2007. If the results of these studies are as expected, a Phase IIb dose finding trial may be initiated in mid-2007. Orphan drug designation for *Exinalda*[™] has been obtained from EMEA. In June 2006, the FDA denied our request for orphan drug designation for *Exinalda*[™] in the United States primarily on the basis of larger prevalence figures for exocrine pancreatic insufficiency than the stipulated number allowed for orphan drug designation and that we had provided insufficient evidence that *Exinalda*[™] will provide a major contribution to patient care above and beyond other products currently available on the market. We are currently reviewing our options as to how to approach the FDA in order to challenge this decision. Irrespective of the outcome, we expect that regulatory data protection would provide sufficient protection for *Exinalda*[™].

We intend to take *Exinalda*[™] through clinical development ourselves. Once developed, we expect to market *Exinalda*[™] with our own sale force, although we may enter into marketing arrangements with partners in selected geographical regions.

If *Exinalda*[™] is launched on the market, we would expect that the competing products for treating fat malabsorption in cystic fibrosis patients will consist of some of the currently available supplementation therapies based on enzymes derived from pig pancreas, or improved formulations of these therapies. Another potential competitor is *TheraCLEC*[™], being developed by Altus Pharmaceuticals, a supplementation therapy based on lipase from microbial source, amylase and protease from natural sources, which has completed Phase IIa trials. To our knowledge, there are no competing projects based on human BSSL in development or on the market.

11β-HSD₁ Inhibitors—Metabolic Diseases, including Type 2 Diabetes

Pursuant to collaboration and out-licensing agreements entered into with Amgen, Amgen is developing our 11β-HSD₁ enzyme inhibitors for the treatment of type 2 diabetes. Type 2 diabetes is a metabolic disorder resulting from insufficient insulin production, in combination with the body's inability to effectively utilize the insulin produced by the pancreas, leading to elevated blood glucose levels. Type 2 diabetes may lead to serious complications, such as cardiovascular disease and degenerative disorders in the eye, kidney or nervous system. Obesity is a major cause of type 2 diabetes and is rapidly becoming more prevalent. According to the International Diabetes Federation, in 2003 the population of type 2 diabetes patients was 194 million people worldwide.

Approximately 20 registered medicines for the treatment of type 2 diabetes are currently available on the market, several of which are generic. The drug classes which dominate are biguanides (which act by decreasing glucose production by the liver), such as *Metformin*[®], sulfonylurea (which acts by increasing insulin production) and thiazolidinediones (which act by increasing insulin sensitivity), such as *Avandia*[®] and *Actos*[®]. None of these drugs prevent diabetes progression and each is associated with side effects and, consequently, a significant unmet medical need remains for effective diabetes drugs. According to IMS, in 2005 the value of the global market for oral antidiabetics was approximately \$10.8 billion, representing a compound annual growth rate of 9.5% from \$9.0 billion in 2003.

The enzyme 11β-HSD₁ activates cortisol, which is an important regulator of the body's metabolism. We believe that inhibition of the enzyme 11β-HSD₁ may be useful in treating type 2 diabetes, impaired glucose tolerance and other metabolic aberrations linked to insulin resistance. We, together with Amgen, have identified a highly selective inhibitor of the enzyme 11β-HSD₁, which we refer to as BVT.83370 (referred to by Amgen as AMG221), that reduces the breakdown of triglycerides into free fatty acids in adipose tissue and reduces glucose production in the liver. We expect that treatments based on inhibition of the enzyme 11β-HSD₁ will be competitive with current and future second-line diabetes treatments due to the fact that these treatments are likely to avoid common side effects related to existing therapies, including the risk of hypoglycemia, weight gain or fluid retention. Our candidate drug, BVT.83370/AMG221, is currently in early clinical development.

Pursuant to our agreements with Amgen, we granted Amgen the exclusive right to develop and commercialize BVT.83370 and other 11β-HSD₁ enzyme inhibitors for the treatment of metabolic diseases, including diabetes, and certain other medical disorders in North and South America, the European Union,

Australia and New Zealand. We are entitled to receive periodic milestone payments related to development progress, regulatory submissions and approvals, and achievement of a certain annual sales amount. The milestone payments could potentially amount to \$483 million (of which \$8.0 million has been paid to date) for milestones related to development progress, regulatory submissions and approvals for the treatment of metabolic diseases, including diabetes. Amgen further agreed to fund our research program for the development of additional 11 β -HSD₁ enzyme inhibitor compounds. We will conclude our 11 β -HSD₁ enzyme inhibitor research program in October 2006 and we expect that after such time Amgen's commitment to provide funding for the program will cease. Amgen is also required to pay us tiered royalties for any successfully commercialized products under the collaboration on a product-by-product and country-by-country basis for an agreed term. As part of the arrangement, we have also retained co-promotion rights in the Nordic region for any successfully developed drugs. In December 2005, we expanded Amgen's development and commercialization rights to our 11 β -HSD₁ enzyme inhibitors to include all territories of the world. For additional information regarding our agreements with Amgen see "*Material Contracts—Amgen.*"

In June 2006, Incyte announced that they have started a phase I clinical trial with their 11 β -HSD₁ enzyme inhibitor. Furthermore, a number of pharmaceutical companies, including Merck, Pfizer and Johnson & Johnson, have initiated 11 β -HSD₁ enzyme inhibitor development programs, which may be in clinical development.

Adenosin 2A Receptor Agonists—Neuropathic and inflammatory Pain

We are developing an A_{2A} receptor agonist, BVT.115959, as an oral therapy for the treatment of neuropathic pain, with the potential to expand to inflammatory pain. Neuropathic pain is a form of chronic pain arising from damage to sensory nerves which, in patients suffering from diabetes, is at least partly caused by intraneural ischemia and associated inflammatory damage. Although inflammation is the body's basic defensive response to infection, irritation or injury, it is also associated with the development of chronic pain. In addition, a broad range of chronic diseases, including osteoarthritis, rheumatoid arthritis, inflammatory bowel disease and chronic obstructive lung disease cause exaggerated inflammatory responses which are associated with debilitating, chronic pain. Chronic neuropathic and inflammatory pain affect large segments of the global population and are frequently characterised as hyperalgesic conditions, i.e. conditions in which the sensitivity to pain is abnormally increased. The prevalence of neuropathic pain, and chronic pain conditions with both neuropathic and inflammatory components, is high. For instance, according to Datamonitor in 2003 the number of patients suffering from lower-back pain with neuropathy exceeded 15 million in addition to approximately 8 million people with diabetic neuropathic pain.

There are currently only five drugs approved for neuropathic pain, including *Lyrica*[®] from Pfizer, all of them centrally acting. However, off-label use of other drugs from several different drug classes is widespread. According to Datamonitor, the market for drugs for the treatment of neuropathic pain amounted to approximately \$2.5 billion in 2005 in the United States and the five largest European countries. Current treatments are not very effective, i.e. less than 40% of the patients on *Lyrica*[®], which is now the largest drug labelled for neuropathy, experience a 50% reduction of their pain (and less than 5% of the patients experience complete alleviation). We believe there is a large unmet medical need in the neuropathic pain indication and that a peripheral mechanism that does not act via brain receptors, such as an A_{2A} receptor agonist, would be an important addition in this indication due to a lower risk of common side effects, such as dizziness and somnolence, associated with current treatments that act via brain receptors. The dominant drug groups for the treatment of inflammatory pain are non-steroid anti-inflammatory drugs ("NSAIDs") and COX-2 inhibitors. According to IMS, in 2005 the market for these drugs was approximately \$9.6 billion, representing a compound annual rate of decline of 11.7% from \$12.3 billion in 2003. Current drugs on the market are effective in controlling normal, immediate, pain but carry the risk of significant side effects. For example, NSAIDs cause gastric ulcers with chronic use and several COX-2 inhibitors have recently been shown to have negative cardiovascular side effects. The reduction in the size of the market for NSAIDs and COX-2 inhibitors since 2003 can be attributed to these negative side effects.

The mechanism of action of BVT.115959 involves activation of the adenosine A_{2A} receptor which is an essential regulator of inflammation. The A_{2A} receptor inhibits inflammatory cell activation and the release of inflammatory cytokines, and is one of the major regulators of the potentially harmful inflammatory process. In pre-clinical models, BVT.115959 reverses neuropathic and inflammatory pain behaviours, consistent with ability of inhibitors of inflammatory cytokines to reduce neuropathic pain in humans. We believe that A_{2A} agonist drugs may have anti-inflammatory effects and analgesic effects on both

neuropathic and inflammatory pain similar to NSAIDs, but without the associated gastric side effects. However, to date it has proven difficult to exploit the A_{2A} receptor therapeutically because it is widely expressed in blood vessels where activation of it causes low blood pressure. Our candidate drug, BVT.115959, is an A_{2A} receptor agonist which we believe is effective in controlling the heightened pain perception, or hyperalgesia, associated with both inflammation and nerve damage, without lowering blood pressure. We believe BVT.115959 will be effective without cardiovascular side effects because its pH selectivity, which causes the activation of the receptor in inflamed tissues with lower pH levels and not in cardiovascular tissue having normal pH levels.

BVT.115959 is in Phase I and a program of three studies have been undertaken to date. The first and second studies were randomized, double-blind, placebo-controlled, dose-escalation studies with the objective of studying tolerability as well as safety. In the first study, eight single dose levels were tested in 19 healthy volunteers. In the second study, four different dose regimens were tested during seven days in 32 healthy male volunteers. The dose-limiting events were increased heart rate accompanied by increased blood pressure. The main objective of the third and most recent study was to determine the pharmacological effect of BVT.115959 on pain evoked in healthy volunteers following single administration. The third study was a randomized, double-blind, placebo-controlled, four-way crossover study. This study did not show any pharmacological effect in either of the two different pain models, mild inflammation and hypoxia. However, this model is not well-suited to demonstrate effect on neuropathic pain. We have decided to proceed to Phase IIa studies in neuropathic pain patients, which we believe will commence during the first half of 2007.

Assuming successful trials, our intention is to enter into co-development or out-licensing arrangements for this project after Phase II, but we may retain marketing rights for the Nordic region and/or Europe.

A large number of pharmaceutical and biotechnology companies have publicly announced information regarding A_{2A} agonist development programs for other indications. Adenosine Therapeutics, CV Therapeutics and Aderis each have A_{2A} agonist compounds which are in clinical Phase II or III development for acute cardiac disorders, such as ischemia-reperfusion injury. In addition, there is an A₃ agonist in Phase IIb development for rheumatoid arthritis by Can-Fite in cooperation with the U.S. National Institute of Health.

5-HT_{2A} Receptor Antagonist—Glaucoma

We are developing a 5-HT_{2A} receptor antagonist, a compound which we refer to as BVT.28949, for the treatment of glaucoma. Glaucoma is a disease characterized by progressive degeneration of the optical nerve head that leads to progressive visual field loss and eventually to blindness. The main risk factor of the disease is believed to be an increase in the intraocular pressure due to excess liquid production or impaired liquid outflow. The World Health Organization (“WHO”) estimated that 67 million people worldwide suffered from glaucoma in 2000 and it is a main cause of blindness.

Current treatments aim to reduce intraocular pressure either by reducing the production or by increasing the outflow of aqueous humor. The outflow of aqueous humor involves two mechanisms, known as the uveoscleral or trabecular meshworks. Prostaglandin analogs, such as *Xalatan*[®], marketed by Pfizer, act primarily on the outflow of aqueous humor through the uveoscleral network. Eye drops containing beta-blockers, such as *Timoptic*[®], marketed by Merck, act primarily by decreasing the production of the aqueous humor. The market for drugs used in the treatment of glaucoma is highly competitive and products to be used in combination with existing treatments are gaining increased market presence. According to IMS, in 2005 the total market amounted to \$3.9 billion, representing a compound annual growth rate of 12.2% since 2003.

While several effective treatments exist for decreasing intraocular pressure, they do not successfully control glaucoma in a significant number of patients. We believe that there is a need for glaucoma treatments acting through novel mechanisms, with the potential to be used as a second-line monotherapy or in combination with current therapies.

We are developing a selective 5-HT_{2A} antagonist, which we refer to as BVT.28949, suitable for topical administration in the form of eye drops for the treatment of glaucoma. 5-HT_{2A} receptors are found expressed in the trabecular meshwork. BVT.28949 reduces intraocular pressure by stimulating the outflow of aqueous humor through the interaction of 5-HT_{2A} receptors and our current hypothesis is that BVT.28949 stimulates liquid outflow through the trabecular meshwork, unlike prostaglandins

(e.g. *Xalatan*[®]) which reduce intraocular pressure through another outflow mechanism, as discussed above. For this reason, we believe that this treatment mechanism could function as a monotherapy or as a combination alternative in patients that do not respond effectively to other glaucoma treatments.

We conducted our first Phase I safety testing of BVT.28949 during autumn 2005. The trial was a double-blind, placebo-controlled, test consisting of 5 escalating single doses and thereafter 3 escalating doses given twice daily for 7 days. The study, which was concluded in January 2006, included 60 healthy volunteers with normal intraocular pressure. The study demonstrated short-lasting side effects, such as a stinging sensation and redness in the eye at the highest dose, but was judged to be tolerable at all other dose levels. Intraocular pressure measurements, which were secondary end points, indicate some effects of BVT.28949 on intraocular pressure in these normotensive subjects. We have internally decided to proceed to Phase II trials, and we have received the required regulatory and ethics' committee approvals for the next Phase IIa study. We believe that this study will commence in the second half of 2006.

We intend to enter into out-licensing development and marketing arrangements for this project following successful completion of Phase II trials, but may retain marketing rights for the Nordic region and/or Europe.

We are not aware of any competing 5-HT_{2A} antagonist projects for the treatment of glaucoma.

5-HT₆ Receptor Antagonist

We are developing a 5-HT₆ receptor antagonist, which we refer to as BVT.74316, for oral treatment of obesity. Obesity is the leading cause of type 2 diabetes and is known to cause other medical conditions, such as impaired glucose tolerance, dyslipidemia, hypertension, sleep apnea (a breathing disorder experienced while sleeping), osteoarthritis and cancer. Certain of these factors also increase the risk of developing other diseases, such as cardiovascular disease, stroke and premature death. According to the WHO, obesity affected 300 million people worldwide in 2000 and the obese population has been increasing at a compound annual growth rate of 8%, from approximately 200 million in 1995.

According to IMS, in 2005 the market for drugs treating obesity was approximately \$1.2 billion, representing a compound annual growth rate of 4.4% from \$1.1 billion in 2003. There are only a few drugs for the treatment of obesity currently available: *Xenical*[®], a lipase inhibitor developed by Roche; and *Meridia*[®], a central appetite suppressant developed by Abbott. The moderate effectiveness of these drugs together with unpleasant gastrointestinal side effects, in the case of *Xenical*[®], and cardiovascular side effects, in the case of *Meridia*[®], has significantly hampered their success. In addition, *Acomplia*[®], a central appetite suppressant with a different mechanism, from Sanofi-Aventis was approved in the EU in June 2006 and has now been launched in the UK and will continue to be launched in the EU during second half of 2006. *Acomplia*[®] has also received an approvable letter from FDA. However, obesity being a multifunctional disease, we believe that there is still a significant unmet medical need for obesity drugs that effectively reduce weight without unpleasant side effects.

Serotonin (5-HT) is an important transmitter substance in the brain which mediates a variety of effects, including appetite. We believe that 5-HT₆ receptor antagonists might be a novel way to treat obesity through reducing appetite by affecting the physiological reward mechanism in the brain. In addition, we believe that 5-HT₆ antagonists may have the potential to suppress appetite and reduce body weight with less risk for undesired effects such as increased heart rate or hypertension, as compared to *Meridia*[®].

We have identified 5-HT₆ receptor antagonists from several chemical classes and we selected a candidate drug in June 2005. We have demonstrated that this compound effectively decreases food intake and reduces body weight in both short and long-term studies in animals. A significantly reduced body fat mass was also observed in these studies. We commenced the first Phase I trial in August 2006. The main objective of this study will be to assess the safety and tolerability of BVT.74316 in both single-dose and repeated dosing, and the design will be double-blind and placebo-controlled.

Several pharmaceutical and biotechnology companies, e.g. GlaxoSmithKline and Saegis Pharmaceuticals Inc., have publicly announced information regarding 5-HT₆ antagonist development programs for various indications, including Alzheimer's disease and cognitive disorders. In July 2006, Epix Pharmaceuticals Inc. announced that it has initiated a phase I trial with their 5-HT₆ antagonist for obesity.

Our Pre-Clinical, Lead Optimization and Discovery Projects

We have a significant number of projects in pre-clinical development and lead optimization. Our most advanced projects are:

- recombinant Anti Rh(D) polyclonal antibodies for the treatment of idiopathic thrombocytopenia purpura;
- recombinant Anti Rh(D) polyclonal antibodies for the prevention of Rh immunization;
- a novel oral small-molecular leptin mimetic for the treatment of obesity;
- a 5-HT_{2C} receptor agonist project for the treatment of obesity;
- *Kiobrina*[™], recombinant human BSSL supplementation therapy for the treatment of fat malabsorption in prematurely born infants;
- a DPP-IV inhibitor project for the treatment of type 2 diabetes; and
- a long-acting recombinant Factor IX program for the treatment of hemophilia B.

Anti Rh(D)—ITP

Together with Symphogen, we are co-developing recombinant Anti Rhesus D factor (“Rh(D)”) polyclonal antibodies, intended for the treatment of idiopathic thrombocytopenia purpura (“ITP”). The Anti-Rh(D) project is a joint project with Symphogen and both parties have equal responsibility for the development and the commercialization of the project. See “*Material Contracts*.”

ITP is a bleeding disorder caused by abnormally low platelet levels in the blood. It is an autoimmune disease, in which the immune system attacks the platelets for unknown reasons. According to the Platelet Disorder Support Association, approximately 200,000 people suffer from ITP in the United States alone. Current treatment options include corticosteroids, plasma-derived intravenous immunoglobulins (“IVIG”), Anti Rh(D) antibodies and, as a last resort, removal of the spleen. The market is influenced by a general shift in ITP treatment guidelines and a growing HIV population.

We believe that recombinant Anti Rh(D) offers advantages over plasma derived Anti Rh(D) because it is a recombinant product and therefore offers enhanced availability because it is not dependent on blood plasma donations and reduces the risk of viral/prion transmission.

Our recombinant Anti Rh(D) combines 25 different recombinant Anti Rh(D) antibodies produced simultaneously. The recombinant Anti Rh(D) is based on Symphogen’s proprietary technology for discovery and selection of anti-body drugs as well as for expression and manufacturing of recombinant polyclonal antibodies. To our knowledge, this project is the first ever using recombinant polyclonal antibody technology. Two pre-IND meetings have been held with the FDA, one with Symphogen in 2005 and a second with Symphogen and Biovitrum in 2006, at which documentation requirements for this polyclonal antibody product were discussed. The project is currently in pre-clinical development and we have to date conducted GLP toxicology studies and we believe that we will be able to begin clinical testing during the second half of 2006. The first clinical study for Anti Rh(D) will be a safety and tolerability study for both the ITP indication and for the prevention of Rh immunization (see below).

Anti Rh(D)—Prevention of Rh Immunization

We are also developing the recombinant Anti Rh(D) for prevention of Rh immunization.

Rh(D) is a genetic trait that may vary between parents and children. When Rh(D) negative mothers give birth to Rh(D) positive children the mother may develop immunity towards the Rh(D). In subsequent pregnancies, this immunity may cause a potentially life threatening antibody response towards the fetus’ red blood cells, known as hemolytic disease of the newborn (“HDN”). To prevent this immunization, Rh(D) negative mothers are routinely treated with Anti Rh(D) antibodies, which successfully prevents HDN in subsequent pregnancies. Approximately 15% of Caucasian mothers are Rh(D) negative and thereby eligible for this treatment. Existing Anti Rh(D) products are derived from blood plasma collected from donors. According to IMS, in 2005 the combined European and U.S. market for plasma-derived Anti Rh(D) for the treatment of Rh Immunization and idiopathic thrombocytopenia purpura, discussed above, amounts to approximately \$160 million. The first clinical study for Anti Rh(D), which we believe will start during second half of 2006, will be a safety and tolerability study for both the prevention of Rh Immunization and for the ITP indication.

Oral Leptin Mimetic

We are developing novel orally available small-molecule, leptin mimetics for the treatment of obesity. We discuss obesity in more detail under the heading “*5-HT₆ Receptor Antagonist*.” Previous clinical attempts to treat obesity with leptin have so far been unsuccessful because of an inability to transport leptin into the central nervous system. We have developed the first ever orally available leptin mimetic that are efficacious in bypassing the leptin transporter system and diffuse freely into the brain. We have identified a number of molecular compounds that mimic the action of leptin and have been shown to suppress the appetite and reduce body weight in obese animals.

Leptin is a hormone that plays an important role in the regulation of body weight by stimulating the use of peripherally-stored fat for use as an energy source and thereby reducing appetite and food intake. Most obese subjects have high circulating leptin levels and are leptin resistant, apparently due to an inability to adequately transport leptin over the blood-brain barrier and reach the central leptin receptors in the brain. Previous clinical attempts to treat obesity with leptin have not overcome leptin resistance successfully. We believe that overcoming leptin resistance has the potential to significantly suppress appetite and decrease body weight.

Functional in vitro assays and in vivo data of our compounds indicate a potent effect on leptin related pathways and a decrease in appetite and subsequently in weight loss. A candidate drug was selected in February 2006 and is currently undergoing toxicology studies.

5-HT_{2C} Receptor Agonist

Our 5-HT_{2C} receptor agonist is being developed for the treatment of obesity by GlaxoSmithKline pursuant to an out-licensing agreement we entered into with them in 2002. See “*Material Contracts*.” We discuss obesity in more detail under the heading “*5-HT₆ Receptor Antagonist*.”

The 5-HT_{2C} receptor is a serotonin receptor active in the regulation of food intake and body weight maintenance. This has been established, not only by independent research in animals, but also in clinical trials in humans. We have completed one Phase I and two Phase II studies with the candidate drug BVT.933. The Phase I trial was concluded in March 2001 and demonstrated that BVT.933 was well tolerated with suitable properties as a drug. The Phase I trial was followed by a Phase IIa study with BVT.933, initiated in September 2001. The study achieved clinically relevant and statistically significant ($p < 0.05$) effects on body weight and demonstrated no cardiovascular side effects, such as increased heart rate or hypertension, a common side effect of certain other centrally-acting drugs currently on the market. We believe that the two patient studies demonstrate 5-HT_{2C} agonists to be a relevant approach for an obesity drug. However, the clinical development of BVT.933 was discontinued by GlaxoSmithKline and Biovitrum in May 2003, due to concerns related to long-term safety for this compound. As a result, GlaxoSmithKline is not expected to further develop BVT.933 and our collaboration has instead focused on even more selective 5-HT_{2C} compounds within our patent estate.

A number of other 5-HT_{2C} agonist compounds are currently in lead optimization at GlaxoSmithKline.

Kiobrina™

In addition to our clinical *Exinalda™* project, we are developing BSSL to optimize fat absorption in preterm infants, which we have registered under the trade name *Kiobrina™*.

Due to the immaturity of the pancreatic functions, preterm infants (*i.e.*, infants born before week 37) have a reduced capacity for intestinal fat digestion, which results in an increased risk of disease, impaired growth and increased risk of cognitive, social and behavioral problems later in life. A majority of pre-term infants experience significant weight loss in spite of current nutritional care. The human lactating mammary gland synthesizes and secretes BSSL, which is an enzyme responsible for fat degradation. This compensates for immature pancreatic and liver functions in infants that receive their mother’s milk. However, infants born prematurely commonly receive either banked pasteurized human breast milk or preterm formula products, which do not contain active BSSL.

We believe that the addition of recombinant human BSSL to banked breast milk or preterm formula will improve the degradation and uptake of fat in preterm infants and thereby the utilization of energy supplies and vitamin uptake.

We have conducted animal studies, and a limited number of preterm babies have been exposed both to mother’s milk containing intact as well as inactivated BSSL. These studies indicated the importance of

BSSL in supporting effective lipid uptake, growth and weight gain. A study in preterm babies, in which recombinant human BSSL will be given together with a newly developed preterm formula and banked breast milk, is under planning as part of an EU-funded program.

We believe that *Kiobrina*[™] is eligible for orphan drug status and plan to submit applications for orphan drug designation in the EU and United States.

DPP-IV Inhibitors

We are developing inhibitors of the enzyme dipeptidyl peptidase-IV (“DPP-IV”) for the treatment of type 2 diabetes. We discuss type 2 diabetes in more detail under the heading “*Our Clinical Projects—11β-HSD₁ Inhibitors—Type 2 Diabetes.*”

DPP-IV inhibitors are a new class of agents in development for the treatment of type 2 diabetes and have been validated in clinical trials in humans by several pharmaceutical companies. The three most advanced DPP-IV programs, each of which are in Phase III trials, are being developed by Novartis, Merck and BMS, respectively. Merck’s New Drug Application for its product candidate *Januvia*[™] was accepted for standard review by the FDA in February 2006 and Novartis has filed a new drug application for *Galvus*[™] for review with the FDA in March 2006. These DPP-IV inhibitors have been shown to increase insulin secretion, reduce glucagon secretion, improve glucose tolerance and lower glucose levels in clinical trials of up to at least one year. Furthermore they have been shown to be safe and tolerable and have a beneficial risk profile in comparison to existing diabetes treatments.

We are developing DPP-IV inhibitors with a potential for competitive efficacy and selectivity profiles compared to other DPP-IV inhibitors. Preliminary animal studies with our compounds have demonstrated that we have compounds with potential of improved efficacy in a clinical setting. We selected the current candidate drug from the DPP-IV program in June 2006 and are currently conducting toxicology studies in preparation for the first clinical trial.

The DPP-IV program has been in-licensed from Santhera Pharmaceuticals AG. Santhera has granted us the exclusive worldwide rights to Santhera’s DPP-IV inhibitor program. See “*Material Contracts.*”

FIX: Fc

We are co-developing a recombinant Factor IX for the treatment of hemophilia B with Syntonix.

Hemophilia B is a bleeding disorder caused by genetic defects resulting in lack of the blood clotting factor IX, which impacts coagulation. Patients suffering from this disease need injections of Factor IX in order to stop and prevent frequent bleedings that would otherwise lead to irreversible joint damage and possibly life-threatening hemorrhages. According to the World Federation of Hemophilia, approximately 19,000 people suffer from hemophilia B worldwide.

There are several plasma-derived products for the treatment of hemophilia B on the market, although *Benefix*[®], developed by Wyeth, is the only recombinant Factor IX product currently available. Global sales of *Benefix*[®] amounted to \$435.3 million in 2005, and according to Thomson Pharma, have grown at a compound annual growth rate of 15% since 2003. Market growth for drugs treating hemophilia B is primarily driven by migration from plasma-derived products to recombinant *Benefix*[®] and increased acceptance of prophylactic treatment.

During normal prophylactic treatment, both plasma-derived products and *Benefix*[®] are administered with intravenous infusions several times per week. We believe there is a strong need for products that offer improved convenience to patients suffering from hemophilia B.

The objective of the project is to develop a Factor IX product with an extended half-life using Syntonix antibody fragment technology. The body’s natural pathways for protecting antibodies against damage are used to prolong the circulation time in the body. The extended half-life could significantly improve convenience to patients by reducing the required number of intravenous infusions from several infusions per week, required by the currently available products, to one infusion per week.

We have demonstrated prolonged circulation times as well as clinically relevant effects of Factor IX in relevant animal models. The project is currently in the lead optimization phase and preliminary toxicology studies are ongoing.

The FIX:Fc project is a joint project with Syntonix with both parties sharing costs and profits on a world-wide basis. See “*Material Contracts.*”

Other Projects

We have several other projects in the lead optimization stage of development, including an 11 β -HSD₁ enzyme inhibitor project for the treatment of glaucoma, a vaccine adjuvant based on cholera toxin technology for oral or intranasal administration and a project for the treatment of inflammatory skin diseases. We also have approximately 15 projects currently in discovery.

Our Research and Development Activities

Our R&D activities focus on the discovery and development of new drugs where there is a clear unmet medical need as well as attractive commercial fundamentals. Our R&D organization consists of approximately 250 people, over 95% of whom are scientists and 30% of whom hold a Ph.D. and/or an MD. Our R&D organization works with leading-edge technologies and our personnel utilize well-documented standard operating procedures.

Our drug discovery activities are conducted by approximately 80 people, organized into two separate discovery units, one located in Cambridge, England and the other located in Stockholm. We conduct pre-clinical and clinical development through our teams located in Stockholm. Our pre-clinical development group consists of approximately 130 people with extensive experience in chemistry, pharmacology, drug metabolism, pharmacokinetics, pharmaceuticals and toxicology. Our clinical development group consists of about 20 people with extensive experience in clinical development, clinical pharmacology, medicine and regulatory affairs. Our R&D organization has expertise in the development of both protein and small molecule medicines.

We source new projects from internal discovery and through in-licensing and selected acquisitions and we develop our projects both internally and in collaboration with other pharmaceutical and biotechnology companies. Our revenues from milestone payments, licensing fees and funded research amounted to SEK 205.6 million in 2005 and SEK 88.3 million for the six months ended June 30, 2006. We retain significant scalability through outplacement of activities to reputable contract research organizations, including toxicology labs, clinical research organizations and drug substance producers. In addition, we have established networks with external scientific experts and consultants with whom we consult where expertise in specific therapeutic areas is required.

Biopharmaceutical Manufacturing and Process Development

We are engaged in biopharmaceutical manufacturing and advanced process development of recombinant protein drugs. Our biopharmaceutical activities involve the complex process of producing therapeutic proteins from bacteria or mammalian cells.

Through our history as part of Pharmacia, we have been involved in process development and biopharmaceutical manufacturing since the beginning of the biotechnology industry more than 25 years ago and have extensive experience in the field. Our experience includes both monoclonal antibodies and other recombinant proteins. We conduct advanced process development that addresses every stage of biopharmaceutical production, from preclinical research through clinical trials to commercial production of well-specified biologics. Our capabilities include the design, implementation and execution of protein expression and optimization, cell banking, microbial fermentation and mammalian cell cultivation, downstream purification, pre-formulation and process scale-up. We also develop analytical methods for both in-process drug substance and drug product release, as well as perform advanced protein characterization and stability studies. We also conduct biomanufacturing for clinical and small-scale commercial production of protein drugs. Our process development group includes approximately 130 employees, approximately one-third of whom hold a Ph.D., and our manufacturing and quality control groups are comprised of approximately 100 employees.

In addition to utilizing our development and manufacturing capabilities for our internal protein drug candidates, we currently provide our services on a contract basis to large pharmaceutical companies, such as Wyeth, Amgen and Pfizer, as well as to small and medium-sized biotechnology companies. Our revenues from contract manufacturing and process development of *ReFacto*[®] amounted to SEK 194.3 million in 2005 and SEK 338.9 million for the six months ended June 30, 2006. Our process development assignments for Pfizer, Amgen and other biotech companies provided us with aggregate revenues of SEK 224.7 million in 2005 and SEK 109.6 million for the six months ended June 30, 2006. Our umbrella agreement relating to the process development for Pfizer expired in August and our agreement with Amgen expires in

September 2006, after which times we may provide biopharmaceutical services to Pfizer and Amgen on a case-by-case basis if required by any of them.

We provide our services with the objective of creating commercially viable processes in terms of supply assurance, cost, compliance and safety. We have in-depth knowledge of regulatory requirements and focus on providing services that ensure the high quality of our products. By delivering high-quality products to our customers, we are able to minimize regulatory approval time which allows our customers to reach the market more quickly. As the nature of drug development is inherently speculative, providing our services in a cost-effective manner is very important to many of our customers. In addition, we have considerable experience in successful project management of biopharmaceutical projects which we offer as a service to our customers.

Our biopharmaceutical process development and manufacturing facilities have been successfully inspected by regulatory agencies, including MPA, EMEA and FDA, on eight occasions since our inception in 2001. We are also frequently audited by our clients. To date, all of our client audits have been successful.

Marketing and Sales

We have a dedicated marketing and sales force consisting of twelve employees located across the Nordic countries. Our strategic objective is to grow our revenues and profit from product sales as well as to prepare for the effective launch of internally developed products in the future.

Through our marketing and sales force, we currently promote and sell prescription drugs in therapeutic areas such as coagulation, oncology, rheumatology and endocrinology. The products that we market are promoted under co-promotion arrangements with Wyeth and Amgen, and marketed and sold by us under distribution agreements with selected pharmaceutical companies. In 2005, we primarily generated co-promotion fees from the sale of *ReFacto*[®] in the Nordic region and *Kineret*[®] in Europe. During 2005, we entered into an agreement with Mitsubishi Pharma regarding the exclusive distribution of *Novastan*[®] in the Nordic countries and launched *Mimpara*[®] in the Nordic countries in collaboration with Amgen. During 2005, annual sales of *ReFacto*[®], *Kineret*[®] and *Mimpara*[®] in the regions covered by the co-promotion agreements amounted to SEK 340.0 million, which generated SEK 103.8 million in co-promotion fees for us. During the first quarter of 2006, sales of *ReFacto*[®], *Kineret*[®], *Mimpara*[®], *Kepivance*[®] and *Novastan*[®] amounted to SEK 112.0 million, corresponding to SEK 32.8 million in co-promotion fees. In February 2006, we entered into an agreement with Helsinn Healthcare S.A. to distribute the product *Aloxi*[®] in the Nordic region.

In the short to medium term, we plan to continue to expand the number of products that we market, as well as our geographic presence in Europe, through additional promotion and distribution arrangements and potentially through select acquisitions of product rights or companies with product portfolios and commercial infrastructure in Europe. We believe that the successful implementation of this strategy will increase our recurring revenues and cash flow and make us a more attractive partner in relation to in-licensing of R&D projects in clinical development stages. Furthermore, we believe expanding our portfolio of marketed products and geographic presence will allow us to establish the processes and competencies related to brand management, regulatory and medical affairs, product distribution and logistics, pricing, reimbursement and invoicing required to realize our longer term objective of effectively launching internally developed products in significant territories. We will also seek to retain commercial rights in selected territories when licensing out our R&D projects related to products for common diseases.

We discuss below each product to which we currently have marketing rights. For additional information regarding the agreements pursuant to which we distribute or co-promote each product, see “*Material Contracts*.”

ReFacto[®]

We market *ReFacto*[®], a highly purified, synthetically manufactured form of human coagulation Factor VIII, in the Nordic region pursuant to a co-promotion agreement with Wyeth. We discuss this and our other agreements with Wyeth relating to *ReFacto*[®] in more detail in “*Marketed Portfolio and Project Pipeline—Marketed Portfolio—ReFacto*[®]” and “*Material Contracts—Wyeth*.”

Kineret[®]

We market *Kineret*[®], an anti-cytokine injectable protein drug used for the treatment of the signs and symptoms of rheumatoid arthritis in combination with methotrexate, in patients with an inadequate response to methotrexate alone, in the Nordic region under a co-promotion agreement with Amgen which covers the EU. See “*Material Contracts—Amgen.*”

Rheumatoid arthritis is a common systemic disease that affects connective tissue. Arthritis is the dominant clinical manifestation, involving many joints, especially those of the hands and feet. The course is variable, but often chronic and progressive, leading to deformity and disability. Patients with rheumatoid arthritis produce excess amounts of inflammatory cytokines. This leads to harmful effects such as swelling and tissue damage. Treatment with *Kineret*[®] aims at blocking the negative effect of the inflammatory cytokines. *Kineret*[®] uniquely acts by blocking Interleukin-1 receptors. The dominant treatments for rheumatoid arthritis are currently based on anti-TNF drugs.

Mimpara[®]

We market *Mimpara*[®] (*Sensipar* in the United States), a small-molecule drug used for the treatment of secondary hyperparathyroidism (“SHPT”) in patients with chronic kidney disease on dialysis and for the treatment of hypercalcemia in patients with parathyroid carcinoma, in the Nordic region pursuant to a co-promotion agreement with Amgen. See “*Material Contracts—Amgen.*”

SHPT is a disease characterized by elevations in parathyroid hormone (“PTH”) together with abnormal calcium and phosphorus levels. Abnormalities in PTH, calcium and phosphorus are associated with an increased risk of hospitalization and death, often due to cardiovascular disease.

Mimpara[®] regulates the levels of PTH, calcium and phosphorus in the body. Normally, PTH maintains the calcium and phosphorus content in the blood at exactly the right levels to allow bone tissue, heart, muscles, nerves and blood vessels to function properly. With normal kidney function, PTH regulates calcium and phosphorus levels in the body by transferring necessary calcium and phosphorus in and out of the bone tissue. When kidney function is impaired, the calcium and phosphorus levels in the body are put out of balance and the parathyroid glands secrete an excess of PTH. This can cause bone damage and also constitutes a risk factor if the patient also has problems of the heart or blood vessels. In addition to SHPT in kidney disease patients on dialysis, *Mimpara*[®] is used to prevent high calcium blood levels in patients with tumors of the parathyroid glands.

Kepivance[®]

We market *Kepivance*[®], a recombinant protein indicated to reduce incidence and duration of severe oral mucositis in patients with hematological malignancies receiving myeloablative therapy associated with a high incidence of severe mucositis and requiring autologous hemopoietic stem cell support, in the Nordic region pursuant to a co-promotion agreement with Amgen. See “*Material Contracts—Amgen.*”

In patients with oral mucositis, the cells lining the mouth and throat are damaged by the chemotherapy drugs and/or radiation used in cancer treatment. Oral mucositis can be extremely painful and can have a devastating impact on patients. In fact, oral mucositis has been rated as the most debilitating side effect by patients with blood cancers undergoing bone marrow transplantation. Patients suffering from these debilitating mouth sores may require longer hospitalization, high doses of narcotics, such as morphine, and intravenous feeding to receive nutrition and maintain hydration.

Kepivance[®] is produced through laboratory processes to mimic the activity of endogenous keratinocyte growth factor (“KGF”). Growth factors in general are natural substances produced by the body that stimulate activity of specific cells. KGF is a type of growth factor that stimulates the activity of epithelial cells. Epithelial cells comprise a large portion of total cells that line and protect the oral mucosa. Therefore, the stimulation and growth of epithelial cells through KGF is a feasible target in the management of oral mucositis. *Kepivance*[®] is approved in the United States and was approved in EU in October 2005.

Novastan[®]

We market *Novastan*[®], a synthetic direct thrombin inhibitor which acts as an anticoagulant for use in adult patients with heparin-induced thrombocytopenia type II (“HIT II”) requiring parenteral anticoagulation treatment, in the Nordic region pursuant to a distribution agreement with Mitsubishi Pharma.

Heparin is a drug that is widely used in clinical practice to prevent thrombosis. HIT II is the most important adverse drug reaction to heparin, after bleeding complications, and constitutes a paradoxical procoagulatory syndrome induced by an anticoagulant. HIT II is an immune mediated drug response to heparin. Patients receiving heparin, including low molecular weight heparins, by any route or at any dose as well as heparin flushes, are at risk of developing HIT II and its devastating thrombotic complications, such as deep vein thrombosis or pulmonary embolism.

The onset of *Novastan*[®] is rapid and effective anticoagulation can be achieved within one to three hours of starting an infusion. The short half life and rapid reversibility of binding to thrombin confers a rapid decline in the anticoagulation effect.

Aloxi[®]

Pursuant to an exclusive distribution agreement with Helsinn Healthcare S.A. we have the right to market *Aloxi*[®], a 5-HT₃ receptor antagonist approved for the prevention of acute nausea and vomiting associated with highly emetogenic cancer chemotherapy and the prevention of nausea and vomiting associated with moderately emetogenic cancer chemotherapy in the Nordic region. *Aloxi*[®] is expected to be launched during the second half of 2006.

Chemotherapy-induced nausea and vomiting (CINV) represents a frequent complication occurring in patients receiving chemotherapy to treat cancer. Several of the most commonly used chemotherapeutic agents stimulate the release of serotonin by cells located in the gastrointestinal tract. Activated serotonin subtype 3 (5-HT₃) receptors stimulate the emetic center located in the medulla thus inducing nausea and vomiting, which are ranked by patients to be among the most severe side effects of chemotherapy. 5-HT₃ receptor antagonist products are the mainstay of the anti-emetic treatment for patients receiving highly and moderately emetogenic chemotherapy and their administration is generally guaranteed to all patients at risk of CINV.

Aloxi[®] offers the clinical advantage of a stronger protection in the acute phase of CINV, as well as a prolonged effect during the delayed phase of CINV following a single dose administration.

Intellectual Property

We believe that our proprietary technology rights and inventions are important to our business. We strive to develop and protect a strong portfolio of intellectual property that includes patents, trademarks, copyrights, trade secrets and proprietary technology processes. We have an in-house team of three intellectual property law specialists that oversee our intellectual property strategy, and we work with law firms in different regions to provide local intellectual property expertise where needed. Our in-house team actively works to optimize the intellectual property assets involved in each of our development projects with the goal of providing maximum protection to both us and our customers and partners. We actively seek to protect our intellectual property from infringement by others.

Patents

Our patent portfolio consists of approximately 109 patent families comprising over 1,300 active patents or patent applications and the majority of our patents have a remaining term of at least 15 years. Our policy is to file patent applications to protect technology, inventions and improvements that may be important to the development of our business, including to secure exclusivity and freedom to operate in areas for future research and development. This includes, in particular, patent applications covering new chemical and biological entities that are drug candidates or lead compounds in the drug development process. We also strengthen the protection afforded by patents over our product candidates by seeking patent protection for new processes, clinical uses, pharmaceutical formulations, medical devices and research tools relating to our activities. We initially file patent applications in Sweden, and subsequently seek patent protection in countries with a relatively high degree of drug research and development activities, as well as in countries that represent major markets for pharmaceutical products. We generally file for patent protection for our product candidates or technology in 40 to 50 countries.

The patentability, validity and enforceability of patents in the field of biotechnology and pharmaceuticals generally is highly uncertain and involves complex legal and factual questions. Neither we nor our licensors may be able to obtain issued patents relating to our products and technology. Even if issued, patents may be challenged, invalidated or circumvented, which could both limit our ability to prevent competitors from marketing similar products and decrease the length of time of the patent protection we may have for our products. In addition, our patents and our licensors' patents may not afford

us sufficient protection against competitors with similar products or technology. Because patent applications in the United States and many foreign jurisdictions are typically not published until 18 months after filing, or in some cases not at all, and because publications of discoveries in scientific literature often lag behind actual discoveries, neither we nor our licensors can be certain that we were the first to make the inventions claimed in issued patents or pending patent applications, or that we were the first to file for protection of the inventions described in these patent applications. In the event that a third party has also filed a patent application covering our products or technology, we may have to participate in an adversarial proceeding to determine priority of invention. The costs of these proceedings could be substantial and it is possible that our effort could be unsuccessful, resulting a loss of our patent position.

The following table sets forth information regarding the focus of our patent families:

Patent Category	Number of Patents Families
New chemical and biological entities	54
New use of known chemical/biological entities	8
New pharmaceutical formulations	7
Medical devices	2
New processes for manufacturing known substances	6
Target proteins and genes	8
Biotech methods/research tools	24

We discuss below the patents obtained and patent applications made with respect to each of our clinical projects and our pre-clinical projects. We also discuss below the key patents obtained and patent applications made with respect to *ReFacto*[®].

Clinical Projects

Exinalda[™]

All development of *Exinalda*[™] that occurred prior to August 2005 was carried out by Arexis AB. We acquired rights to patents relating to *Exinalda*[™] in connection with our August 2005 acquisition of Arexis AB. *Exinalda*[™] is currently in Phase IIa clinical trial. *Exinalda*[™] is protected by new biological entity patents in both Europe and the United States. As part of the acquisition of Arexis AB, we were assigned ownership rights to two patent families from Oklahoma Medical Research Foundation. The first patent family covers dietary compositions comprising BSSL. The second patent family covers the nucleotide sequence coding for BSSL. The patents have been granted in Europe and in the United States in respect of both families. The U.S. patents expire in 2007 and the European patents expire in 2008 and 2011, respectively. In both the United States and Europe, we expect that orphan drug status and/or regulatory data protection will protect *Exinalda*[™] after these patents expire. See “*Business—Marketed Products and Project Pipeline—Project Pipeline—Exinalda*[™]—*Treating Fat Malabsorption in Cystic Fibrosis Patients.*” We expect to obtain Supplementary Protection Certificates (SPC) in several European countries, provided that the product is launched in Europe prior to April 2011. SPCs would provide up to 5 additional years of marketing exclusivity for the authorized product.

11β-HSD₁ Inhibitor Project

We developed our 11β-HSD₁ enzyme inhibitor project in-house. Our 11β-HSD₁ enzyme inhibitor project is currently in Phase I clinical trials. We filed new chemical entity patent applications covering our 11β-HSD₁ enzyme inhibitors in Sweden in May 2004 and in the rest of Europe and the United States in 2005. If issued, we expect to receive patent protection for this project through 2025. Pursuant to our collaboration agreement with Amgen, we have licensed rights to our 11β-HSD₁ inhibitor program, including related patents, to Amgen for the treatment of metabolic diseases and certain other medical disorders. We have granted Amgen exclusive rights to develop and commercialize 11β-HSD₁ inhibitors throughout the world.

A_{2A} Receptor Agonist Project

All development of our A_{2A} receptor agonist project that occurred prior to April 2005 was carried out by Cambridge Biotechnology. We acquired rights to new use of known chemical patent applications relating to A_{2A} receptor agonists in connection with our April 2005 acquisition of Cambridge

Biotechnology. The first filed patent application relating to the A_{2A} project claims the use of spongiosine (the candidate drug BVT.115959) in the treatment of pain. Spongiosine is in the public domain. Subsequently filed patent applications cover related compounds as new chemical entities. These patent applications were made in Europe and the United States in 2002. We believe that the patent applications will be sufficient to cover all anticipated applications of the A_{2A} receptor agonists. If issued, we expect to receive patent protection for the new use of A_{2A} receptor through 2023.

5-HT_{2A} Receptor Antagonist

We developed our 5-HT_{2A} receptor antagonist project in-house. Our 5-HT_{2A} receptor antagonist project has concluded a Phase I clinical trial and is scheduled to enter Phase II during second half 2006. We filed new chemical entity patent applications covering our 5-HT_{2A} antagonist in Sweden in 2002 and in the rest of Europe and the United States in 2002 and expect to receive patent protection for this project until 2023.

5-HT₆ Receptor Antagonist Project

We developed our 5-HT₆ receptor antagonist project in-house. Our 5-HT₆ receptor antagonist project is currently undergoing a Phase I clinical trial. We filed new chemical entity patent applications covering our 5-HT₆ receptor antagonist in Sweden in 2004 and the rest of Europe and the United States in 2005 and expect to receive patent protection for this project until 2025. We are also currently negotiating a licence with NIH to obtain an important patent to supplement our 5-HT₆ receptor antagonis portfolio.

We are not currently subject or party to any interference proceeding, infringement claims, claims by employees of inventorship, or other proceedings or claims relating to our patents or patent applications. However, we are currently involved in opposition proceedings against a number of third-party patents in the European Patent Office, a negative outcome from which may have an adverse impact on our patents or patent applications.

Preclinical Projects

Recombinant Anti Rh(D) Polyclonal Antibodies

The key patents covering the technology for producing recombinant Anti Rh(D) polyclonal antibodies have been in-licensed by Symphogen from Boston University. These patents relate to the use of Anti Rh(D) polyclonal antibodies both for the treatment of idiopathic thrombocytopenia purpura and for the prevention of Rh immunization. Patents have been granted in the United States and in Europe, and will expire 2014 and 2015, respectively. Further, a patent application covering recombinant Anti Rh(D) polyclonal antibodies, as new biological entities, has been filed by Symhogen and licensed to Biovitrum. If issued, this patent would provide protection for the project until 2025.

Oral Leptin Mimetic

We filed new chemical entity patent applications covering leptin mimetics in Sweden in March 2006. International patent applications will be filed during 2007. If issued, we would expect to receive patent protection for this project at least until 2027.

5-HT_{2C} Receptor Agonist

Patent applications covering new chemical entities, useful as 5-HT_{2C} receptor agonists, have been filed during 1999-2002. Three U.S. patents, and one European patent, have been granted to date. The patents will expire during 2020-2021. Additional patent applications are pending and we expect them to provide additional protection for new chemical entities until 2021-2023.

Kiobrina™

Kiobrina™ is protected by the same patents as *Exinalda™*, discussed above.

DPP-IV Inhibitors

Nine patent applications, covering new chemical entities useful as DPP-IV inhibitors, have been filed by Santhera during 2003-2005 and are licensed to Biovitrum. Applications have been filed in several countries, including the United States, Europe and Japan. If issued, we would expect to receive patent protection for this project until 2023-2025.

FIX: Fc

A key patent application for protecting this project was filed by Syntonix in 2003 and has been licensed to Biovitrum. The application covers a new biological entity useful for treating hemophilia. If issued, we would expect to receive patent protection for this project until 2023.

ReFacto®

All intellectual property relating to the *ReFacto*® drug substance are protected by patents in the United States and Europe. The key patent series includes two patents granted to Wyeth and one patent granted to us.

- A patent covering new biological entities (B-domain deleted Factor VIII) was filed by Wyeth in the United States and in Europe in 1985 and subsequently granted in both jurisdictions. These patents will expire in 2006 in the both jurisdictions. However, Supplementary Protection Certificates (SPCs) have been granted in several European countries with the effect that that protection will be extended until 2011 in those countries.
- A patent covering pharmaceutical formulation comprising *ReFacto*® was filed by Wyeth in the United States and in Europe in 1992 and subsequently granted. The patents will expire 2015 in the United States and in 2013 in Europe.
- A patent covering new biological entities (*ReFacto*® genes and proteins) was filed by Biovitrum in the United States and Europe in 1990. A European patent has been granted. The corresponding U.S. patent application was abandoned by Biovitrum in favour of Wyeth's patents. The European patent will expire 2010. However, SPCs have been granted in several European countries which means that protection will be extended until 2014 in those countries.

Trademarks

Our trademarks include *Biovitrum*, *Exinalda*™ and *Kiobrina*™.

Trade secrets and know-how

We rely on trade secrets to protect our intellectual property where patent protection is not appropriate or obtainable. We protect our proprietary technology and processes, in part, by confidentiality agreements with our employees, consultants and third-party collaborators.

Licenses

We engage in the out-licensing and in-licensing of intellectual property as a fundamental part of our business strategy.

See “*Risk Factors—Risks Relating to Our Intellectual Property.*”

Competition

The biopharmaceutical and pharmaceutical industries are highly competitive. Many products are currently marketed for the treatment of diseases of our research and clinical focus, and a number of companies are developing new treatments in these areas. Many of these companies have significantly greater financial, manufacturing, marketing and drug development resources than we do. Large pharmaceutical companies in particular have extensive experience in clinical testing and in obtaining marketing approvals for drugs. For a description of competing drugs of our drug candidates in clinical development, see “*Marketed Products and Project Pipeline—Project Pipeline—Our Clinical Projects.*”

The market for process development and biopharmaceutical manufacturing is very competitive. We compete primarily against European biopharmaceutical companies, such as Boehringer Ingelheim, DSM, Lonza Group, Sandoz and other smaller contract manufacturing organizations. While our biopharmaceutical services are focused primarily on process development rather than biopharmaceutical manufacturing, we also compete against contract manufacturing organizations, or CMOs, that provide third-party biopharmaceutical manufacturing services. In addition, most major pharmaceutical and biotechnology companies have internal process development and biopharmaceutical manufacturing groups with varying degrees of capabilities. Although we do not necessarily compete against these internal groups, the market for our biopharmaceutical services are to some extent limited by the work that these groups are able to perform internally.

Environmental

We conduct biopharmaceutical research and development and operate biopharmaceutical manufacturing facilities in Sweden. As a result, we are subject to the regulations in the Swedish Environmental Code. In particular, these regulations address:

- emissions into the air;
- discharges of waste water;
- other releases into the environment;
- generation, handling, storage, transportation, treatment and disposal of waste; and
- license and notification requirements for certain of our operations.

We currently have licenses and permits for manufacturing of pharmaceuticals in our plants in Stockholm, using genetically modified micro-organisms as well as using and breeding animals in accordance with the Swedish Animal Welfare Act.

We conduct our operations in accordance with an environmental policy adopted in December 2003. Our environmental policy requires that we comply with all environmental, health and safety regulations and that we provide workplaces for employees that are safe and environmentally sound. We have developed a certifiable environmental management system for our entire company in accordance with ISO 14001. The AFS 2001:1 rules regarding systematic efforts on workplace environment have been integrated in our environmental management system.

We believe that we are in substantial compliance with applicable environmental, health and safety laws and regulations. We devote considerable attention to the health and safety of our employees and the protection of public health and the environment. Although this compliance has not adversely effected our competitive position or business in the past, we cannot predict the future effects of new regulations.

Employees

As of June 30, 2006, we had 547 employees, of whom 248 were engaged in our R&D activities, 240 were engaged within biopharmaceutical manufacturing and process development and 12 within marketing and sales. Approximately 90% of our employees are qualified to university level or have similar qualifications. Out of these we estimate that over 30% of our employees hold a Ph.D. and/or an MD.

As of December 31, 2005, we had 604 employees, of whom 287 were engaged in our R&D activities, 230 were engaged within biopharmaceutical manufacturing and process development and 12 within marketing and sales. Approximately 90% of our employees were qualified to university level or have similar qualifications. Out of these we estimate that over 30% of our employees hold a Ph.D.

As of December 31, 2004, we had 598 employees, of whom 290 were engaged in our R&D activities, 196 were engaged within biopharmaceutical manufacturing and process development and 5 within marketing and sales. Approximately 90% of our employees were qualified to university level or have similar qualifications. Out of these we estimate that over 30% of our employees hold a Ph.D.

As of December 31, 2003, we had 551 employees, of whom 310 were engaged in our R&D activities and 163 were engaged within biopharmaceutical manufacturing and process development. Approximately 90% of our employees were qualified to university level or have similar qualifications. Out of these we estimate that over 30% of our employees hold a Ph.D.

Approximately 60% of our employees are female and approximately 60% are under the age of 40. Approximately 93% of our employees are located in Sweden, 6% in the United Kingdom and 1% in other Nordic Countries.

Our employees are members of a number of unions in Sweden. We consider our relationships with our employees and their labor unions to be good, and we have not experienced any material work stoppage, slowdown or collective employee action. Further, we have not recently experienced, nor do we foresee, an inability to find and employ the people necessary to run our business.

Properties

We currently lease six properties in Sweden and one property in England. In 2004 and 2005 we divested the remainder of the real estate owned by us that were not core to our business and our future

development. See “*Operating and Financial Review and Prospects—Key Factors and Major Transactions Affecting Our Results of Operations—Real Estate Divestitures.*”

The following table sets forth our key properties:

Location	Function	Owned/Leased	Remaining Term of Lease	Approximate Size of Facilities (Square Meters)
Stockholm—Paradisat	Manufacturing and marketing	Leased	7/15/2019	13,751
Stockholm—Hornsberg . . .	Process development	Leased	12/31/2008	6,845
Stockholm—Karolinska Institute	Management and R&D	Leased	6/30/2009	9,450
Stockholm—Ekelund	R&D	Leased	12/31/2006	1,935
Uppsala	R&D	Leased	7/31/2007	5,410
Gothenburg	R&D	Leased	12/31/2013	2,460
Cambridge, England	R&D	Leased	11/14/2010	830

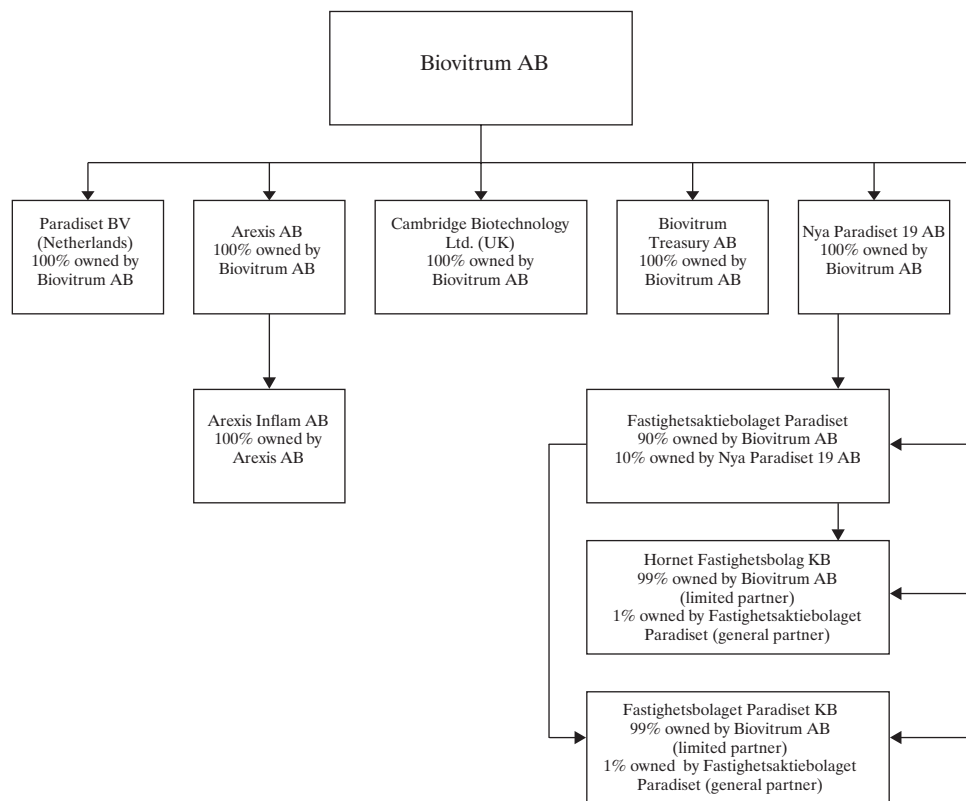
In addition to the properties noted above, we lease several other less significant properties.

Insurance

We hold insurance in respect of our property portfolio, with sums insured up to the full value of our plants, equipment and other assets, and in respect of business interruption. We hold insurance in respect to product liability, clinical trials and directors’ and officers’ liability. We believe that the type and relative amounts of insurance which we hold are in accordance with what is customary in our industry and the geographic jurisdictions in which we operate.

Legal Structure

We currently conduct our operations through our parent company, Biovitrum AB (publ), seven Swedish subsidiaries, one UK subsidiary and one Dutch subsidiary. Our operations are structured differently from our legal structure and are illustrated by the following organizational chart:



Material Contracts

We describe below certain contracts important to our business.

Wyeth

At the time of our 2001 spin-off from Pharmacia (now Pfizer), certain rights and obligations under three contracts between Pharmacia and Wyeth relating to *ReFacto*[®] were transferred and retained by us. We discuss these agreements below.

Supply Agreement. In August 1997, Pharmacia (now Pfizer) entered into a supply agreement with Genetics Institute, which was later acquired by Wyeth, for the manufacturing of *ReFacto*[®], a synthetically formulated recombinant factor VIII product used to treat hemophilia. In connection with our spin-off from Pfizer, certain rights and obligations were assigned to us, including the right to manufacture and conduct process development for *ReFacto*[®] and a modified version of the *ReFacto*[®] product, "*ReFacto*[®] *AF*," which we refer to in this offering memorandum as the next generation of *ReFacto*[®]. The supply agreement was subsequently amended in June 2000 and January 2004 to make us the sole manufacturer of the *ReFacto*[®] drug substance and *ReFacto*[®] *AF*. Under the agreement, Wyeth is obligated to make quarterly minimum purchases based on a set percentage of the forecasted production requirements for *ReFacto*[®] and *ReFacto*[®] *AF* provided by Wyeth during the previous quarter.

The initial term of the supply agreement is until the earlier of December 31, 2011 or December 31 of the year in which the five-year anniversary of the date on which we receive approval to manufacture *ReFacto*[®] *AF* GF-Eluate at our facilities in Stockholm. The agreement contains standard termination provisions. Upon the expiry of the initial term, the agreement is automatically renewed for one-year periods, unless terminated by Wyeth upon providing two years advance notice or by us upon providing four years advance notice.

Purchase and License Agreement. In August 1997, Pharmacia also entered into a purchase and license agreement with Wyeth, which was subsequently amended in August 1999, June 2000 and April 2001 and transferred to us in connection with the spin-off. At the time of the spin-off we also entered into a general transfer agreement, whereby Pharmacia (now Pfizer) retained the right to receive 50% of the payments made under the purchase and license agreement. This purchase and license agreement entitles us to receive royalties on Wyeth's worldwide sales of *ReFacto*[®]. The applicable royalty percentage for *ReFacto*[®] is based on an agreed percentage of all *ReFacto*[®] sales, which we are required to split on a 50/50 basis with Pfizer. With respect to *ReFacto*[®], we will receive royalty payments for a period of 17 years following the first sale of *ReFacto*[®] or *ReFacto*[®] *AF* in the United States, and in respect of other countries, 17 years following the first sale of *ReFacto*[®] or *ReFacto*[®] *AF* in the earliest of any of France, Germany, Italy or the United Kingdom. The royalty rates to which we are entitled with respect to the next generation, should it be successfully launched, are lower than the rate currently applicable to *ReFacto*[®]. The royalty structure for the next generation is similar to the royalty structure for *ReFacto*[®], although the royalty rate decreases by an agreed percentage upon sales of the next generation achieving agreed volumes. Wyeth has the right to terminate its commercialization activities with respect to *ReFacto*[®] and any *ReFacto*[®] *AF* products at any time after consultation with us and upon 60 days notice, in which case we would have the option to have the product, license, patent, and technology rights relating to *ReFacto*[®] under the agreement revert back to us.

Co-Promotion Agreement. Pursuant to a co-promotion agreement entered into in August 1997, as amended in June 2003 and May 2004, we have co-promotion rights to *ReFacto*[®] in the Nordic countries and the Middle East. The agreement also grants us co-promotion rights to *ReFacto*[®] *AF*. We earn a 32.5% commission based on combined net sales in the Middle East and the Nordic countries. The agreement remains valid until the expiration of Wyeth's obligations to make royalty payments under the purchase and license agreement (discussed above) and contains standard termination provisions.

Amgen

Our relationship with Amgen is governed by three agreements, discussed below.

Development and Marketing Collaboration Agreement. Pursuant to a development and marketing collaboration agreement entered into in September 2003, as amended and restated in December 2005, we granted Amgen exclusive licensing rights to develop and commercialize our small molecule 11 β -HSD₁ enzyme inhibitors for the treatment of metabolic diseases and certain other medical disorders worldwide.

We have retained co-promotion rights in the Nordic countries for products developed under the agreement.

In consideration for the rights granted to Amgen under the agreement, Amgen paid us licensing fees totaling \$99.0 million. In addition, Amgen will make milestone payments to us related to development progress, regulatory submissions and approvals and achievement of a certain annual sales amount. The milestone payment could potentially amount to \$483 million (of which \$8.0 million has been paid to date) for milestones related to development progress, regulatory submissions and approvals for the treatment of metabolic diseases. The agreement also entitles us to receive royalties from sales of commercialized products based on our 11 β -HSD₁ enzyme inhibitors. If a product is approved, Amgen is required to pay tiered royalties on a product-by-product and country-by-country basis for the longer of: (a) 12 years after the date of the first commercial sale of a product in such country; (b) the expiration of all Biovitrum and Amgen patents in such country that would be infringed by the manufacture, use or sale of such product; or (c) the expiration of any marketing exclusivity right that covers the manufacture, use or sale of such product in such country.

The agreement remains effective until the expiration of Amgen's obligations to make royalty payments. Each party may, however, terminate the agreement upon 30 days notice for a material breach which is not cured within 60 days, or 30 days in case of payment defaults, after notice of such breach. In addition, Amgen may terminate the agreement after the expiration of the term of the discovery program upon three months notice. However, if a product within the collaboration has been launched in the United States or European Union, Amgen shall provide six months notice, in which case we may accelerate the termination to as soon as 60 days after such notice.

Co-Promotion Agreement. Pursuant to a co-promotion agreement entered into in September 2003, Amgen has granted us the option to co-promote certain of its drugs in agreed territories. We have exercised our option to co-promote three drugs, *Kineret*[®], *Mimpara*[®] and *Kepivance*[®] in the Nordic region. We co-promote *Kineret*[®], a treatment for signs and symptoms of rheumatoid arthritis, in combination with methotrexate in patients with inadequate response to methotrexate alone, in the European Union, and *Mimpara*[®], used for the treatment of secondary hyperparathyroidism in patients with chronic kidney disease on dialysis and for the treatment of hypercalcemia in patients with parathyroid carcinoma and *Kepivance*[®], indicated to reduce incidence and duration of severe oral mucositis in patients with hematological malignancies receiving myeloablative therapy associated with a high incidence of severe mucositis and requiring autologous hemopoietic stem cell support. We receive co-promotion payments in relation to *Kineret*[®] equal to a percentage of the net sales by Amgen in the European Union for each year until the expiration of all Amgen patents that would be infringed by the sale or use of *Kineret*[®] in the European Union, on a country-by-country basis. Sales of *Kineret*[®] are expected to decline in the future. We receive tiered co-promotion payments in relation to *Mimpara*[®] and *Kepivance*[®] calculated on the basis of the combined net sales of the product by Amgen in the Nordic region for each year, which percentage increases from the first year through the third year following the launch of the respective product.

The co-promotion agreement will remain in force for as long as Amgen continues to promote the products in the various countries covered by the agreement. We may terminate the agreement on a product-by-product, country-by-country basis upon six months prior written notice. Amgen may terminate the agreement immediately upon written notice if Amgen terminates the collaboration agreement (discussed above) for material breach. In addition, Amgen may terminate the agreement immediately if we are acquired by or merge with a pharmaceutical company (other than Amgen), as a consequence of which our shareholders prior to such transaction hold less than 50% of the combined voting power of our share capital after such transaction. Each party may terminate the agreement immediately for any material breach that is not cured within 60 days, or 30 days in the case of payment defaults, after notice of such breach.

General Agreement for Development and Manufacturing of Biopharmaceuticals. In September 2003, we entered into an umbrella agreement with Amgen pursuant to which we perform biopharmaceutical process development and manufacturing services with respect to projects submitted by Amgen. The term of the Agreement is three years. We do not expect the agreement to be renewed upon expiration in September 2006.

GlaxoSmithKline

In October 2002, we entered into a development and license agreement with SmithKline Beecham Corporation (now GlaxoSmithKline) to develop and commercialize our 5-HT_{2C} receptor agonists for the

treatment of obesity and other medical disorders. Under the agreement, GlaxoSmithKline has the exclusive rights to develop, register, manufacture and commercialize our existing collection of proprietary 5-HT_{2C} receptor agonist compounds. However, we retained the exclusive right to commercialize products arising from the collaboration in the Nordic countries.

GlaxoSmithKline has paid us a license fee of \$15.0 million and is required to make milestone payments related to the development progress, regulatory submissions and approvals of any products. The agreement provides that these payments may total up to \$115 million upon the successful development and market launch of a drug for the treatment of obesity. To date, GlaxoSmithKline has made milestone payments to us totaling \$1.0 million. In addition, GlaxoSmithKline will make royalty payments based on percentages ranging from 12% to 20% of annual net sales depending on the volume of the annual net sales for a period of the later of: (a) 12 years from the date of the first commercial sale of any products that may arise from the collaboration; (b) the expiration of the patents developed under the agreement (the "GSK Royalty Term"); or (c) the expiration of a marketing exclusivity right relating to a product developed under the agreement. Similarly, we must in turn make royalty payments of 10% of annual net sales to GlaxoSmithKline for the duration of the GSK Royalty Term.

The agreement remains valid until the expiration of the GSK Royalty Term, after which GlaxoSmithKline will have a royalty-free license to develop, market and distribute the products developed under the agreement. GlaxoSmithKline may terminate the agreement, on a country-by-country basis or in its entirety prior to the first commercial sale upon 60 days notice for breach that is not cured within 30 days after notification, and after the first commercial sale upon six months prior written notice, in which case we may accelerate the termination period to 60 days after giving notice of such acceleration. Either party may terminate upon 60 days notice for a material breach that remains uncured for a period of 30 days for payment breaches or 90 days for all other breaches.

Santhera

In July 2005, we entered into a collaboration and license agreement with Santhera Pharmaceuticals (Switzerland) GmbH to jointly develop and commercialize pharmaceutical products acting as dipeptidyl-peptidase IV inhibitors (the "DPP-IV products"). Under the agreement, we have an exclusive worldwide license to research, develop and commercialize the DPP-IV products. We paid Santhera an up-front licensing fee in cash of €3.0 million and provided Santhera with research funding of €1.0 million. In total, we could be required to make additional milestone payments to Santhera amounting in the aggregate to €10 million and we are required to pay Santhera milestone payments based on the progress of the program, and royalty payments of 6% of the worldwide net sale for the first €200 million per year and 10% of net sales in excess of €200 million per year. Santhera also have the right to receive 40% of fixed revenues paid by sub-licensees to us and 35% of sales received by us from the sales revenues generated by sub-licensees.

The agreement expires on a product-by-product and country-by-country basis at the later date of the expiration of any royalty term—which is the later of 15 years after the first sale of a product or the expiration of the last-to-expire patents relating to the product—or the expiration of the last sublicense agreement, at which time we will acquire exclusive ownership of all patents, licenses and rights licensed to us during the term of the agreement. We may terminate the agreement without cause upon providing six months prior written notice and both parties may terminate for any material breach not cured within 60 days of notice of such breach.

Syntonix

In January 2006, we entered into an exclusive development and commercialization agreement with Syntonix, for the joint development and commercialization of mutually agreed recombinant factors incorporating Fc-fusion protein technology (the "Products"). We will jointly develop and commercialize the Products in accordance with a development plan agreed upon by the parties. Under the agreement we have the option to provide early clinical manufacturing and development process services for factors containing factor IX: Fc construct, which is the first product we and Syntonix plan to develop and commercialize under the agreement. We exercised the option on March 14, 2006. Syntonix will market the Products in North America, while we will market the Products in Europe (including Russia and Turkey), Northern Africa and the Middle East. We share the ownership rights with Syntonix with respect to the intellectual property developed under the agreement. Each party has granted the other party an exclusive worldwide license to its existing intellectual property necessary or useful for the development or commercialization of the Products.

We paid Syntonix an up-front licensing fee of \$4.0 million for patents, licenses and know-how, and made a \$2.0 million equity investment in Syntonix, with an option to invest up to an additional \$6.5 million of equity in the future, if the Products reach a certain clinical stage. Each party will pay the other party a percentage of the adjusted net sales on the basis of 27.5% for the first two years and 33.3% thereafter. Under the terms of the agreement, Syntonix will receive up to an additional \$12 million in milestone payments based on the progress of product development.

The agreement will remain in force with respect to any product sold under the agreement, as long as such product is sold anywhere in the world. Either party may terminate the agreement upon six months notice or may terminate the agreement upon 60 days notice for a material breach that is not cured within 60 days. The remaining party will acquire the interests of the terminating party and have exclusive rights to continue the activities set forth in the agreement.

Symphogen

In January 2006, we entered into an exclusive co-development, supply and license agreement with Symphogen to conduct preclinical and clinical development and to manufacture and commercialize a recombinant anti-Rhesus D polyclonal antibody for the treatment of ITP (Idiopathic Thrombocytopenic Purpura), a bleeding disorder in which the blood's ability to coagulate is reduced, and for prevention of Rh Immunization potentially leading to HDN (hemolytic disease for newborns), anemia in new-born babies caused by the mother developing antibodies against the baby's red blood cells. Symphogen will market the product in North, Central and South America, while we will market the product in Europe (including Russia and Turkey), North Africa and the Middle East. The companies will seek partners for other parts of the world market. We share the ownership rights with Symphogen with respect to the intellectual property developed under the agreement. Each party has granted the other party an exclusive worldwide license to its existing intellectual property necessary or useful for the development or commercialization of the product.

Under the agreement, we made an initial payment in cash. In addition, we may be required to pay additional milestone payments based on project progress. In addition, we pay an annual technology access fee for Symphogen's technology platform. The companies share on a 50/50 basis both the cost and any future profits under the agreement.

The agreement remains effective until the performance of all required services or payments of sums under the agreement. Either party may terminate the agreement upon 45 days notice or may terminate the agreement upon 10 days notice for a material breach that is not cured within 90 days or within 30 days in the case of payment defaults.

Cambridge Biotechnology

On April 18, 2005, we acquired all the capital stock of Cambridge Biotechnology Limited ("CBT"), a privately-owned drug discovery company based in Cambridge, England. The acquisition expanded our product pipeline to include one neuropathic pain project in Phase Ib clinical development and one obesity project in pre-clinical development. On completion of the acquisition we paid approximately £7.4 million, issued loan notes in the amount of SEK 2,160,098 convertible into shares of Biovitrum and assumed various payment obligations to the professional advisers of the CBT vendors.

The loan notes are comprised of 117,243 TAA Ordinary Loan Notes, 606,401 TAA A Loan Notes, 356,405 TAA B Loan Notes, 117,243 Leptin Ordinary Loan Notes, 606,401 Leptin A Loan Notes and 356,405 Leptin B Loan Notes. Only a maximum 2,394,584 shares will ever be issued following the conversion of the loan notes as the rest will be cancelled. The reason for the over issue of Loan Notes was to allow the vendors of CBT to allocate value according to a ratchet mechanism varying the allocations between vendors depending on the total sale price achieved, whilst retaining their ability to roll-over their UK capital gains tax otherwise payable on completion of the acquisition of CBT.

The agreement contains a total of six deferred consideration milestones which trigger the payment of cash and the conversion of the loan notes into shares in relation to the A_{2A} receptor agonist project and the Leptin obesity project, three of which have been paid to date.

Arexis

In August 2005, we entered into a share transfer agreement, by which we acquired all the capital stock of Arexis AB, a privately-owned Swedish biotechnology and pharmaceutical company specializing in the

development of pharmaceuticals for the treatment of metabolic and inflammatory diseases. In consideration for the acquisition, we paid the former owners an up-front payment of SEK 125.0 million and agreed to make additional payments, either in cash or issuance of Biovitrum shares, upon the achievement of certain milestones. The agreement sets forth a total of 17 milestones relating to five clinical projects for certain products, including cystic fibrosis, Netherton's syndrome and skin care. The agreement would require us to make payments for achieving varying milestones for each product, including the start of clinical trials, proof of product concept, filing for or receiving regulatory approval and beginning production of final retail products. The agreement requires both parties to create and execute a development plan for the achievement of the stated milestones. In total, we could be required to make additional cash and share milestone payments to the former Arexis owners, amounting to SEK 337.5 million of cash and approximately 3.2 million of Biovitrum shares. The shares that might be required as payment will need approval at a shareholders' meeting of Biovitrum or issued through an authorization given to the board of directors. However, the payment may be made in cash if no share issue is approved.

Legal Matters

We are not aware of any currently pending or threatened legal proceedings, including arbitration proceedings that, individually or in aggregate, are likely have a material adverse effect on our business, financial condition or results of operations. Furthermore, we have not been a party to any such proceeding during the previous 12 months.

The Swedish tax authorities carried out a tax audit during the fall of 2005 and the spring of 2006, concentrating on the 2004 financial year. The audit is still open, and no indication as to the outcome of the audit has been given.

REGULATION

Overview

Our business and products are subject to significant government regulation in the countries in which we and our collaboration partners do business. Regulatory authorities around the world administer numerous laws and regulations governing the clinical development, manufacture, approval, marketing and sale of drugs, in order to ensure that such products are safe and effective for their intended use. The regulatory requirements in a particular country are a key consideration in determining whether a substance can be developed into a marketable product and the amount of time and expense associated with that development.

A pharmaceutical product must undergo exhaustive and lengthy non-clinical and clinical trials before it is approved for marketing. The time required to develop a new drug, from target identification and validation to commercial registration and product launch, varies considerably but can take up to 12 years, if not longer. The time taken from submission of an application for marketing approval to product launch is typically one to two years, but approval is never guaranteed and may take much longer or not be achieved at all.

After a drug has been approved and launched, it is subject to continuing regulation by authorities in the countries in which it is marketed and manufactured, including requirements related to advertising and promotion, manufacturing, record keeping and the reporting of adverse events associated with the drug. Depending on the relevant national regulatory scheme, fines and other penalties may be imposed for failure to adhere to these requirements and the conditions of the marketing authorization. In extreme cases, the marketing authorization may be revoked resulting in withdrawal of the product from sale.

During the marketing of a product, strict pharmacovigilance procedures must be in place to monitor the safety of the product, evaluate and report any potential adverse reactions. Where adverse reactions occur or it is deemed that they may occur, changes may be required to prescribing advice and to the product's marketing approval. In extreme cases, marketing authorization for the product may be revoked resulting in withdrawal of the product from sale.

In addition to small molecule drug compounds, we also develop substances known as "biologicals." Biologicals derive from biological sources (*e.g.*, from cell lines genetically engineered to produce a specific protein). In the United States, the EU and other markets, biologicals are regulated/assessed separately, and in some cases more stringently, than other drug products. For example, in order to minimize the risk of infectious disease transmission, biologicals require multiple manufacturing steps designed to remove viruses and other infectious agents. Biological products are chemically complex, often depending on a precise molecular structure for their effectiveness. These products are notably subject to rigorous testing to ensure stability throughout their shelf-life. Because biological products typically cannot withstand conventional sterilization techniques, we must use special processes to ensure sterility. Under applicable regulatory requirements, we must submit detailed documentation to demonstrate appropriate controls over our manufacturing facilities, including associated equipment and supporting utilities like water supply and climate control.

New Drug Development Regulation

United States

In the United States, drug products and biologicals are subject to extensive regulation by the Food and Drug Administration, or the FDA, under the Federal Food, Drug and Cosmetic Act, or FDCA, and its implementing regulations. FDA imposes substantial requirements on the testing, manufacture, quality control, safety, efficacy, labeling, storage, record keeping, approval, advertising, and promotion of products. The steps required before a new human drug or biological product can be marketed or shipped commercially in the United States include the following:

- completion of extensive pre-clinical laboratory tests, pre-clinical animal studies and formulation studies all performed in compliance with FDA's good laboratory practice, or GLP, regulations;
- the filing of an investigational new drug application which must become effective before clinical trials may begin;
- the conduct of adequate and well-controlled human clinical trials in three sequential phases, which may overlap, to establish the safety and efficacy of the proposed drug or biologic's intended use;

- completion of manufacturing process validation and successful completion of an FDA pre-approval inspection of the manufacturing facilities at which the product is produced to assess compliance with FDA's current GMP regulations;
- for new drugs, the FDA must approve a new drug application, commonly referred to as an NDA; and
- for biologics, the FDA requires approval of a biologics license application, or BLA.

Satisfaction of FDA pre-market approval requirements for new drugs and biologics typically takes many years and approval is never guaranteed. The actual time required for FDA action on an NDA or BLA may vary considerably depending on various criteria, including: the characteristics of the drug or biologic, whether the FDA needs more information than is originally provided in the NDA or BLA, and whether the FDA finds problems with the clinical data or other information submitted in the NDA or BLA. Further, even if a product receives regulatory approval, the approval may be significantly limited to specific disease states, patient populations and dosages. In some cases, FDA may condition approval of an NDA or BLA for a product on the applicant's agreement to conduct additional clinical trials to further assess the product's safety and effectiveness. Such post-approval trials are typically referred to as Phase IV clinical trials, and can be extremely costly.

Pursuant to the Orphan Drug Act, the FDA may designate a drug intended to treat a "rare disease or condition" as an "orphan drug." A "rare disease or condition," which generally is one that affects fewer than 200,000 people in the United States. Orphan drug designation must be requested before submitting an NDA or BLA. Orphan drug designation does not convey any advantage in, or shorten the duration of, the regulatory review and approval process. If a product which has an orphan drug designation subsequently receives the first FDA approval for the indication for use for which it has such designation the product is entitled to exclusive marketing rights in the United States for seven years, meaning that the FDA may not approve any other applications to market the same drug for the same indication during that period, except in limited circumstances. Orphan drugs may also be eligible for U.S. federal income tax credits for certain clinical trial expenses. We believe that some of our product candidates, such as *Exinalda*[™] and *Kiobrina*[™], may be eligible for orphan drug designation. Orphan drug designation for *Exinalda*[™] has been applied for with the FDA though to date we have not received approval. However, even if designated as orphan drugs, our products may not be approved before other applications and granted orphan drug exclusivity if approved. Therefore, we cannot assure you as to the precise scope of protection that may be afforded by orphan drug status in the future.

Any products manufactured or distributed by us or our collaborators pursuant to FDA approvals are subject to continuing regulation by the FDA, including recordkeeping requirements and reporting of adverse experiences associated with the drug. The FDA also closely regulates the post-approval marketing and promotion of drugs, including standards and regulations for direct-to-consumer advertising, off-label promotion, industry-sponsored scientific and educational activities and promotional activities involving the Internet. Further, drug manufacturers and their subcontractors are required to register their establishments with the FDA and certain state agencies, and are subject to periodic unannounced inspections by the FDA and state agencies for compliance with ongoing regulatory requirements, including GMPs, which impose certain procedural and documentation requirements upon us and third-party manufacturers. Failure to comply with the statutory and regulatory requirements can subject a manufacturer to possible legal or regulatory action, such as Warning Letters, suspension of manufacturing, seizure of product, injunctive action or possible civil penalties. We cannot be certain that we or our present or future third-party collaborators will be able to comply with the GMP regulations and other ongoing FDA regulatory requirements. If we or our present or future collaborators are not able to comply with these requirements, or if safety issues arise with respect to a product we or a collaboration partner markets, the FDA may halt our clinical trials, require us to recall a drug from distribution, or withdraw approval of the NDA or BLA for that product.

European Union

In the EU, there are two main procedures for applying for marketing authorization of a new drug: the centralized procedure and the mutual recognition procedure.

Centralized Procedure

Under this procedure, applications are made to the European Medicines Agency (“EMA”), for an authorization which is valid across all EU member states and EEA member states (*i.e.*, Iceland, Liechtenstein and Norway). The centralized procedure is mandatory for biotechnological DNA and gene therapy products, products containing new active substance for the treatment of acquired immune deficiency syndrome (AIDS), cancer, neurodegenerative disorder or diabetes, orphan drugs and, starting May 20, 2008, also for medicinal products containing a new chemical substance for the treatment of auto-immune diseases, other immune dysfunctions and viral diseases. The centralized procedure is optional for drugs which contain a new active substance or innovative drugs (*i.e.*, drugs showing significant therapeutic, scientific or technical innovation). When a pharmaceutical or biotechnology company has gathered data which it believes sufficiently demonstrates a drug’s quality, safety and efficacy, then the company may submit an application to the EMA. The EMA then receives and reviews the application during a review period of 90 up to 210 days. Once the application has been approved by the European Commission, the marketing authorization is applicable to all EU member states and EEA member states.

Mutual Recognition Procedure

Under this procedure, applications are first made to a single EU member state. Once authorization has been granted in accordance with the relevant national regulatory scheme by a single member of the EU, mutual recognition of this authorization can be sought from other EU member states. The mutual recognition procedure typically entails a 90 day review period during which time the other member state either recognize the decision of the other member state or issue objections and/or requests for additional information. Each member state to which an application has been made shall decide (notably on the basis of the assessment report prepared by the member state in which the drug has already been approved) to grant separate marketing authorizations for the product, once it has been assured that the product is safe, effective and that there are no risks to the public health. Should one member state not approve the assessment report, the disagreement shall be referred to a coordination group (composed of the member states) which shall use its best endeavors to reach an agreement on the action to be taken. Should the members states fail to reach an agreement, the applicant may refer to the Committee for Medicinal Products for Human Use, which shall take the final decision so as to grant or to revoke the marketing authorization for all the member states.

Orphan Medicinal Product

A drug may qualify for an orphan medicinal product, or OMP, designation by the European Commission in the European Union. OMP designation qualifies a drug for ten years of market exclusivity once the drug is approved.

OMP designation will be granted if the drug meets either of two criteria: one based on prevalence criteria where the drug must be intended for the diagnosis, prevention or treatment of a life-threatening or chronically debilitating condition affecting not more than five in ten thousand persons in the European Union when the application is made; and the other is based on a determination that it would be unlikely that the marketing of the medicinal product drug in the European Union under the conventional regime would generate sufficient return to justify the necessary investment for developing the drug. In addition, it must be shown that there is no satisfactory authorized method for diagnosis, prevention or treatment of the respective disease in the European Union. However, if a medicinal product drug is deemed orphan and if there is a satisfactory alternative already approved in a European Union member state, then the drug is eligible for an OMP designation if it is of significant benefit to patients. During the development and regulatory review phase, the orphan drug status can be lost if the designation criteria are not met anymore, for instance, because a new treatment for the disease in question is approved.

Although orphan drug exclusivity in the European Union is granted for ten years, at the end of the fifth year, any member state can initiate proceedings to restrict that period to six years if it believes that the drug no longer meets the criteria for orphan designation (for example, because the prevalence of the disease has increased or the manufacturer is earning a sufficient profit not to maintain the exclusivity). In addition, competitive drugs can be approved during the marketing exclusivity period of a orphan drug, for example, if they are not “similar” to the original drug or are safer, more effective, or otherwise clinically superior to it, or if the holder of the marketing authorization for the original orphan medicinal product is unable to supply sufficient quantities of the medicinal product.

We have received OMP designation from EMEA for *Exinalda*[™] and believe that also *Kiobrina*[™] should meet the requirements for OMP designation.

Regulation of Biopharmaceutical Manufacturing

Our manufacturing plants and processes are subject to periodic external inspection by regulators as part of their monitoring procedures to ensure that we are complying with prescribed standards of operation. Good manufacturing practices (“GMP”) are used internationally to describe a set of principles and procedures that, when followed by manufacturers of therapeutics, ensure that the products are consistently manufactured and controlled according to the intended quality standards and therefore that the products manufactured will have the required quality for human use. A basic principle of GMP is that quality cannot be tested in a batch of product but must be built into each batch of product in all stages of the manufacturing process. This means that the quality system regulations include requirements related to the methods used in, and the facilities and controls used for, designing, manufacturing, packaging, labeling, storing the drug products, including guidelines relating to the installing and servicing of the equipment used in their manufacture. These design controls achieve consistency with quality system requirements worldwide. Various codes, guides and regulations relating to current GMP have been published by different countries and trade blocks. Compliance with a specified GMP requirement is used by most countries as the basis for licensing manufacturers of pharmaceutical and biopharmaceutical products.

As described above, our facilities manufacturing pharmaceuticals and biologicals for marketing in the United States and the EU are subject to periodic inspection by the FDA or the “competent authority” (local drug agency) for each EU member state or other authorities where applicable, and must comply notably with FDA’s and EU’s GMP regulations. Manufacturers of biologicals also must comply with FDA’s and other local competent authorities’ general biological product standards. Adverse experiences with the product must be reported to the FDA or to competent authorities and could result in the imposition of market restriction through labeling changes or in product removal. Marketing approval may be withdrawn if compliance with regulatory requirements is not maintained or if problems concerning quality, safety or efficacy of the product occur following approval. Failure to comply with these requirements could result in possible legal or regulatory action, including delay or withdrawal of approvals, and the seizure or recall of a product.

MANAGEMENT

Board of Directors

Our board of directors consists of seven directors, six of whom were elected by the shareholders at the annual general meeting on March 31, 2006, and one at the extraordinary general meeting on May 3, 2006, and two employee representatives, each with a deputy, appointed by their trade union.

Our board of directors has three committees, which are described below under the heading “—Committees of Our Board of Directors.” Moreover, on May 3, 2006, our shareholders resolved upon the composition of the nomination committee to make recommendations for directorships, as further described under “—Governance Issues.”

The members of our board of directors, their age, year of initial election, position and their respective holdings of shares and warrants as of August 31, 2006, are as follows:

Name	Age	Member Since	Position	Number of Shares Held	Number of Warrants Held ⁽¹⁾
Håkan Åström	59	2001	Chairman, of the Board of Directors	—	50,000
Håkan Björklund	50	2001	Director	—	20,000
Anders Hultin	50	2006	Director	—	—
Wenche Rolfsen	53	2004	Director	—	25,000
Michael Steinmetz	59	2001	Director	—	—
Toni Weitzberg	55	2001	Director	—	—
Hans Wigzell	68	2004	Director	—	30,000
Catarina Larsson	54	2001	Director (employee representative)	—	3,000
Bo Gunnar Rosenbrand	43	2001	Director (employee representative)	—	3,000
Magnus Cernerud	36	2006	Deputy Director (employee representative)	—	3,000
Urban Freij	40	2005	Deputy Director (employee representative)	—	1,000

(1) Every warrant gives the right to buy two new shares. Please see “—Incentive Programs—Warrant Programs” for further details.

The address of the foregoing is Berzelius Väg 8, Solna, Sweden. The mailing address is Biovitrum AB, SE-112 76 Stockholm, Sweden.

Håkan Åström, Chairman. Born in 1947. M.Sc. in Business Administration and Economics. MDhc., Sahlgrenska Academy, Gothenburg University 2003. Board member of Biovitrum since 2001, Chairman since 2004. Board member of Karolinska Institutet, Biolipox AB (Chairman), Ferrosan AS (Chairman), Orexo AB (publ) (Chairman), Sanos AB (Chairman) and Topotarget AS (Chairman). Former CEO of Kabi Pharmacia and former Senior Vice President of Pharmacia Corporation. Former board member of Novaseptic Ltd., SLS Venture GP AB, SLS Venture Two GP AB and Graffinity AG.

Håkan Björklund. Born in 1956. Ph.D. Board member of Biovitrum since 2001. CEO, Nycomed A/S. Board member of Atos Medical Holding 2 AB, Aktiebolaget Jordberga Gård and Danisco A/S.

Anders Hultin. Born in 1956. Board member of Biovitrum since 2006. B.Sc. in Economics and Business Administration from Stockholm University. Mr. Hultin has been an employee of NC Advisory AB since 2001. NC Advisory AB is appointed advisor to Nordic Capital IV Limited. He is currently a board member of SATS Holding AB, Plastal Holding AB and Tradimus Holding AB and was a board member of C More Group AB until 2005.

Wenche Rolfsen. Born in 1952. Ph.D. Board member of Biovitrum since 2004. Professor Pharmaceutical Faculty, Uppsala University. Board member and Managing Director of Quintiles AB and Quintiles Services AB. Board member of Uppsala universitets utveckling AB and Quintiles-Hermelin AB (Chairman).

Michael Steinmetz. Born in 1947. Ph.D. Board member of Biovitrum since 2001. Dr. Steinmetz is a General Partner of MPM BioVentures II GP, LP and Managing Director of Clarus Ventures LLC. He serves as a board member of Acorda Therapeutics, BioXcell, CGI Pharmaceuticals, ESBATech MacroGenics, Intracel, ISB Accelerator and TaiGen. He is a former board member of IDEA, Amphora Arena, Atugen, Coelacanth, Epigenomics, GPC, and Xcyte.

Toni Weitzberg. Born in 1950. M.Sc. in Business Administration and Economics. Board member of Biovitrum since 2001, Chairman 2001-2004. Mr. Weitzberg has been an employee of NC Advisory AB since 2000. NC Advisory AB is appointed advisor to Nordic Capital IV Limited. Currently a board member of Atos Medical Holding 2 AB (Chairman), Nycomed A/S (Chairman), Synphora AB (Chairman), Unomedical A/S, Permobil Aktiebolag and Permobil Holding AB, and was a board member of Dynal A/S until 2005.

Hans Wigzell. Born in 1938. Board member of Biovitrum since 2004. MD, Ph.D. Professor of Immunology. Chairman of Biovitrum Scientific Advisory Board since 2001. Chief Scientific Advisor to the Swedish government since 1999. Member of the Royal Swedish Academy of Sciences and the Royal Swedish Academy of Engineering Sciences. President of Karolinska Institute 1995-2003. Board member of Aktiebolaget Wigzellproduktion Intercell AG RaySearch Laboratories AB (publ), Karolinska Institutet Innovations AB (Chairman) and RaySearch Medical AB.

Union representatives:

Catarina Larsson. Born in 1952. Laboratory engineer. Board member since 2001. Representative of the Federation of Salaried Employees in Industry and Services.

Bo Gunnar Rosenbrand. Born in 1963. Laboratory engineer. Deputy board member since 2001. Board member since 2006. Representative of the Federation of Salaried Employees in Industry and Services.

Deputies for the union representatives:

Magnus Cernerud. Born in 1970. M.Sc. in Chemical Engineering and Ph.D. in Organic Chemistry. R&D chemist. Deputy board member since 2006. Deputy representative of the Federation of Salaried Employees in Industry and Services.

Urban Freij. Born in 1966. QA manager. Deputy board member since 2005. Deputy representative of the Federation of Salaried Employees in Industry and Services.

The office address of the directors and deputy directors is c/o Biovitrum AB, Berzelius Väg 8, SE-112 76, Stockholm, Sweden. No director or deputy director has a family relationship with any other director, deputy director or executive officer.

None of the directors or deputy directors has during the last five years been involved in any bankruptcies, receiverships or liquidations in a capacity as members of or deputy members of the board of directors of a company or member of the management of a company. None of the directors has been convicted of fraudulent conduct during the last five years or been subject to any public incrimination or sanctions by statutory or regulatory authorities (including designated statutory bodies) and none of the directors has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or otherwise from conducting the affairs of a company during the last five years.

We are not aware of any conflicts of interest between any duty owed to us by any director or any deputy director and such director's or deputy director's personal interests and/or other duties.

None of the directors has any service contracts with us or any of our subsidiaries providing for benefits upon termination of their respective appointments.

Governance Issues

Under the Swedish Companies Act, the board of directors, which is elected by the shareholders, is ultimately responsible for the organization and the management of a company. Our articles of association provide that the board of directors must consist of between three and twelve directors. In addition to the provisions in our articles of association, Swedish law provides that the labor unions that represent our employees have the right to appoint two additional directors and two deputy directors.

Under Swedish law, senior management and at least half of the board members must be residents of a country within the EEA, unless the Swedish Companies Registration Office grants an exemption. Pursuant to Swedish law, our board members are elected at the annual general meeting of shareholders and serve for a term expiring at the next annual general meeting. The labor unions representing our employees have discretion to fix the term of the board members who are employee representatives. While such term may

not exceed four years, these members may serve for an unlimited number of consecutive terms. Board members elected by our shareholders may be removed from office at any time by a general meeting of the shareholders, and vacancies on the board may only be filled by a resolution of the shareholders. The chief executive officer of a Swedish public limited liability company may not serve as chairman of the board under Swedish law.

Pursuant to our listing agreement with the Stockholm Stock Exchange, we have undertaken to observe the Swedish Code of Corporate Governance (the “Corporate Governance Code”). The Corporate Governance Code is based on the principle of “comply or explain,” meaning that a company may deviate from the provisions set forth therein, provided that each such deviation is properly explained. The Corporate Governance Code will apply to us once we are listed on the O-list.

According to the Corporate Governance Code we shall be required, among other things, to have a nomination committee, an audit committee and a remuneration committee. The Corporate Governance Code also sets forth composition requirements for each of these committees, as well as for the board of directors.

The nomination committee is a shareholders’ committee that has responsibility for nominating directors to be appointed at the annual shareholders’ meeting. The nomination committee is required to have at least three members, the majority of which must not be members of the board of directors. In addition, the chairman of the nomination committee is not permitted to be a member of the board of directors and the managing director or other company managers are not permitted to be members of the nomination committee.

The nomination committee shall make recommendations for the chairman and other members of the board and recommendations regarding the allocation of remuneration among the chairman and other directors and regarding the allocation of remuneration in respect of committee work, if any. Such recommendations shall be presented at the annual shareholders’ meeting.

At the extraordinary general meeting of our shareholders on May 3, 2006, it was resolved that the nomination committee shall consist of four members, three of whom shall be representatives of the three largest shareholders in the Company the week before the Company presents the report for the third quarter according to the ordinary schedule together with the Chairman of the Board of Directors. The members of the nomination committee shall be announced simultaneously with the publication of the report for the third quarter.

The Corporate Governance Code provides that we are to adhere to certain independence requirements as it pertains to the composition of our board of directors. Such requirements entail, among other things, that (i) no more than one member of our senior management may also serve as a member of our board; (ii) the majority of the board members must be independent of our company; and (iii) at least two of such independent board members must also be independent of our principal shareholders (*i.e.* shareholders who directly or indirectly control ten percent or more of our shares). The chairman of the board of directors is in accordance with the Corporate Governance Code appointed by the shareholders’ meeting. Furthermore, according to the Corporate Governance Code, deputies shall not be appointed to the directors appointed by the shareholders’ meeting.

Pursuant to the Corporate Governance Code we are obliged to attach a special report, a “Corporate Governance Report,” to our annual report. Such Corporate Governance Report shall contain a statement that the Corporate Governance Code is being applied and a brief description of how such application has been conducted during the recent fiscal year. We shall also, in the Corporate Governance Report, indicate in what respects the Corporate Governance Code is not being applied and clearly explain the reasons therefore. The report shall include whether or not our auditors have reviewed it.

The members of our board of directors are not entitled to any benefits upon ceasing to serve as a member of the Board.

We intend to comply with the Corporate Governance Code following the completion of the offering.

Committees of Our Board of Directors

Our audit committee currently consists of three members, all of whom are independent of management: Håkan Åström (who acts as chairman), who is independent of our major shareholders, Anders Hultin and Håkan Björklund. The primary purpose of the committee is to oversee our accounting and financial reporting processes and the audits of the financial statements. As part of its responsibilities,

the committee reviews annually the independent auditor's proposed audit scope and approach, reviews in advance proposed changes in accounting principles and adjustments to financial statements that affect financial reporting, consults with management and our independent auditor regarding compliance with laws and regulations relating to financial matters, and reviews annually the compensation of our independent auditor. The committee has implemented pre-approval procedures for audit and non-audit services performed by the external auditors and reviews matters relating to the external auditors' independence. In addition, the committee is responsible for reviewing and approving all related party transactions.

Our remuneration committee consists of three board members that are independent of management: Toni Weitzberg (who acts as chairman), Håkan Åström and Michael Steinmetz. Mats Pettersson serves as acting secretary of the committee, but is not a member. The role of the remuneration committee is to review our remuneration programs. As part of its responsibilities, the committee reviews the compensation arrangements for our senior management and reviews proposed stock option plans, stock purchase plans, retirement plans and any other matters relating to the compensation of our employees.

Our scientific committee consists of three board members that are independent of management: Michael Steinmetz (who acts as chairman), Håkan Björklund and Hans Wigzell. Anders Ullman serves as the secretary of the committee, but is not a member. The role of the scientific committee is to advise on scientific matters. As part of its responsibilities, the committee evaluates our research strategies and reviews and reports to the board on scientific trends and emerging areas of science.

Management

The table below sets forth the senior members of our corporate management, their age, the year of appointment to their current position or hire date, as applicable, their position and holdings of shares and warrants, directly or indirectly, as of August 31, 2006.

Name	Age	Year of Appointment	Position	Number of Shares Held	Number of Warrants Held ⁽¹⁾
Mats Pettersson	60	2001	Chief Executive Officer	112,500	875,308
Göran Arvidson	46	2001	Chief Financial Officer	56,250	361,064
Anders Ullman	50	2004	Senior Vice President—Research & Development/Chief Scientific Officer	0	40,000 ⁽²⁾
Hans Örström	56	2003	Senior Vice President—Biopharmaceuticals and Product Sales	45,000	269,156
Paul de Potocki	44	2001	Senior Vice President—Commercial and Strategic Development	22,500	118,168
Anna Karin Källén	50	2005	Vice President—Communications and Investor Relations	0	30,000 ⁽³⁾
Maria Berggren	45	2005	Vice President—Human Resources	0	15,000 ⁽²⁾
Fredrik Berg	51	2001	General Counsel and Senior Vice President—Legal & Intellectual Property	22,500	150,992

(1) Please see “—Incentive Programs—Warrant Programs” for further details.

(2) These warrants have been issued pursuant to our employee option program vesting in three years, pursuant to which each warrant gives the right to buy two shares.

(3) These warrants have been issued pursuant to our old warrant program, pursuant to which each warrant gives the right to buy two shares.

Mats Pettersson has been our Chief Executive Officer since 2001. Mr. Pettersson joined KabiVitrum in France in 1976, which company was subsequently acquired by Pharmacia. He was Senior Vice President and member of Pharmacia's Management Committee until the acquisition of Biovitrum in 2001. Mr. Pettersson was responsible for most of the major transforming mergers in Pharmacia during the 1990s. During his career, he has spent more than 16 years abroad. He is a board member of Biacore International AB, SwedenBIO Service AB and Lundbeck A/S, and was a board member of Active Biotech AB Sweden

until 2003. He holds a B.Sc. in Economics and Business Administration from the Gothenburg School of Economics.

Göran Arvidson has been our Chief Financial Officer since 2001. Mr. Arvidson joined Procordia in 1988 as Group Controller and has been actively involved in all major transactions within Procordia/Pharmacia, including the acquisition of Pharmacia in 1989, the acquisition of Carlo Erba in 1993, the merger of Pharmacia and Upjohn in 1995, and the acquisition of Monsanto in 1999. Mr. Arvidson has held various financial and business development positions within Procordia and Pharmacia. He is a deputy board member of Kompetensslussen Xern Personalfunktion AB. He holds a B.Sc. in Economics and Business Administration from the Stockholm School of Economics.

Anders Ullman has been our Senior Vice President, Research & Development/Chief Scientific Officer since November 2004. Mr. Ullman is a Physician and Clinical Pharmacologist affiliated with the University of Gothenburg. Mr. Ullman worked as Medical Manager for Upjohn in Scandinavia from 1990 to 1991 and as Head of Human Pharmacology at Astra Draco in Lund from 1991 to 1992. In 1993, he was appointed Head of Clinical R&D at Astra Draco and then Head of Clinical R&D in the area of Respiratory & Inflammation therapies at Astra Draco in Lund and Astra Charnwood in Loughborough, UK. In conjunction with the AstraZeneca merger, Mr. Ullman was a Senior Manager responsible for establishing and leading the combined global clinical development until 2001. Before joining Biovitrum in late 2004, he was the Head of Bayer Pharmaceuticals' global development operations based in Germany. He currently consults for NycoMed through PharmaBridge AB and is a director at PharmaBridge Ltd, a UK company, and is a board member and Managing Director of PharmaBridge AB. In addition, he is a partner in Expatriate Support Service—ESS Handelsbolag. He holds a medical degree from Gothenburg University.

Hans Örström has been our Senior Vice President, Biopharmaceuticals and Marketing & Sales since 2003. Mr. Örström joined Kabi in 1979 and has held several leading positions within Kabi and Pharmacia. He became head of Plasma Products in 1992, a position he also held at Biovitrum until the sale of Plasma Products to Octapharma. Mr. Örström was responsible for the successful integration of Plasma Products in Octapharma. He is currently a member of the board of NNE A/S and Biotech Valley. He holds a B.Sc. in Economics and Business Administration from the Gothenburg School of Economics.

Paul de Potocki joined us as Senior Vice President, Commercial Operations, in August 2001, and acts today as Senior Vice President, Commercial and Strategic Development. Mr. de Potocki has more than 15 years of experience from a variety of international sales, marketing and business development capacities. He has served as Executive Vice President, Strategic Marketing, at FreseniusKabi and Vice President, Global Strategic Marketing and Sales, within Pharmacia & Upjohn. He holds an M.Sc. in Chemical Engineering from the Royal Institute of Technology in Stockholm.

Anna Karin Källén has been our Vice President, Communications and Investor Relations, since April 2005. Ms. Källén was formerly employed as a research associate at Bain & Co, management consultants in Boston, USA and London, UK, and subsequently was a partner and financial journalist at Swedish business weekly, Affärsvärlden. After eight years at Affärsvärlden, Ms. Källén moved on to the Swedish Ministry of Industry as a special advisor in privatization matters. She has also been a Senior Consultant, and is currently a Partner, with Financial Communications consultants Hallvarsson & Halvarsson. She has also previously held several positions as Head of Corporate Communications and/or Investor Relations for listed companies. Her most recent assignment prior to joining us was as Head of Investor Relations at Nobia AB. She is a director for Stiftelsen Affärsvärlden. She holds a B.A. from Stockholm School of Economics and a MBA from Imede, Switzerland.

Maria Berggren has been our Vice President, Human Resources, since 2005. Ms. Berggren joined us from Capgemini Sverige AB, where she was employed as People Relationship Manager for Technology Services. Ms. Berggren began her career in 1986 at Ericsson, where she held various senior human-resources positions over a period of ten years, including at Ericsson Data AB, Ericsson Business Networks AB and the Enterprise Networks division. Before being employed by Capgemini Sverige AB in 2001, she had her own business and worked as a consultant in human resources and management development.

Fredrik Berg has been our senior vice president, legal and intellectual property and general counsel since 2001. After having started his legal career at the law firm Tisell & Co., Mr. Berg joined KabiVitrum in 1988. He has since held various positions as company lawyer and head of legal services at Procordia, Kabi Pharmacia and Pharmacia&Upjohn. In 1996, he joined the law firm Lindahl, but was recruited back to Pharmacia&Upjohn in 1997. Prior to joining us, Mr. Berg was Head of Legal/Intellectual Property at

Pharmacia and General Counsel for Pharmacia Europe, Middle East, and Africa. Mr. Berg is a member of the board of iNovacia AB. He holds a Master of Laws degree from the University of Stockholm.

The office address of the members of the senior management is c/o Biovitrum AB, Berzelius Väg 8, SE-112 76, Stockholm, Sweden.

No member of management has a family relationship with any other executive officer, director or deputy director.

None of the members of our senior management has during the last five years been involved in any bankruptcies, receiverships or liquidations in a capacity as members of or deputy members of the board of directors of a company or member of the management of a company. None of the members of our senior management has been convicted of fraudulent conduct during the last five years or been subject to any public incrimination or sanctions by statutory or regulatory authorities (including designated statutory bodies) and none of the members of our senior management has ever been disqualified by a court from acting as a member of administrative, management or supervisory bodies of a company or from acting in the management or otherwise from conducting the affairs of a company during the last five years.

We are not aware of any conflicts of interest between any duty owed to us by any member of our senior management and their personal interest and/or other duties.

Scientific Advisory Board

Our Scientific Advisory Board was formed in the spring of 2002. The Scientific Advisory Board provides support to management in relation to our research development of new technologies. The Board consists of five internationally renowned researchers.

The table below sets forth the members of our Scientific Advisory Board, their age, their position and holdings of shares and warrants as of August 31, 2006.

Name	Age	Position	Number of Shares Held	Number of Warrants Held ⁽¹⁾
Hans Wigzell, MD, Ph.D.	68	Chairman, Scientific Advisory Board	—	30,000
Ralf Pettersson, MD, Ph.D.	61	Member, Scientific Advisory Board	—	20,000
Stefano Del Prato, MD	54	Member, Scientific Advisory Board	—	—
Stephen O’Rahilly, MD	48	Member, Scientific Advisory Board	—	20,000
Jonathan Arch, M.A. Ph.D.	57	Member, Scientific Advisory Board	—	20,000

(1) Each warrant gives the right to buy two shares. See “Management—Incentive Programs—Warrant Programs.”

Hans Wigzell as above.

Ralf Pettersson has been Director of the Ludwig Institute for Cancer Research and Professor of Molecular Biology at the Karolinska Institute in Stockholm since 1986. He has been a member of the Nobel Prize Committee since 1990 and served as chairman of the committee between 1998 and 2000. Mr. Pettersson joined the Scientific Advisory Board in 2002.

Stefano Del Prato is professor in Endocrinology and Metabolism at the University of Pisa, where he has specialized in targeting both insulin resistance and beta-cell dysfunction in humans. Mr. Del Prato joined the Scientific Advisory Board in 2005.

Stephen O’Rahilly is Professor of Clinical Biochemistry and Medicine at the University of Cambridge, UK, and an honorary consultant physician at Addenbrooke’s Hospital in Cambridge. Mr. O’Rahilly joined the Scientific Advisory Board in 2002.

Jonathan R S Arch is Professorial Research Fellow and Deputy Director of Metabolic Research at the Clore Laboratory, University of Buckingham, UK. He has 20 years of experience in leading positions at GlaxoSmithKline. Mr. Arch joined the Scientific Advisory Board in 2003.

Compensation

Senior Management and Board Compensation

During 2005, the members of our senior management, including our Chief Executive Officer, received compensation of SEK 18.3 million, out of which salaries amounted to SEK 12.8 million and bonus

payments for the year ended December 31, 2005 amounted to SEK 5.2 million. Our Chief Executive Officer received salary in the amount of SEK 3.2 million in 2005 and received a bonus for the year ended on December 31, 2005 of SEK 1.5 million. In general, bonuses for members of senior management and other key employees are determined on the basis of our profits and cash flow of the department at which the individual is employed, in combination with individual goals. All benefits offered by us that qualify as taxable income are treated as such. During 2005, the members of our board of directors received compensation of SEK 1.25 million of which SEK 500,000 related to compensation to the Chairman and SEK 750,000 related to compensation divided equally among Håkan Björklund, Wenche Rolfsen and Hans Wigzell.

Employment Agreements

We have entered into employment agreements with the members of our senior management and all our employees, as is customary in Sweden. The agreements with members of our senior management provide for, among other things, standard employment terms, such as confidentiality undertakings, bonus participation, pension rights, health benefits and vacation, in accordance with our standard contracts of employment. These agreements also include compensation and termination provisions. Pursuant to these agreements, employment can typically be terminated by the senior manager upon six months' notice. If the employment is terminated by us, members of our senior management are typically entitled to severance payments corresponding to 12 months salary and bonus if they are below the age of 55 and 18 months if over the age of 55. Our Chief Executive Officer is entitled to 24 months salary and bonus if his employment is terminated by us. For all members of our senior management, including our Chief Executive Officer, the severance payment is, however, limited to the applicable monthly salary and bonus for the number of months remaining until the age of 65 years.

Pension Schemes

The Company pension plan for senior executives changed during 2005 from a defined-benefit plan to a defined-contribution plan. The new defined-contribution pension plan for senior executives entails that the company pay premiums corresponding to 27% of the employee's pensionable salaries into a pension arrangement set up exclusively for the employee.

The premium to Alecta for the basic benefit plan of the Supplementary Pension for Employees in Industry and Commerce, or ITP plan, is included in the agreed 27%.

The pensionable salary is capped at 50 times the income base amount. The income base amount for 2006 is SEK 44,500. In 2005, premiums made with respect to the CEO's pension amounted to SEK 1.2 million and premiums made with respect to the other senior managers' pensions amounted to SEK 7.1 million in aggregate. In connection with the transition from a defined-benefit plan to a defined-contribution plan, certain individual agreements were entered into with the members of our senior management, which stipulate a contribution exceeding 27%. In these cases, the premiums to Alecta for the ITP plan's basic benefit have been excluded.

One senior manager is still covered by the defined-benefit plan for senior executives. This plan entitles the individual to annual remuneration in accordance with the ITP plan from the age of 60 with the following supplement: 32.5% of salary constituting the pension base between 30 and 50 times the income base amount. Further, the plan includes a guarantee of 50% of the employee's current salary in pension, without cap, if the employment ends at the employee's retirement, the employment is terminated by us or if the employee voluntarily resigns prior to reaching the retirement age due to materially changed employment conditions. At such termination or resignation, the length of the employment is reduced by the number of months remaining to retirement.

For employees with a salary exceeding 10 times the income base amount, the Company provides an alternative ITP plan that consists of two options: one defined-benefit alternative, which provides for the same benefits as the ITP plan but with a possible higher yield and an extended family cover and a defined-contribution alternative, in which the employee, in addition to also receiving an extended family cover, manages the premium by investing it in a fund or in a traditional insurance. Currently, 139 employees are covered by the defined-benefit plan and 68 by the defined-contribution plan. Both options are secured via insurances in Skandia.

All other employees are covered by the regular (collectively-agreed) ITP plan.

Incentive Programs

We have established long-term incentive programs in order to attract and retain competent and motivated employees.

Share Program

In connection with our buy-out from Pharmacia, certain of our principal shareholders transferred 510,000 shares to certain former and existing key employees. The shares were acquired by our employees at fair market value at the time (SEK 33.67 per share), which was the price paid by all investors in connection with the spin-off from Pharmacia.

Warrant Programs

At an Extraordinary General Meeting held on July 12, 2006, our shareholders approved the two-for-one split of our outstanding ordinary shares, which was registered on August 14, 2006. This share split triggered anti-dilution rights in our outstanding warrants, and consequently, warrants outstanding at the time the stock-split was effected now entitle the holder thereof to purchase two ordinary shares.

In October 2001, our shareholders approved a warrant program pursuant to which we issued 4,975,000 warrants. Each warrant gives the holder, after the two-for-one share split, the right to purchase two shares at the exercise price of SEK 59 per share. To date, a total of 4,785,200 warrants have been allotted and issued to employees and directors, of which we have repurchased 133,800, while the remaining 189,800 warrants have been cancelled.

In connection with the initial public offering, 1,651,250 warrants, each of which may be exercised for two shares, have been repurchased, and certain members of management have instead subscribed to warrants in a new warrant program. In this new program, the warrants are exercisable in four equal tranches with the exercise period starting 12 months prior to August 31, 2008, November 30, 2008, February 28, 2009 and May 31, 2009, respectively. The exercise price of SEK 59 per share is the same as per the original warrant program.

The repurchase of the old warrants and the subscription of the new warrants have been made based on an assumed share price of SEK 98.75. An amount corresponding to 83% of the price we paid for the old warrants, as described above, was re-invested in the new warrant program. The remaining amount, which was not re-invested by the warrant holders, corresponds to the expected tax expenses of the warrant holders as a result of the repurchase. Since the exercise period has been extended in the new warrant program and the exercise price remains the same as in the original warrant program, the price per warrant has been increased, which in turn has resulted in the number of warrants in the new warrant program being fewer than the warrants that has been repurchased. Accordingly, the total number of new warrants has been reduced to 2,326,136, each of which is exercisable into one of our shares.

The 3,000,150 remaining warrants of the original warrant program, of which 155,000 warrants are held by certain directors and 2,845,150 warrants are held by current and former employees must, as provided by the terms of the original warrant program, be exercised no later than November 30, 2006. If all these warrants are exercised, we will receive a consideration of SEK 354,017,700. Since we do not need a capital injection, we have offered to repurchase a certain number of these warrants. The repurchase price will be the price per share in the initial public offering, less the subscription price for the warrants (SEK 59 per share) multiplied by two.

The repurchase was limited to a net cash expenditure of SEK 150 million. 2,428,600 warrants were repurchased at an underlying share price of SEK 100 per share. The remaining 416,550 warrants were used to issue 833,100 shares to the holders of the warrants. Such shares can be sold by the holder on the Stockholm Stock Exchange.

In addition to the new warrant program, we have issued 150,000 warrants to be used as part of an employee option program for certain key employees. Each employee option entitles the holder to one warrant, and each warrant entitles the holder to purchase two shares. The exercise price for these warrants is 110% of the offering price of the shares offered hereby and the warrants vest and are allocated by one-third per year under the first three years. The exercise period of the warrants period will end on May 31, 2011.

The following table sets forth the outstanding warrants as of August 31, 2006.

<u>Series</u>	<u>Number of Warrants</u>	<u>Exercise Price (SEK)</u>	<u>Exercise Period</u>
2001/2006	3,000,150 ⁽¹⁾⁽³⁾	59.00	2005-11-30—2006-11-30
2006/2008 Tranche 1	581,534 ⁽²⁾	59.00	2007-08-31—2008-08-31
2006/2008 Tranche 2	581,534 ⁽²⁾	59.00	2007-11-30—2008-11-30
2006/2008 Tranche 3	581,534 ⁽²⁾	59.00	2008-02-28—2009-02-28
2006/2008 Tranche 4	581,534 ⁽²⁾	59.00	2008-05-31—2009-05-31
2006/2011	150,000 ⁽³⁾	110.00 ⁽⁴⁾	2006-08-14—2011-05-31

(1) Excluding the 155,000 held by certain directors, these warrants are part of the repurchase offer described above.

(2) The tranche excludes 67,289 warrants that have not been allotted or issued.

(3) Each warrant gives the right to purchase two shares.

(4) Based on an exercise price of 110% of the offering price of the shares offered hereby.

Statutory Auditors

Our statutory auditor is PricewaterhouseCoopers AB with Peter Bladh as the responsible partner since the formation of our company in July 2001. Mr. Bladh is 56 years old, and is a member of FAR, the Swedish Professional Institute for Authorized Public Accountants and Approved Public Accountants. The office address of PricewaterhouseCoopers AB is Torsgatan 21, 113 97 Stockholm, Sweden.

The total compensation paid to our auditors, PricewaterhouseCoopers AB, for the year ended December 31, 2005 was approximately SEK 3.8 million of which SEK 1.0 million related to audit services and SEK 2.8 million to consultancy/other work.

Transaction Costs of the Offering

Transaction costs estimated to be approximately SEK 25 million, and principally consisting of fees and expenses of our independent accountants and international and Swedish counsel and printing fees, will be payable by us; however, underwriting commissions will be payable by the Selling Shareholders on a pro rata basis in relation to the number of shares sold. Our agreement to pay all transaction expenses reflects the view of our board of directors as to the corporate benefits we gain from a listing on the Stockholm Stock Exchange.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of shareholders holding greater than one percent of our shares as of August 31, 2006, on an actual basis and as adjusted to give effect to the sale of the shares in this offering. The information is presented on a fully diluted basis and assumes the exercise of all outstanding warrants, exercisable for 8,626,436 shares. On August 31, 2006, we had 39 shareholders. We have indicated the holdings of our shareholders upon completion of the offering, with alternative outcomes based upon whether the Managers are (i) not exercising the over-allotment option or (ii) exercising the over-allotment option in full. To the Company's knowledge, there are no agreements or arrangements in effect among any of the Shareholders to vote or otherwise act in concert.

Name of Beneficial Owner	Shares Beneficially Owned Prior to Offering ⁽¹⁾		Number of Shares sold in the Offering if no exercise of Over-Allotment Option	Shares Beneficially Owned After Offering if no exercise of Over-Allotment Option		Shares Beneficially Owned After Offering if Over-Allotment Option is Exercised	
	Number	Percent		Number	Percent	Number	Percent
Nordic Capital Fund IV ⁽²⁾	11,548,401	22.24	1,810,822	9,737,579	18.75	9,467,307	18.23
MPM BioVentures II ⁽³⁾	11,548,401	22.24	1,810,822	9,737,579	18.75	9,467,307	18.23
Alta Biopharma Partners II, L.P.	3,383,848	6.52	530,597	2,853,251	5.49	2,774,057	5.34
HBM Bioventures (Cayman) Ltd.	3,375,000	6.50	529,209	2,845,791	5.48	2,766,805	5.33
H & B Capital LP	2,227,500	4.29	349,278	1,878,222	3.62	1,826,091	3.52
Life Equity Sweden KB	2,227,500	4.29	349,278	1,878,222	3.62	1,826,091	3.52
Nextgear SPV Ltd.	2,171,812	4.18	340,546	1,831,266	3.53	1,780,438	3.43
ABN Amro Nordic Ventures N.V.	1,837,686	3.54	288,154	1,549,532	2.98	1,506,524	2.90
Banque Carnegie Luxembourg S.A. Carnegie Fund 2 Biotechnology	1,670,622	3.22	261,958	1,408,664	2.71	1,369,566	2.64
MPM Bioequities Master Fund LP	1,169,436	2.25	183,371	986,065	1.90	958,696	1.85
Teachers Insurance and Annuity Association	846,902	1.63	132,797	714,105	1.38	694,285	1.34
Lotus Bioscience Inv Holding Ltd	263,114	0.51	41,257	221,857	0.43	215,699	0.42
Stiftelsen för Främjande och Utveckling av Medicinsk Forskning vid Karolinska Institutet	334,124	0.64	52,392	281,732	0.54	273,912	0.53
Alta Embarcadero Biopharma Partners II L.L.C.	124,482	0.24	19,519	104,963	0.20	102,050	0.20
Management	2,203,438	4.24	—	2,203,438	4.24	2,203,438	4.24
Others	6,996,770	13.47	—	13,696,770	26.38	14,696,770	28.30
Total	51,929,036	100.00	6,700,000	51,929,036	100.00	51,929,036	100.00

(1) Assumes and reflects the exercise in full of warrants outstanding to purchase 8,626,436 shares.

(2) Nordic Capital Fund IV comprises the following limited partnerships and other entities: Nordic Capital IV, L.P., Nordic Capital IV Beta, C.V., Nordic Capital IV Gamma, C.V., Fyrfond KB and NC IV Limited. Pursuant to contractual arrangements and as the general partner of the limited partnerships, Nordic Capital IV Limited exercises management control over the holdings of

these entities, other than NC IV Limited. Nordic Capital IV Limited is advised by NC Advisory AB. The address of Nordic Capital IV Limited is: PO Box 87, 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands.

- (3) The MPM BioVentures II funds own 11,548,401 common shares of Biovitrum AB (publ). The common shares are held as follows: 161,677 shares by MPM Asset Management Investors 2001 LLC, 859,201 shares by MPM BioVentures II, L.P., 7,785,933 shares by MPM BioVentures II-QP, L.P., and 2,741,590 shares by MPM BioVentures GmbH & Co. Parallel-Beteiligungs KG. Dr. Michael Steinmetz is a director of Biovitrum AB. Dr. Steinmetz is a managing member of MPM Asset Management II LLC and MPM Asset Management Investors 2001 LLC. MPM Asset Management II LLC is the general partner of MPM Asset Management II, L.P., which is the general partner of MPM BioVentures II, L.P. and MPM BioVentures II-QP, L.P. and the special limited partner of MPM BioVentures GmbH & Co. Parallel-Beteiligungs KG. Dr. Steinmetz disclaims beneficial ownership of all such shares except to the extent of their respective proportionate pecuniary interests therein. The address of MPM Asset Management is: 200 Clarendon Street, 54th floor, Boston, Massachusetts 02116, United States.

RELATED PARTY TRANSACTIONS

Redemption of Shares and Bonus Issue

On April 12, 2006, we redeemed 9,028,800 shares held by Pfizer (the substantial portion of which were subject to purchase under options held by our Selling Shareholders), corresponding to 19% of our share capital at the time, for a total amount of SEK 378.9 million. The shares were cancelled upon redemption. In connection with the redemption, the shareholders holding the options to purchase the Pfizer shares agreed to waive their rights to exercise the options. In connection therewith, we issued 4,811,400 new shares, as bonus shares, which were distributed among our shareholders on a pro rata basis.

Purchase Commitments to iNovacia

iNovacia AB is a contract research organization within drug discovery and its process spans from assay development to hit-to-lead chemical expansion. Biovitrum owns 10.0%, the employees own 69.96% and Asinex Ltd. owns 20.4%. Biovitrum has agreed to buy services for SEK 25.0 million until March 31, 2007 and a further SEK 20.0 million until March 31, 2008. Biovitrum has also entered into a license agreement pursuant to which iNovacia has been granted the right to use certain Biovitrum intellectual property. iNovacia and Biovitrum has also granted each other access to certain machinery and to certain premises. Biovitrum will provide certain back-office services to iNovacia during a transitional period. Biovitrum has also offered iNovacia a SEK 20.0 million credit facility on commercial terms.

DESCRIPTION OF SHARE CAPITAL

Set forth below is a summary of certain information concerning our shares and certain provisions of our articles of association and Swedish law in effect on the date hereof. This summary contains substantially all material information regarding our shares. However, the summary does not purport to be complete and is qualified in its entirety by reference to the articles of association and applicable Swedish laws. Any change in the articles of association is subject to approval by a general meeting of the shareholders, which generally requires a two-thirds majority of the votes cast at the meeting and a two-thirds majority of shares represented at the meeting.

General

We are a public limited liability company incorporated under the laws of Sweden, with our registered office at Berzelius väg 8, SE-11276, Stockholm, Sweden. Our corporate registration number is 556038-9321. We were incorporated on October 20, 1939 and registered on November 20, 1939, but commenced operations under our current name on January 8, 2001. At such time, we were a fully owned subsidiary of Pharmacia AB. Later the same year, through a series of share transfers and a directed share offering to external investors, Pharmacia AB reduced its ownership stake in us and we ceased to be part of the Pharmacia group.

As of the date hereof, our share capital amounted to SEK 23,760,000, distributed among 43,302,600 shares. Our shares are denominated in Swedish kronor.

Our articles of association provide that our financial year is the calendar year, and that our share capital shall not be less than SEK 20,000,000 and not more than SEK 80,000,000, divided into no less than 20,000,000 and no more than 80,000,000 shares. We have one class of shares only. At the general meeting of shareholders, all shareholders may vote for the full number of shares owned and represented without any restrictions on voting rights. The shares carry an equal right to participation in our assets and profit. Our articles of association provide that our share register shall be kept by VPC, the Swedish central securities depository and clearing organization. Our articles of association further provide that the object of our business is to carry out development, manufacturing business and trade, mainly within the pharmaceutical industry, and to pursue other business related thereto.

Share Capital

The table below sets forth the changes in our share capital since our name registration on January 8, 2001 through the completion of the offering, including the new share issue that is part of the offering:

Time	Transaction	Change in No. of Shares	Change in Share Capital SEK	Total Share Capital SEK	Total No. of Shares
January 2001	Name Registration	—	—	10,000,000	10,000,000
May 2001	Bonus Issue ⁽¹⁾	1,880,000	1,880,000	11,880,000	11,880,000
July 2001	New Issue ⁽²⁾	11,880,000	11,880,000	23,760,000	23,760,000
November 2001 . .	Issue of Debentures with Detachable Warrants	—	—	—	—
April 2006	Redemption of Shares ⁽³⁾	4,514,400	(4,514,400)	19,245,600	19,245,600
April 2006	Bonus Issue ⁽⁴⁾	2,405,700	4,514,400	23,760,000	21,651,300
August 2006	Share split ⁽⁵⁾	21,651,300	—	23,760,000	43,302,600

(1) Bonus issue of shares to all at that time existing shareholders from the statutory reserve.

(2) New issue of shares to external investors, at a subscription price of SEK 67 per share, pursuant to a resolution by the extraordinary meeting of shareholders held on July 31, 2001.

(3) Redemption of 4,514,400 shares (pre-share-split) held by Pfizer Health AB, pursuant to a resolution by the annual general meeting of the shareholders held on March 31, 2006. The redemption was registered with Bolagsverket on April 12, 2006.

(4) Bonus issue of 2,405,700 shares (pre-share-split) *pro rata* to the existing shareholders following the redemption of the Pfizer shares together with an increase of the share capital of the Company with SEK 4,514,400, pursuant to a resolution by the annual general meeting of the shareholders held on March 31, 2006.

(5) Share split at a ratio of 2 shares per each 1 share approved on July 12, 2006 and effected on August 14, 2006.

At the extraordinary general meeting held on May 3, 2006, it was resolved to authorize the board of directors to (i) issue new warrants and renegotiate the terms of already issued warrants, provided such

amendments may not result in the share capital of our company exceeding the limits set out in the articles of association, and (ii) resolve to repurchase issued warrants pursuant to Chapter 19, Section 10 of the Swedish Companies Act.

At an extraordinary general meeting held on July 12, 2006, it was resolved to (i) authorize the board of directors to issue new shares, provided such issuances may neither result in the share capital being increased by more than 10% nor result in the share capital of our company exceeding the limit set out in the articles of association and (ii) effect a share split on a two-for-one basis of our outstanding shares.

Dividends

Under the Swedish Companies Act, only a general meeting of shareholders may authorize the payment of dividends. The amount of dividends paid may not exceed what is recommended by our board of directors (except in certain limited circumstances) and may only be paid from funds legally available for that purpose. Under Swedish law, no interim dividends may be paid in respect of a financial period for which audited financial statements have not yet been adopted by the annual general meeting of shareholders. The market practice in Sweden is for dividends to be paid only annually.

Under the Swedish Companies Act, payments of dividends to shareholders may not be paid if, after payment of such dividend, the company does not have full coverage for its restricted equity. The calculation of possible dividends shall be based on the last adopted balance sheet taking into consideration any changes to the restricted equity since the balance sheet date. Even if a dividend payment would be permitted under such calculation, a dividend may only be paid if such payment can be justified in relation to (i) requirements on the size of the shareholders' equity due to and based upon the company's and the group's business type, scope and risks, and (ii) the company's and the group's need to strengthen its balance sheet, the company's and the group's liquidity, and the company's and group's position in general shall also be taken into consideration.

According to the Companies Act, those shareholders and nominees whose names are recorded in the register of shareholders as of the relevant record date have a right to a dividend. The relevant record date must, according to the Companies Act, be specified in the resolution declaring the dividend, unless a mandate is given to the board of directors to determine the record date. The record date may, according to the Companies Act, not occur later than the day before the next annual general meeting of the shareholders.

Payment of dividend is in general made as an amount of cash per share, but can also be made in kind. The payment is administered by VPC. If a shareholder cannot be reached by VPC, the shareholder's claim to the dividend will remain valid, subject to the shareholder claiming the dividend within the limitation period, which is ten years from the record date of such dividend. In the event of the shareholder not claiming its dividend within the limitation period, the dividend will accrue to the Company. Shareholders are entitled to a share of any liquidation surplus in proportion to the number of shares owned by the shareholder.

Voting Rights

Our shareholders are entitled to one vote per share at general meetings of shareholders.

Under the Swedish Companies Act, resolutions are passed by a simple majority of votes cast at the meeting with the chairman of the meeting having the decisive vote (except in respect of elections), unless otherwise required by law or a company's articles of association. Under the Swedish Companies Act, however, certain resolutions require special quorums and majorities, including but not limited to, the following:

- (i) a resolution to amend the articles of association generally requires a two-thirds majority of the votes cast at the meeting and a two-thirds majority of the shares represented at the meeting;
- (ii) a resolution to amend the articles of association, which reduces any shareholder's rights to profits or assets, restricts the transferability of shares or alters the legal relationship between shares, normally requires the unanimous approval of the shareholders present at the meeting with nine-tenths of all outstanding shares represented at the meeting;
- (iii) a resolution to amend the articles of association for the purpose of limiting the number of shares for which a shareholder may vote at the general meeting or requiring the retention of a larger amount of the net profit than required by the Swedish Companies Act or amending shareholders'

rights in a liquidation or dissolution, normally requires the approval of shareholders representing a two-thirds majority of the votes cast at the meeting and a nine-tenths majority of the shares represented at the meeting;

- (iv) a resolution of the kind referred to under (ii) or (iii) above may, however, be taken with a lower supermajority requirement if the amendments referred to therein will only adversely affect specific shares or classes of shares. In such cases, the requirement under (i) above will apply together with the following separate supermajority: (a) where a class of shares is adversely affected, approval of the owners of half of all shares of such class and of the owners of nine-tenths of the shares of such class present or represented at the meeting, or (b) where the shares adversely affected do not constitute a class of shares, the unanimous approval of all such affected outstanding shares present at the meeting representing nine-tenths of all adversely affected outstanding shares;
- (v) a resolution to issue, approve or authorize the issuance, except when payment shall be made in kind, of new shares or convertible debentures or warrants with deviation from the preferential right for existing shareholders, normally requires a two-thirds majority of votes cast at the meeting and two-thirds of the shares represented at the meeting;
- (vi) a resolution to redeem any of the outstanding share capital requires a two-thirds majority of votes cast at the meeting and two-thirds of the shares represented at the meeting. If the company has more than one class of shares, said majority requirements apply within each class that is represented at the meeting and which rights are adversely affected by the resolution;
- (vii) a resolution to approve a merger requires a two-thirds majority of the votes cast at the meeting and two-thirds of the shares represented at the meeting. If the Company has more than one class of shares, said majority requirements apply within each class of shares represented at the meeting. In certain circumstances pertaining to public companies, however, such resolution requires unanimous approval of the shareholders present at the meeting, at which meeting at least nine-tenths of all outstanding shares in the company must be represented; and
- (viii) a resolution to approve the division of a company requires a majority of two-thirds of the votes cast and two-thirds of the shares represented at the meeting. In certain circumstances pertaining to public companies, however, such resolution requires unanimous approval of the shareholders present at the meeting, at which meeting at least nine-tenths of all outstanding shares in the company must be represented.

General Meeting of Shareholders

According to the Swedish Companies Act, a company may prescribe in its articles of association that several general meetings of shareholders shall be held throughout the year. However, the annual general meeting of shareholders, at which, amongst other things, the annual report is presented and approved, must be held within six months of the end of each fiscal year. We have no additional general meetings of shareholders provided for in our articles of association. Extraordinary general meetings of shareholders may be held whenever the board of directors deems is appropriate, or upon the written request, specifying the matter at hand, of either the auditors of the company or not less than 10% of all shares.

Notices of annual general meetings of shareholders shall be given not more than six, and not less than four, weeks prior to such meeting, and notices of extraordinary general meetings of shareholders shall be given not more than six and not less than two weeks prior to such meetings, unless a resolution amending the articles of association is proposed, in which case notice of the meeting must be given not later than four weeks before the meeting. A shareholder may attend and vote at the meeting either in person or by proxy. Proxies are not valid for longer terms than one year from the date of issuance. Each shareholder is entitled to cast the full number of votes represented by such holder's shares, unless otherwise prescribed in the articles of association. A voting list of those present or represented at the general meeting of shareholders shall be prepared by the company.

Notices to convene general meetings of shareholders, as well as other messages to the shareholders, shall be made through an advertisement in the Swedish Official Gazette (*Post- och Inrikes Tidningar*) and in a national daily newspaper, specified in the articles of association.

Preferential Rights to Subscribe for Shares

Under Swedish law, shareholders must approve each issue of additional shares. The general meeting of the shareholders may authorize the board of directors to decide to issue additional shares, provided that no change in the company's articles of association is required. Such authorization may include a right for the board to decide on issues deviating from existing shareholders' preferential rights. Existing shareholders have preferential rights in proportion to their shareholdings with respect to issuances, except when payment is made in kind, of shares, convertible debentures and warrants, unless the resolution for the issue itself, terms decided in relation to previous issues or the articles of association provide otherwise. A resolution approving or authorizing an issuance where the preferential right for existing shareholders is not to be applied generally requires a majority of two-thirds of the votes cast at the meeting and two-thirds of the shares represented at the meeting.

Limitations on Voting and Shareholding

There are no limitations imposed by Swedish law or by our articles of association on the rights of non-residents or foreign persons to hold or vote the shares other than limitations that apply to all shareholders.

Directors and Auditors

According to our articles of association, our board of directors shall, to the extent it is appointed by the general meeting of shareholders, consist of not less than three and not more than twelve board members.

Board members shall be elected annually at the annual general meeting of shareholders for the time until the end of the next annual general meeting of shareholders. A deputy board member shall be afforded the opportunity to serve at a board meeting instead of an ordinary board member who is unable to attend such meeting.

Pursuant to Swedish law, the unions that represent our employees have the right to appoint two directors and two deputy directors.

One auditor and one deputy auditor or one registered audit company shall be appointed at an annual general meeting of shareholders for a period ending at the end of the annual general meeting of shareholders held during the fourth financial year following such appointments. However, if an auditor is reappointed in connection with expiration of said appointment period, that reappointment may be made for a period ending at the end of the annual general meeting of shareholders held during the third financial year following such reappointment. As auditor and, where applicable, deputy auditor shall be appointed an authorized public accountant and as registered audit company shall be appointed a registered public accounting firm.

Miscellaneous

Under Swedish law, a general meeting of shareholders may not adopt any resolution that is likely to give an undue advantage to a single shareholder, a group of shareholders or a third party to the detriment of the company or any of the company's other shareholders, except with the consent of all shareholders. The board of directors or other representatives may not enter into transactions or undertake other measures that are likely to give an undue advantage to a single shareholder, a group of shareholders or any third party to the detriment of the company or any other shareholders, except with the consent of all shareholders.

Under Swedish law, if a shareholder (by itself or jointly with any subsidiary or subsidiaries) owns more than nine-tenths of the shares of a company (and such shares represent more than 90% of the voting rights of such subsidiary), such shareholder is entitled to acquire the remaining outstanding shares in the company. In addition, a holder of shares subject to such a purchase right may require the shareholder (who is required to purchase) to purchase that holder's shares. The purchase price for the shares is determined pursuant to an arbitration proceeding, unless otherwise agreed by the parties.

Under Swedish law, limited liability companies are divided into two categories, private and public companies. Only the shares of public companies may be traded on a stock exchange or other organized market places. We are a public limited liability company.

A Swedish public limited liability company whose shares are traded at a stock exchange, an authorized market place or another regulated market place is entitled to purchase its own shares under certain conditions. A purchase by a company of its own shares may take place, *inter alia*, if:

- (i) the purchase has been authorized by a general meeting of shareholders by a two-thirds majority of votes cast at the meeting and two-thirds of the shares represented at the meeting;
- (ii) the purchase is effected on a stock exchange or in some other regulated market either in the EEA or outside the EEA (in the latter case with the approval of the Swedish Financial Supervisory Authority) or pursuant to an offer to all shareholders or holders of a specific class of shares;
- (iii) the funds used in connection with such purchase could legally have been distributed as a dividend; and
- (iv) the company and its subsidiaries do not hold or, as a result of the purchase, will hold in excess of 10% of all of the company's outstanding shares.

THE SWEDISH SECURITIES MARKET

Set forth below is a summary of certain information concerning the Swedish securities market, certain provisions of Swedish law and Swedish securities market regulations in effect on the date hereof. Such summary is qualified in its entirety by reference to Swedish laws and securities market regulations.

The Stockholm Stock Exchange

The Stockholm Stock Exchange is an authorized securities exchange in Sweden and the principal market on which shares, bonds, derivatives and other securities are traded in Sweden. There are two different main lists for trading shares on the Stockholm Stock Exchange, and all transactions are executed through the Stockholm Stock Exchange's fully electronic trading system, the Stockholm Automated Exchange System, or SAXESS. The two lists are: (i) the A-list, which is for trading in shares in larger companies and accounts for approximately 90% of the trading volume on the Stockholm Stock Exchange; and (ii) the O-list, which mainly quotes the shares of companies which lack the requisite operating history to be traded on the A-list.

As part of a plan to harmonize the listing requirements and a common method of presenting all companies on the stock exchanges of Stockholm, Copenhagen and Helsinki, on October 2, 2006 the A-list and O-list of the Stockholm Stock Exchange will be replaced by the Nordic list. Companies will be presented in the Nordic list by market capitalization and by industry sector following the international Global Industry Classification Standard ("GICS"). The market capitalization presentation is divided into three categories: Large Cap, Mid Cap and Small Cap. The Large Cap segment will include companies with a market capitalization equivalent to €1 billion or more. The Mid Cap segment will include companies with a market capitalization of €150 million or more to €1 billion and the Small Cap segment includes companies with a market capitalization of less than €150 million. Market capitalization will be reviewed by the Stockholm Stock Exchange semi-annually. Within each market capitalization segment, the companies will be sorted by their industry sector according to GICS. Biopharmaceutical companies will be presented under the Health Care sector.

Although the long-term plan of the harmonization of the stock exchanges in Stockholm, Copenhagen and Helsinki includes changes in disclosure rules and listing processes, the launch of the Nordic list on October 2, 2006 will not change the trading system or trading currency of the Stockholm Stock Exchange.

The Trading System

Trading on the Stockholm Stock Exchange is conducted on behalf of customers by banks and brokers. While banks and brokers are permitted to act as principals in trading both on and off the Stockholm Stock Exchange, they generally engage in transactions as agents.

Trading in equities on the Stockholm Stock Exchange begins with an open morning call and ends with an open closing call. At 8:45 a.m. CET an open call procedure begins for all shares simultaneously, preceding the commencement of trading at 9:00 a.m. CET, when the first share is assigned its opening price and then becomes subject to continuous trading. At approximately 9:08 a.m. CET, the opening prices for all of the shares have been established and trading continues at prices based on market demand until closing call at 5:20 p.m. CET. The closing call ends at 5:30 p.m. CET, which is the official closing time of the Stockholm Stock Exchange. Buy and sell orders are registered in SAXESS in round lots, typically of 100 shares, and odd lots are matched at the last price for round lots.

The Stockholm Stock Exchange is a fully electronic marketplace. Trading on SAXESS comprises all Swedish stocks traded on the Stockholm Stock Exchange. Member firms of the Stockholm Stock Exchange are able to operate from a remote location via data communications. The brokers' representatives are able to trade securities via workstations that have been developed by the Stockholm Stock Exchange or via their own electronic data processing systems that are linked to SAXESS.

In addition to official trading on the Stockholm Stock Exchange, there is also trading off the Stockholm Stock Exchange during and after official trading hours. All trades of 20 round lots or less on the Stockholm Stock Exchange through banks or brokers must be made through SAXESS. Trades in excess of 20 round lots can be effected manually outside SAXESS and subsequently reported to SAXESS, provided the transaction price lies within the spread then recorded on SAXESS. Trades in excess of 250 round lots may, however, be effected off the Stockholm Stock Exchange without regard to this spread. Trades after Stockholm Stock Exchange trading hours must normally be effected at a transaction price that lies within the spread reported by SAXESS at the time of the closing. If there are no orders in SAXESS at that time,

the trade may be effected at a price that otherwise reflects the market situation at that time. If the market situation changes after the closing of SAXESS, trades may be effected outside the spread, as long as the transaction price reflects the prevailing market situation at the time of the trade. Trading on the Stockholm Stock Exchange tends to involve a higher percentage of retail clients while trading off the Stockholm Stock Exchange, whether directly or through intermediaries, often involves larger Swedish institutions, banks arbitraging between the Swedish market and foreign markets, and foreign buyers and sellers purchasing shares from, or selling shares to, Swedish institutions.

The Stockholm Stock Exchange is an authorized stock exchange in accordance with the Swedish Exchange and Clearing Operations Act of 1992 (*lag (1992:543) om börs-och clearingverksamhet*) (the “Swedish Exchange Act”) and is subject to regulation by the Swedish Financial Supervisory Authority (*Finansinspektionen*) (the “SFSA”). The Swedish Exchange Act provides for the regulation and supervision of the Swedish securities market and market participants, and the SFSA implements this regulation and conducts this supervision.

The objective of the regulatory system governing trading on and off the Stockholm Stock Exchange is to achieve transparency and equality of treatment. The Stockholm Stock Exchange records information as to the banks and brokers involved, the issuer, the number of shares and the price and the time of the transaction. Each bank or broker is required to maintain records indicating trades carried out as agent or as principal. All trades effected on and off the Stockholm Stock Exchange must be reported to the Stockholm Stock Exchange within five minutes, unless they are effected after 5:20 p.m., in which case they must be reported to the Stockholm Stock Exchange no later than 15 minutes prior to the opening of the next trading day. All trading information reported on the Stockholm Stock Exchange is publicly available.

The Swedish Market Abuse Penal Act of 2005 (*lag (2005:377) om straff för marknadsmissbruk vid handel med finansiella instrument*) (the “Market Abuse Act”) provides sanctions against insider trading. The SFSA and the Market Supervision Unit of the Stockholm Stock Exchange enforce compliance with the Market Abuse Act and other insider trading rules. Criminal offenses are enforced in court by the Swedish National Economic Crimes Bureau (*Ekobrottsmyndigheten*).

The Market Supervision Unit reviews trading data for indications of unusual market activity and trading behavior and continuously examines information disseminated by listed companies, such as earnings reports, acquisition and other investment plans and changes in ownership structure on a daily basis. When the Market Supervision Unit becomes aware of non-public price-sensitive information, it monitors trading in the relevant shares to ensure that the information is made public if unusual trading activity develops.

The Market Abuse Act contains provisions prohibiting market manipulation. Under this act, it is unlawful to enter into an agreement for the transfer of securities on the securities market if such agreement provides that the securities will be resold at a fixed minimum price or the transferee’s right to freely dispose over the purchased securities is limited, unless such agreement is publicly disclosed. In addition, market manipulation may under certain circumstances also constitute a violation of other provisions of the Market Abuse Act or constitute fraud under Swedish law. Furthermore, trading data is recorded as to transactions of listed securities and such data is subject to supervisory review by the SFSA. The SFSA may cause the operating license of a bank or broker to be revoked if the bank or broker has engaged in improper conduct including market manipulation.

Registration Process

Our shares will be registered in the account-based security system at VPC, which operates computerized share registration system. VPC is an authorized central securities depository and clearing organization under the Swedish Financial Instruments Accounts Act of 1998 (*lag (1998:1479) om kontoföring av finansiella instrument*) and the Swedish Exchange Act, and carries out, among other things, the duties of registrar for Swedish companies listed on the Stockholm Stock Exchange. No share certificates are issued in respect of shares administered by VPC. Title to shares is ensured exclusively through registration with VPC.

In accordance with Swedish law and practice and the regulations of VPC, only one person or entity is typically registered as the holder of shares. It is possible, however, to record joint holders. Shareholdings may be entered in the register in the name of the beneficial owner or in the name of the person designated as nominee for the beneficial owner. In the latter case, a note is made in the register to the effect that the

nominee is holding the shares in such capacity. There is also a separate register maintained by VPC for the recording of persons who have other interests in respect of shares, such as those of a pledgee.

The rights attaching to shares that are eligible for dividends, rights issues or bonus issues accrue to those persons whose names are recorded in the register of shareholders as per a particular record date, and the dividends are sent to a specified account as directed by the person registered with VPC, or to the address of that person. The relevant record date must, in most circumstances, be specified in the resolution declaring a dividend or resolving upon a capital increase or any similar matter in which shareholders have pre-emptive rights.

Where the registered holder is a nominee, the nominee receives, for the account of the beneficial owner, dividends and, on capital increases, newly issued shares as well as rights to participate in capital increases, such as subscription rights to new issues of shares or convertible debt instruments. Dividends are remitted in a single payment to the nominee who is responsible for the distribution of such dividends to the beneficial owner. A similar procedure is adopted for share issues. Specific authorization to act as a nominee must be granted by the VPC and authorized nominees are required to file a report with VPC with regard to any holding on behalf of a single beneficial owner in excess of 500 shares in any one company. A list containing such information must be open to public inspection and must reveal the names of the beneficial owner but may not reveal the name of the nominee in whose name the shares have been registered.

The summary information set out in this section may change or the rules, regulations and procedures currently in effect of VPC may be reinterpreted. We, the Selling Shareholders or the Managers do not accept any responsibility or liability for any aspect of the records relating to, or payments made on account of, book-entry interests held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to these book-entry interests.

Disclosure of Transactions and Ownership

Pursuant to rules concerning the disclosure of acquisition and transfer of shares issued by the Swedish Industry and Commerce Stock Exchange Committee (*Näringslivets Börskommitté*), any seller or purchaser of shares of a Swedish company listed on the Stockholm Stock Exchange, as well as convertible debt instruments, warrants, options and futures with such shares as underlying securities, must report to the company and to the Stockholm Stock Exchange if, as a result of such acquisition or transfer, the seller or purchaser holds voting rights or shares in the company equal to, in excess of, or less than five percent and any subsequent percentage evenly divisible by five, up to and including 90% of all votes or shares, including shares and votes that may result from exercise of warrants or conversion of convertible debt instruments. These changes in ownership should also be reported to an established news agency and to a nationally published newspaper in Sweden not later than 9.00 a.m. CET on the next trading day. In addition, according to the Swedish Financial Instruments Trading Act of 1991 (*lag (1991:980) om handel med finansiella instrument*), a natural person or legal entity which acquires or disposes of shareholdings in a Swedish company that has its shares listed on the Stockholm Stock Exchange and, as a result of such acquisition or disposition, holds voting rights equal to, in excess of or less than one of the thresholds of 10%, 20%, 33⅓%, 50% or 66⅔%, is required to notify the company in writing and at the same time the Stockholm Stock Exchange within seven calendar days of the acquisition or disposition. In addition, pursuant to the Swedish Act on Reporting Obligations for Certain Holdings of Financial Instruments of 2000 (*lag (2000:1087) om anmälningsskyldighet för vissa innehav av finansiella instrument*), certain individuals who own shares representing 10% or more of the share capital or the voting rights in a publicly traded company are required to report such ownership and any changes in such ownership to the SFSA, which keeps a public register based on the information contained in such reports.

Mandatory Bids

The Swedish Act on Public Tender Offers (*lag 2006:451) om offentliga uppköpserbjudanden på aktiemarknaden*) regulates the specific situations where a mandatory bid must be made. Pursuant to such Act and absent any applicable exemption, any Swedish or foreign legal entity or natural person who owns less than 30% of the total number of votes in a company listed on a stock exchange or an authorized market place in Sweden, must make a public offer for the acquisition of all the remaining shares issued by the target company (a mandatory bid), provided that the legal entity or physical person alone, or together with a related party, obtains 30% or more of the total number of votes in the company. The holding can be the result of a purchase, subscription, conversion, or any other form of acquisition of shares in the target

company. In this context, a related party can be a company within the same corporate group as the buyer or any other person or entity with whom an agreement has been reached regarding the coordinated exercise of voting rights to achieve a long-term joint position with respect to the company's management.

The public offer shall be made within four weeks after the acquisition that triggered the mandatory bid requirement unless the acquirer reduces his level of votes within such time to below 30%. The offer shall also be made to holders of securities, other than shares, issued by the target company, if the price of such securities could be substantially affected as a result of a de-listing of the target company's shares.

Exemptions from the mandatory bid requirement may be granted under certain circumstances.

TAXATION

The taxation discussion set forth below is intended only as a descriptive summary and does not purport to be a complete analysis or listing of all potential tax consequences relevant to the acquisition, ownership or disposition of our shares. The statements of Swedish tax laws and U.S. federal income tax laws set forth below are based on the laws and regulations as of the date of this offering memorandum, including the Convention Between the United States of America and Sweden for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the “Treaty”), which are subject to any changes in Swedish or U.S. law, and in any double taxation convention or treaty between Sweden and the United States, occurring after that date, which changes may have retroactive effect.

Swedish Taxation

This section describes the material Swedish income and net wealth tax consequences of owning the shares for investors that are not considered to be Swedish residents for Swedish tax purposes. This section applies only to investors that have acquired their shares in the offering as a portfolio investment representing less than 10% of our capital and votes. This section is not applicable if the shares pertain to a permanent establishment in Sweden, *e.g.*, a fixed place of business in Sweden. Residents of Sweden should see the Swedish prospectus for further information. Holders of our shares should consult their own tax advisors regarding the Swedish and other tax consequences of acquiring, owning and disposing of shares in their particular circumstances.

Taxation of Dividends

A Swedish dividend withholding tax at a rate of 30% is imposed on dividends paid by a Swedish company, such as us, to non-residents of Sweden. The same withholding tax applies to certain other payments made by a Swedish company, including payments as a result of redemption of shares and repurchase of shares through an offer directed to its shareholders. In the latter cases, the shareholder may claim, from the Swedish Tax Agency, repayment of the withholding tax levied on the acquisition value of the shares redeemed or repurchased. Exemption from the withholding tax or a lower tax rate may apply by virtue of a tax treaty. Under the Treaty, the withholding tax on dividends paid on portfolio investments to eligible U.S. Holders shall not exceed 15%.

Under all Swedish tax treaties, except the tax treaty with Switzerland, withholding tax at the applicable treaty rate will be withheld by the payer of the dividends. With regard to dividends paid in respect of shares in companies registered with VPC, a reduced rate of withholding tax under a tax treaty is generally applied at the source by VPC, or, if the shares are registered with a nominee, by the nominee, as long as the person entitled to the dividend is registered as a non-resident and sufficient information regarding the tax residency of the beneficial owner is available to VPC or the nominee.

In cases where Swedish withholding tax is withheld at the rate of 30% and the person that receives the dividend is entitled to a reduced rate of withholding tax under a tax treaty, a refund may be claimed from the Swedish tax authorities before the end of the fifth calendar year after the distribution of the dividend.

Taxation of Capital Gains

Generally, non-residents of Sweden are not liable for Swedish capital gains taxation with respect to the sale of shares. However, under Swedish tax law, capital gains made from the sale of shares of a Swedish company (and certain other securities) by a private individual are taxed in Sweden at a rate of 30% if the individual has been a resident of Sweden or has lived permanently in Sweden at any time during the year of sale, or the ten calendar years preceding the year of sale. This provision may, however, be limited by tax treaties which Sweden has concluded with other countries. The Nordic tax treaty currently in force reduces this period to the five years following the year when the individual became a non-resident. The Treaty gives Sweden the right to tax gains at any time during the ten years following the date on which the individual has ceased to be a resident of Sweden. Capital losses are deductible for the non-resident if corresponding capital gains would be taxable.

Net Wealth Taxation

The shares are not subject to Swedish net wealth taxation in the hands of an investor that is not considered to be a Swedish resident for Swedish tax purposes.

Prospective investors should consult their own tax advisors regarding the Swedish and other tax consequences of acquiring, owning and disposing of our shares in their particular circumstances.

U.S. Taxation

To comply with Internal Revenue Service Circular 230, you are hereby notified that (a) any discussion of U.S. federal income tax issues contained or referred to in this offering memorandum is not intended or written to be used, and cannot be used, by you for the purpose of avoiding penalties that may be imposed on you under the Internal Revenue Code; (b) any such discussion is written in connection with the promotion or marketing of the transactions or matters addressed herein; and (c) you should seek advice based on your particular circumstances from an independent tax advisor.

The following discussion is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of our shares by you, if you are a U.S. Holder, as defined below. You are a “U.S. Holder” only if you are a beneficial owner of our shares (a) who owns, directly or indirectly, less than 10% of our voting shares, (b) who is for U.S. federal income tax purposes (i) an individual citizen or resident of the United States, (ii) a U.S. domestic corporation (or other entity taxable as a domestic corporation), (iii) an estate whose income is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust, (c) who holds our shares as capital assets, (d) whose functional currency is the U.S. dollar, (e) who is a resident of the United States and not also a resident of Sweden for purposes of the Treaty, and (f) who is not an employee of Biovitrum subscribing for shares. Certain holders (including, but not limited to, U.S. expatriates, tax-exempt organizations, persons subject to the alternative minimum tax, securities broker-dealers and certain other financial institutions, banks, insurance companies, or persons holding our shares in a hedging transaction or as part of a straddle or conversion transaction) may be subject to special rules not discussed below. If you are a partner in a partnership (or other entity taxable as a partnership) that holds our shares, your tax treatment will depend on your status and the activities of the partnership. Because this is a general summary, investors are advised to consult their own tax advisors with respect to the U.S. federal, state, local and applicable foreign tax consequences of the ownership and disposition of our shares.

Dividends

For U.S. federal income tax purposes, subject to the passive foreign investment company rules discussed below, the gross amount of distributions made by us with respect to our shares (including the amount of any Swedish taxes withheld therefrom) will generally be includable in your gross income in the year received as foreign source dividend income to the extent that such distributions are paid out of our current or accumulated earnings and profits as determined under U.S. federal income tax principles. To the extent, if any, that the amount of any such distribution exceeds our current or accumulated earnings and profits, it will be treated first as a tax-free return of your tax basis in our shares (thereby increasing the amount of any gain or decreasing the amount of any loss realized on the subsequent sale or disposition of such shares) and thereafter as capital gain. We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will generally be reported as a dividend for U.S. federal income tax purposes even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above. No dividends received deduction will be allowed to corporate taxpayers for U.S. federal income tax purposes with respect to dividends paid by us. With respect to certain non-corporate taxpayers for taxable years beginning before January 1, 2011, such dividends may be treated as “qualified dividend income” and taxed at the lower applicable capital gains rate provided that (1) we are eligible for the benefits of the Treaty (which we believe to be the case), (2) we are not a passive foreign investment company (as discussed below) for either our taxable year in which the dividend was paid or the preceding taxable year, and (3) certain holding period requirements are met. You should consult your own tax advisors regarding the availability of the lower rate for dividends paid with respect to our shares.

The amount of any distribution paid in Swedish kronor will be equal to the U.S. dollar value of such Swedish kronor on the date such distribution is received (actually or constructively) by you, regardless of whether the payment is in fact converted into U.S. dollars at that time. Gain or loss, if any, realized on a subsequent sale or other disposition of such Swedish kronor will generally be U.S. source ordinary income or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

Subject to certain limitations, Swedish taxes withheld from a distribution at a rate not in excess of that provided in the Treaty will be eligible for credit against your U.S. federal income tax liability. If a refund of the tax withheld is available to you under the laws of Sweden or under the Treaty, the amount of tax withheld that is refundable will not be eligible for such credit against your U.S. federal income tax liability (and will not be eligible for the deduction against your U.S. federal taxable income). Please see the section entitled “*Taxation—Swedish Taxation—Taxation of Dividends*” for a discussion of how U.S. Holders can claim a reduced rate of Swedish withholding tax under the Treaty. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to our shares will generally constitute “passive income” or, in the case of certain U.S. Holders, “financial services income” for the current taxable year. For taxable years beginning after December 31, 2006, dividends distributed by us with respect to our shares would generally constitute “passive income” but could, in the case of certain U.S. Holders, constitute “general income.” The rules relating to the determination of U.S. foreign tax credit are complex and holders should consult their tax advisors to determine whether and to what extent a credits would be available. If you do not elect to claim a foreign tax credit with respect to any foreign taxes for a given taxable year, you may instead claim an itemized deduction for all foreign taxes paid in that taxable year.

Sale or Other Disposition of Our Shares

Subject to the passive foreign investment company rules discussed below, upon a sale or other disposition of our shares, you will recognize a capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized and your tax basis in such shares. If the consideration you receive for such shares is not paid in U.S. dollars, the amount realized will be the U.S. dollar value of the payment received. In general, the U.S. dollar value of such a payment will be determined on the date of receipt (including constructive receipt) of payment if you are a cash basis taxpayer and on the date of disposition if you are an accrual basis taxpayer. However, if such shares are treated as traded on an established securities market and you are either a cash basis taxpayer or an accrual basis taxpayer who has made a special election (which must be applied consistently from year to year and cannot be changed without the consent of the Internal Revenue Service (the “IRS”)), you will determine the U.S. dollar value of the amount realized in a foreign currency by translating the amount received at the spot rate of exchange on the settlement date of the sale. Your tax basis in your shares will generally equal the cost of such shares. If you use foreign currency to purchase such shares, the cost of the shares will be the U.S. dollar value of the foreign currency purchase price on the date of purchase. However, if such shares are treated as traded on an established securities market and you are either a cash basis taxpayer or an accrual basis taxpayer who has made a special election (which must be applied consistently from year to year and cannot be changed without the consent of the IRS), you will determine the U.S. dollar value of the cost of such shares by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. Any such gain or loss will generally be U.S. source gain or loss and will be treated as long-term capital gain or loss if your holding period in the shares exceeds one year. If you are an individual, any capital gain generally will be subject to U.S. federal income tax at preferential rates if specified minimum holding periods are met. The deductibility of capital losses is subject to significant limitations.

Passive Foreign Investment Company Status

A non-U.S. corporation is considered a passive foreign investment company (a “PFIC”) for U.S. federal income tax purposes for any taxable year if either:

- (i) at least 75% of its gross income is passive income, or
- (ii) at least 50% of the value of its assets (determined on the basis of a quarterly average) is attributable to assets that produce or are held for the production of passive income.

Passive income, for this purpose, generally includes interest, dividends, rents and royalties (other than certain rents and royalties derived in the active conduct of a trade or business) and gain from the sale of assets producing passive income. Passive assets generally are assets, including cash, that produce passive income. We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock.

Based in part on our estimates of the value of our assets, as determined by estimates of the expected price of our shares in this offering, we do not expect to be a PFIC for our current taxable year ending

December 31, 2006. However, our PFIC status for our current taxable year ending December 31, 2006 will not be determinable until the close of such taxable year. Due to, among other things, the significant amount of liquid funds and short-term investments we will have throughout the year and the fact that the value of our assets will be based in part on the price of our shares following the offering (which may be especially volatile as we are a biopharmaceutical company), it is possible that we will be a PFIC for our current taxable year, or we may be a PFIC in any future taxable year. **You are strongly urged to consult your own tax advisors regarding the potential application of the PFIC rules to your ownership of our shares.**

If we are a PFIC for any taxable year during which you hold shares, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of our shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive on our shares in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for such shares will be treated as an excess distribution. Under these special tax rules:

- (i) the excess distribution or gain will be allocated ratably over your holding period for such shares,
- (ii) the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income, and
- (iii) the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and an interest charge will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of our shares cannot be treated as capital, even if you hold our shares as capital assets. Furthermore, dividends paid by a company that was classified as a PFIC in the year of the dividend or the preceding year will not be considered “qualified dividend income,” which is taxed at the lower applicable capital gains rate when received by non-corporate U.S. Holders meeting certain requirements as described above. If we are a PFIC for any year during which you hold shares, we generally will continue to be treated as a PFIC with respect to you for all succeeding years during which you own shares.

If you own stock of a PFIC, you may avoid taxation under the rules described above by making a “qualified electing fund” election to include your share of the company’s ordinary income and net capital gains on a current basis, or a “deemed sale” election once the company no longer qualifies as a PFIC. However, you may make a qualified electing fund election only if the PFIC agrees to furnish you annually with certain tax information, and we do not intend to prepare or provide such information.

Alternatively, a holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election for such stock of a PFIC to elect out of the tax treatment discussed above. If you make a mark-to-market election for our shares, you will include in income each year an amount equal to the excess, if any, of the fair market value of such shares as of the close of your taxable year over your adjusted basis in such shares. You are allowed a deduction for the excess, if any, of the adjusted basis of such shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on such shares that have been included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of such shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on such shares, as well as to any loss realized on the actual sale or disposition of such shares, but only to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for the shares. Your basis in such shares will be adjusted to reflect any such income or loss amounts. The tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us (except that the lower applicable capital gains rates for “qualified dividend income” would not apply).

The mark-to-market election is available only for “marketable stock,” which is stock that is traded in other than *de minimis* quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable U.S. Treasury regulations. We expect that our shares will be listed on the Stockholm Stock Exchange. Under applicable U.S. Treasury regulations, a “qualified exchange” includes a foreign exchange that is regulated by a governmental authority in the jurisdiction in which the exchange is located and in respect of which certain other requirements are met. U.S. Holders of our shares should consult their own tax advisors as to whether our shares would qualify for the mark-to-market election.

If you hold our shares in any year in which we are a PFIC, you will be required to file IRS Form 8621 regarding distributions received on such shares and any gain realized on the disposition of such shares.

You should consult your own tax advisors regarding the potential application of the PFIC rules to your ownership of our shares.

U.S. Information Reporting and Backup Withholding

Dividend payments with respect to our shares and proceeds from the sale, exchange or redemption of our shares may be subject to information reporting to the IRS and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. persons who are required to establish their exempt status generally must provide such certification on IRS Form W-9 (“Request for Taxpayer Identification Number and Certification”). Holders of our shares should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder’s U.S. federal income tax liability, and a holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

PLAN OF DISTRIBUTION

The Offering

Under the terms and subject to the conditions set forth in the purchase agreement among the Company, Cambridge Biotechnology Limited, the Selling Shareholders and the Managers named below, dated September 14, 2006, for which the Carnegie is acting as representative, the Managers have severally agreed to procure purchasers for or, failing which, to purchase themselves, and each of the Company and the Selling Shareholders has agreed to sell to the purchasers procured by the Managers or, failing which, to the Managers, the number of shares indicated below:

<u>Manager</u>	<u>Number of shares</u>
Carnegie Investment Bank AB	7,465,700
ABG Sundal Collier	234,300
Total	7,700,000

The purchase agreement provides that the obligations of the several Managers to procure purchasers or, failing which, to purchase themselves the shares offered by this offering memorandum are subject to the approval of certain legal matters by their counsel and to certain other conditions. The Managers are obligated to procure purchases for or, failing which, to purchase themselves all of the shares offered by this offering memorandum if any such shares are taken. However, the Managers are not required to procure purchasers for or, failing which, to purchase themselves the shares covered by the Managers' over-allotment option described below. The Selling Shareholders have agreed to pay the Managers a fixed commission, and may pay an additional discretionary fee, for each share purchased in the offering by purchasers procured by the Managers or, failing which, by the Managers themselves.

The Company and the Selling Shareholders have been advised by the Managers that the Managers propose to offer the shares initially at the price set forth on the cover page of this offering memorandum (1) in a public offering in Sweden, (2) in the United States only to qualified institutional buyers pursuant to Rule 144A under the Securities Act and (3) otherwise in compliance with Regulation S under the Securities Act. The shares have not been registered under the Securities Act and may not be offered or sold within the United States except as described in the immediately preceding sentence.

Any offer and sale in the United States will be made by affiliates of the Managers who are broker-dealers registered under the U.S. Exchange Act.

Prior to this offering, there has been no public market for the shares. The initial public offering price of the shares will be determined by negotiations among the Company, the Selling Shareholders and Carnegie. The factors that will be considered in such determination include:

- the orders, in terms of price and quantity, received from institutional and retail investors;
- prevailing market conditions;
- the Company's historical performance;
- estimates of the Company's business potential and earning prospects; and
- the market valuation of publicly traded common stock of comparable companies.

The estimated initial offering price range set forth on the cover page of this offering memorandum is subject to change as a result of market conditions and other factors. There can be no assurance that an active trading market will develop for the shares or that the shares will trade in the public market after the offering at or above the offering price.

The offering may be terminated at any time upon the occurrence of certain events prior to the time at which the shares will be ready for delivery if the occurrence of such events, in the judgment of Carnegie, after consultation with the Company and the Selling Shareholders, is so material and adverse as to make it impracticable to market the securities in the manner described in this offering memorandum.

Purchasers of shares may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set forth on the cover page of this offering memorandum.

Indemnification

The Company has agreed to reimburse the Managers in respect of certain expenses and each of the Company and Cambridge Biotechnology has agreed to indemnify the Managers against certain losses and liabilities arising out of or in connection with the offering, including liabilities under applicable securities laws.

Over-allotment Option

The Selling Shareholders have granted the Managers an option, exercisable at the direction of the Carnegie within 30 days from the commencement of trading in the shares on the Stockholm Stock Exchange, to purchase up to an additional 1,000,000 shares. Such option is exercisable solely to cover over-allotments created in the offering. If the over-allotment option is exercised in full, each manager will become obligated, subject to certain conditions, to purchase the percentage of shares covered by the option that is approximately equal to the percentage of the total number of shares offered in the offering to be purchased initially by such manager, as shown in the table above under “—*The Offering*,” at the offering price less the underwriting discount.

Lock-up Arrangements

We have agreed with the Managers, subject to certain exceptions, that we will not submit to our shareholders any proposal for a capital increase, except a proposal made by a shareholder which we are required by law to submit, that would enable us to issue, offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any of our shares, or any security convertible into or exercisable for our shares, for a period of 180 days following the offering, without the prior written consent of Carnegie. The Selling Shareholders and the group of 15 directors and officers who hold our shares and/or our warrants, controlling an aggregate of approximately 88% of our fully diluted shares, have agreed, subject to certain exemptions, not to offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any of our shares, or any security convertible into or exercisable for our shares, including our warrants, for a period of six months in relation to the Selling Shareholders, and one year, in relation to the group of 15 directors and officers, in each case after the offering, without the prior written consent of the Carnegie, such consent not to be unreasonably withheld. The lock-up agreements to which our four directors are party contain an exception that permits each such director to sell a number of warrants prior to November 30, 2006 such that the aggregate amount received for such warrants does not exceed the aggregate cost of exercising the warrants remaining after such sale.

The Selling Shareholders have entered into an agreement among themselves pursuant to which they have agreed that any sales of shares by any Selling Shareholder that occurs during the period beginning on the date of expiration of the lock-up period described above and the earlier of March 31, 2008 or the date on which the Selling Shareholders collectively hold less than 25% of the aggregate number of shares outstanding shall be conducted in a coordinated and orderly manner.

Price Stabilization and Short Positions

In order to facilitate the offering, Carnegie Investment Bank AB, as the stabilizing manager, or its agents, on behalf of the Managers may engage in transactions that stabilize, maintain or otherwise affect the price of the shares for up to 30 days from the commencement of trading of the shares on the Stockholm Stock Exchange. Specifically, the Managers, the Selling Shareholders and the Company have agreed that the Managers may accept offers to purchase a greater number of shares than for which they are obligated to procure purchasers under the purchase agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares available for purchase by the Managers under the over-allotment option. The Managers can close out a covered short sale by exercising the over-allotment option or purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the Managers will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The Managers may also sell shares in excess of the over-allotment option, creating a naked short position. The Managers must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the stabilizing manager is concerned that there may downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering. Any naked short position will not exceed an amount equal to five percent of the original number of shares offered. As an additional means of facilitating the offering, the stabilizing manager or its agents may effect

transactions to stabilize the price of the shares. These activities may raise or maintain the market price of the shares above independent market levels or prevent or retard a decline in the market price of the shares. Such transactions may be effected on the Stockholm Stock Exchange, in the over-counter markets or otherwise. The stabilizing manager and its agents are not required to engage in any of these activities and, as such, there is no assurance that these activities will be undertaken; if undertaken, the stabilizing manager or its agents may end any of these activities at any time and they must be brought to an end at the end of the 30-day period mentioned above. Save as required by law or regulation, the stabilizing manager does not intend to disclose the extent of any stabilization transactions under the offering.

Other Relationships

Carnegie and its affiliates engage in transactions with, and perform services for, the Company and the Selling Shareholders in the ordinary course of business and have engaged, and may in the future engage, in commercial banking and investment banking transactions with the Company and the Selling Shareholders, for which they have received, and may in the future receive, compensation.

The Public Offering

The application period for the public offering in Sweden will commence on September 4, 2006 and end at 5:00 p.m. CET on September 14, 2006. The Swedish prospectus sets forth the maximum offering price per ordinary share in the public offering of SEK 105. Pursuant to Swedish regulations, the offering price to retail investors in Sweden is not permitted to exceed the maximum offering price.

Selling Restrictions

General

No public offer is being made and no one has taken any action that would, or is intended to, permit a public offering of the shares to be made in any country or jurisdiction, other than Sweden, where any such action for that purpose is required.

Accordingly, the shares may not be offered or sold, directly or indirectly, and neither this offering memorandum nor any other offering material or advertisement in connection with the shares may be distributed or published in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction. It is the responsibility of any person who receives a copy of this document to satisfy himself or herself as to full observance of the laws of any relevant territory in respect of any actions he or she may take, including the obtaining of any requisite governmental or other consent or the observance of any requisite formalities and the payment of any issue, transfer or other taxes due in such territory.

The shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), an offer to the public of any shares may not be made in that Relevant Member State (other than the public offering in Sweden contemplated by this offering memorandum once the offering memorandum has been approved by the Swedish Financial Supervisory Authority and published in accordance with the Prospectus Directive as implemented in Sweden), except that an offer to the public in that Relevant Member State of any shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

- by the Managers to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Carnegie for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of shares shall result in a requirement for the publication by the Company or any manager of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the paragraph above, “offer to the public” means in relation to any shares in any Relevant Member State the communication in any form and by any means of sufficient information on the terms of the offer and any shares to be offered so as to enable an investor to decide to purchase any shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each manager, severally and not jointly, has represented and warranted that it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of the shares in circumstances in which Section 21(1) of such Act does not apply to the Company and it has complied and will comply with all applicable provisions of such Act with respect to anything done by it in relation to any shares in, from or otherwise involving the United Kingdom.

Canada

Each manager, severally and not jointly, has represented and warranted that it (i) has not offered or sold, and has agreed not to offer or sell, any shares, directly or indirectly, in Canada in contravention of the securities laws of Canada or any province or territory thereof and represents that any offer of shares in Canada will be made only pursuant to an exemption from the requirements to file a prospectus in the province or territory of Canada in which such offer is made and (ii) agrees to send to any dealer who purchases from it any shares a notice stating in substance that, by purchasing such shares, such dealer represents and agrees that it has not offered or sold, and will not offer or sell, directly or indirectly, any of such shares in Canada or to, or for the benefit of, any resident of Canada in contravention of the securities laws of Canada or any province or territory thereof and that any offer of shares in Canada will be made only pursuant to an exemption from the requirement to file a prospectus in the province of Canada in which such offer is made, and that such dealer will deliver to any other dealer to whom it sells any of such shares a notice to the forgoing effect.

Japan

Each manager, severally and not jointly, has represented and warranted that the shares have not been and will not be registered under the Securities and Exchange Law of Japan (Law No. 25 of 1948), as amended (the “Securities and Exchange Law”), and that it has not offered or sold, and agrees not to offer or sell any shares, directly or indirectly, in Japan, to a resident of Japan or for the account of any resident thereof, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan. Accordingly, each manager, severally and not jointly, has represented and warranted that the shares have been, and will be, offered and sold only to 49 or fewer purchasers in Japan pursuant to the Securities and Exchange Law.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the shares.

Each purchaser of the shares offered hereby will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A (“Rule 144A”) or Regulation S (“Regulation S”) under the Securities Act are used herein as defined therein):

- (1) The purchaser (A) (i) is a qualified institutional buyer, (ii) is aware that the sale of the shares to it is being made in reliance on Rule 144A, (iii) is acquiring such shares for its own account or for the account of a qualified institutional buyer, as the case may be and (iv) is aware that the shares are “restricted securities” within the meaning of the Securities Act and may not be deposited into any unrestricted depository facility, unless at the time of such deposit such shares are no longer restricted securities under the Securities Act, or (B) is purchasing the shares in an offshore transaction pursuant to Regulation S.
- (2) The purchaser understands that the shares are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the shares have not been and will not be registered under the Securities Act and agrees that (A) if in the future it decides to offer, resell, pledge or otherwise transfer any of the shares, such shares may be offered, resold, pledged or otherwise transferred only (i) in the United States to a person whom the purchaser reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in a transaction complying with provisions of Rule 903 or Rule 904 under the Securities Act, (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), (iv) pursuant to any other exemption from the registration requirements of the Securities Act or (v) pursuant to an effective registration statement under the Securities Act, in each of cases (i) through (v) in accordance with any applicable securities laws of any state of the United States, and that (B) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of the shares from it of the resale restrictions referred to in (A) above. **No representation can be made as to the availability of the exemption provided by Rule 144 for resales of the shares.**
- (3) Any offer, sale, pledge or other transfer made other than in compliance with the above stated restrictions shall not be recognized by us in respect of the ordinary shares.
- (4) The purchaser, if acquiring the shares for the account of one or more other investors, represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.
- (5) The purchaser acknowledges that we, the Managers, their affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements.

Furthermore, each purchaser in a Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”) other than, in the case of paragraph (a) below, persons receiving offers contemplated in this offering memorandum in Sweden, who receives any communication in respect of, or who acquires any shares under, the offering contemplated in this offering memorandum will be deemed to have represented and agreed that:

- (a) The purchaser is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
- (b) In the case of any shares acquired by the purchaser as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the shares acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Carnegie and has been given to the offer or resale; or (ii) where shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those shares to it is not treated under the Prospectus Directive as having been made to such persons.

VALIDITY OF THE SECURITIES

The validity of the shares will be passed upon by White & Case Advokat AB, Stockholm, Sweden, as special Swedish counsel to Biovitrum and the Selling Shareholders. Certain matters as to U.S. law will be passed upon by Latham & Watkins, London, England, as special U.S. counsel to Biovitrum and the Selling Shareholders, and by Davis Polk & Wardwell, London, England, as special U.S. counsel to the Managers.

INDEPENDENT AUDITORS

The consolidated financial statements of Biovitrum AB as of and for the years ended December 31, 2003, 2004 and 2005 and the parent company financial statements of Biovitrum AB as of and for the year ended December 31, 2005, included in this offering memorandum have been audited by PricewaterhouseCoopers AB, independent auditors, as stated in their reports appearing herein.

DOCUMENTS ON DISPLAY

Copies of the following documents may be inspected at our registered office, address Berzelius väg 8, SE-112 76 Stockholm, Sweden, on weekdays during normal business hours:

- (a) articles of association of Biovitrum AB;
- (b) unaudited consolidated interim financial statements under IFRS for the six months ended June 30, 2006 of Biovitrum AB;
- (c) audited consolidated financial statements under IFRS for the year ended December 31, 2005 of Biovitrum AB;
- (d) audited consolidated financial statements under IFRS for the year ended December 31, 2004 of Biovitrum AB;
- (e) audited consolidated financial statements under Swedish GAAP for the year ended December 31, 2004 of Biovitrum AB;
- (f) audited consolidated financial statements under Swedish GAAP for the year ended December 31, 2003 of Biovitrum AB;
- (g) this Offering Memorandum; and
- (h) the SFSA decision in respect of the Swedish prospectus.

GLOSSARY

11 β -HSD	11beta-hydroxysteroid dehydrogenases (11 β -HSDs) are enzymes that play an important role in the interconversion of glucocorticoids between the active and inactive forms. Two enzymes have been identified, 11 β -HSD1, and 11 β -HSD2. These 11 β -HSDs play a major role in the modulation of local cortisol levels and the access of active steroid to its receptors in the target tissues. Thereby, the 11 β -HSDs are also believed to have important roles in a number of common diseases, including obesity, type 2 diabetes and hypertension.
BMI	Body mass index. The measure of a person's weight in relation to his or her height; a way to determine whether a person is overweight.
Cortisol	A signal molecule produced by the body during stress that affects glucose conversion.
CRO	Contract research organization. A company that specializes in conducting clinical trials on behalf of other pharmaceutical companies.
Double-blind placebo-controlled study	In a double-blind controlled study neither the patients nor the clinicians involved in the study know if the patient belongs to the drug group or the placebo group. The clinician administers the trial and returns the results to the drug's innovator who then decodes which patients received the placebo and which received the drug. The majority of the placebo-controlled clinical trials are now conducted as double blind. This procedure enables the separation of placebo effects, caused for instance by patient expectations and subsequent changes in lifestyle and behavior, from the true pharmacological effects of a drug candidate.
Dyslipidemia	Abnormal lipid profile, typically with increased triglyceride and LDL cholesterol levels in the blood.
Glucose	A simple sugar produced by the body when it breaks down food. Patients with diabetes are unable to properly regulate glucose and therefore often have elevated levels in their blood.
Insulin resistance	Decreased ability to regulate glucose levels as a response to insulin exposure. A common indicator of developing type II diabetes.
Idiopathic thrombocytopenia purpura (ITP)	Skin and mucous bleeding in connection with a decreased number of platelets in the blood. Appear without connection to other diseases.
In vitro	A biological experiment conducted in test tubes, petri dishes or by similar means.
In vivo	An experiment or test on a compound in a test animal.
Mammalian cell	Cell from a mammal, e.g. man.
Metabolic aberrations	Abnormal changes to metabolic function.
Metabolism	The breakdown of food and its conversion into energy.
Netherton's syndrome	Also know as Còmel-Netherton syndrome, is a rare disorder affecting the skin, the hair and the immune system. Newly born with Netherton's syndrome have very red, thin, watery, and peeling skin. The condition is also associated with severe problems in absorbing nutrients and children with this syndrome do not

	grow and gain weight at a normal rate and as adults are usually shorter than average.
Obese	A body mass index (BMI) of 30 or higher.
Orphan drug	Any drug developed under the Orphan Drug Act of 1983, a U.S. federal law concerning rare diseases (“orphan diseases”), defined as diseases affecting fewer than 200,000 people in the United States or as having a prevalence of less than 5 persons in every 10,000 people in the population.
Osteoarthritis	Common type of arthritis, characterized by the breakdown of the joint’s cartilage.
Overweight	A body mass index (BMI) of 25 or higher.
Pathway	Many processes in the cell can be described as a chain of events or pathways, each involving many different proteins. Examples are found in enzymatic synthesis and signal transduction.
Perfusion	A method in which organs or cells are exposed to chemicals that are used in the production of proteins.
Phase I clinical trial	A trial to establish safety in a drug candidate, and are usually performed in healthy volunteers.
Phase IIa clinical trial	A trial to establish if a drug candidate has the desired initial efficacy in patients suffering from a specific disease or condition. If such efficacy can be demonstrated, Proof of Concept generally has been achieved for the drug candidate.
Phase IIb clinical trial	A trial typically performed on a larger patient population and during a longer time period compared to Phase IIa. The main objective is to establish a correct dosing of the drug candidate in order to achieve desired efficacy without undesired side effects.
Phase III clinical trial	A trial to establish the long-term efficacy and safety of the drug candidate in its final dose and formulation. These studies may involve thousands of patients who are treated during one to two years. Upon completion of the Phase III studies the drug candidate is filed with appropriate authorities for review and approval for commercial launch.
Polyclonal antibody	A class of proteins that produces several cell groups in the immune system that has the ability to recognize other specific unknown proteins and bind them.
Prion	Type of protein.
Protein drug	Drug in the form of a protein, e.g. antibodies. Unlike small molecule drugs, protein drugs are normally taken as an injection rather than pills.
Recombinant	Genetically modified in an artificial manner.
Signaling	Substance in the body that transports information between cells or organs. The brain contains many types of signaling substances that send signals between nerve cells.
Sleep apnea	Sleeping disorder, where breathing is temporarily interrupted during sleep.
Small molecules	Compounds consisting of up to a hundred atoms that can be synthesized chemically, e.g. drugs in pill form.
Toxicology	The science of poisons and their effect on an organism.
Vaccine adjuvant	Vaccine with additions of proteins that strengthen the effect of the vaccine.

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To the Board of Directors of Biovitrum AB

Audit report regarding historical financial statements

We have examined the financial statements for Biovitrum AB presented on pages F-3–F-41, which comprise the balance sheets as per 31 December 2005 and 31 December 2004, and the income statements and cash flow statements for the financial years ending on these dates, as well as a summary of significant accounting principles and other disclosures.

The Board of Directors' and the Managing Director's responsibility for the financial statements

The preparation and presentation of the financial statements in an accurate manner in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU and according to the requirements of the Prospectus Directive implemented by Commission Regulation 809/2004/EC are the responsibility of the Board of Directors and Managing Director. This obligation includes the design, implementation and maintenance of internal controls relevant for the preparation and appropriate presentation of financial statements which are free of material misstatement, whether the misstatements are due to impropriety or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements on the basis of our audit. We have conducted our audit in accordance with proposed recommendation RevR 5, *Examination of prospectus*, issued by FAR, the institute for the accounting profession in Sweden. This recommendation requires that we plan and perform our audit in order to obtain a high, but not absolute, degree of assurance that the financial statements are free of material misstatement.

Work performed

An audit in accordance with FAR's proposed recommendation RevR 5 entails that we execute audit procedures to obtain audit evidence supporting the amounts and disclosures contained in the financial statements. The audit procedures selected are based on our assessment of the risk for material misstatement in the financial statements, whether due to impropriety or error. In assessing such risks, we consider the internal controls that are relevant to the company's preparation and fair presentation of the financial statements as a basis for designing audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes the evaluating the accounting principles applied and the reasonableness of significant accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the financial statements.

We believe that our audit provides a reasonable basis for our opinion set out below.

Opinion

It is our opinion that the financial statements give a true and fair view of Biovitrum AB's results and financial position per 31 December 2005 and 31 December 2004 in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU.

Stockholm, 1 September 2006

PricewaterhouseCoopers

Peter Bladh
Authorised Public Accountant

INCOME STATEMENT—GROUP

	Note	2005	2004
		(SEK in thousands)	
	1-4		
Total revenues	5-6	936,611	787,387
Cost of goods and services sold	7	(270,664)	(248,324)
Gross Profit		665,947	539,063
Sales and marketing expenses		(38,664)	(34,510)
Administration expenses		(151,232)	(148,390)
Research and development expenses		(575,995)	(535,504)
Other operating revenue	8	272,564	250,611
Other operating expenses	9	(42,693)	(29,887)
Operating profit/loss	11-18	129,926	41,384
Result from financial items			
Interest income and similar items	20	49,430	53,252
Interest expense and similar items	21	(1,575)	(1,386)
		47,855	51,866
Profit/loss after financial items		177,781	93,250
		(560)	
Tax on profit for the year	23	(1,000)	2,345
Profit/loss for the year		176,221	95,595
Earning/loss per share		3.37	1.83
Earnings/loss per share after full dilution ⁽¹⁾		3.37	1.83
Number of shares		52,331,400	52,331,400
Average number of shares		52,331,400	52,331,400
Outstanding warrants causing dilution		4,663,100	4,585,200

(1) As Biovitrum is not a public company a fair value has not been set and hence no calculation of dilution is made. In addition, when acquiring CBT and Arexis, Biovitrum has granted them the right to receive shares when certain milestones have been achieved—see note 29.

BALANCE SHEET—GROUP

	Note	2005	2004
(SEK in thousands)			
ASSETS	1-4		
Fixed assets			
Intangible fixed assets	24	362,697	5,416
Tangible fixed assets	25	300,601	434,581
Financial fixed assets	26	2,066	12,678
Deferred income tax assets	30	11,800	—
Total fixed assets		<u>677,164</u>	<u>452,675</u>
Current assets			
Inventories	31	126,317	84,198
Accounts receivable, trade	32	84,298	140,545
Other receivables	32	77,970	30,739
Prepaid expenses and accrued income	33	141,088	107,474
Short-term investments	34	562,689	536,738
Liquid funds	34	1,058,609	1,048,394
Total current assets		<u>2,050,971</u>	<u>1,948,088</u>
TOTAL ASSETS		<u><u>2,728,135</u></u>	<u><u>2,400,763</u></u>
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		23,760	23,760
Other capital contribution		796,854	795,414
Other reserves		1,964	2
Retained Earnings		708,890	608,772
Net results		176,221	95,595
Total shareholders' equity		<u>1,707,689</u>	<u>1,523,543</u>
LIABILITIES			
Deferred income tax liabilities	30	85,500	—
Other liabilities	36	309,086	390,781
Provisions for other liabilities and charges	37	14,774	—
Total long-term liabilities		<u>409,360</u>	<u>390,781</u>
Short-term liabilities			
Prepayments from customers		1,465	14,140
Accounts payable		113,253	124,757
Current tax liabilities		602	—
Other liabilities		19,893	9,309
Accrued expenses and prepaid revenues	38	397,536	304,061
Other provisions	37	78,337	34,172
Total short-term liabilities		<u>611,086</u>	<u>486,439</u>
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		<u><u>2,728,135</u></u>	<u><u>2,400,763</u></u>

CHANGES IN SHAREHOLDERS' EQUITY—GROUP

	Share capital	Other capital contribution	Other reserves	Profit/loss carried forward	Total shareholders' equity
	(SEK in thousands)				
Adjusted shareholders' equity,					
January 1, 2004	23,760	794,594		608,772	1,427,126
Translation difference			2		2
Net profit/loss this year				95,595	95,595
Total change net worth			2	95,595	95,597
Warrants issued		820		—	820
Shareholders' equity, December 31, 2004	<u>23,760</u>	<u>795,414</u>	<u>2</u>	<u>704,367</u>	<u>1,523,543</u>
Shareholders' equity, January 1, 2005	23,760	795,414	2	704,367	1,523,543
Adjustment of opening balance ⁽¹⁾				4,523	4,523
Adjusted shareholders' equity,					
January 1, 2005	23,760	795,414	2	708,890	1,528,066
Translation difference			1,962		1,962
Net profit/loss for the year				176,221	176,221
Total change net worth			1,962	176,221	178,183
Warrants issued		1,549			1,549
Repurchased warrants		(109)			(109)
Shareholders' equity, December 31, 2005	<u>23,760</u>	<u>796,854</u>	<u>1,964</u>	<u>885,111</u>	<u>1,707,689</u>

(1) One-time effect of implementing the new accounting standard IAS 39 on Opening Balance on January 1, 2005 is an increase of profit brought forward of SEK 4,523 thousands.

The Company has a series of shares. Total number of shares is 23,760,000 with a quota value of SEK 1/share.

CASH FLOW STATEMENT—GROUP

	2005	2004
	(SEK thousands)	
Operations		
Profit/loss for the year	176,221	95,595
Adjustment for items not affecting cash flow	(149,881)	(269,375)
Cash flow from operations before change in working capital	26,340	(173,780)
<i>Change in working capital</i>		
Decrease(+)/Increase(−) inventories	(42,119)	(17,298)
Decrease(+)/Increase(−) operating receivables	(9,045)	(77,885)
Increase(−) operating liabilities	(40,497)	59,931
Cash flow from operations	(65,321)	(209,032)
Investment activities		
Investment in intangible fixed assets	(50,909)	—
Investment in tangible fixed assets	(122,274)	(77,819)
Acquisition of subsidiary	(223,313)	—
Divestment tangible fixed assets	492,035	265,993
Investment in short-term financial assets	—	(305,199)
Sale of short term financial assets	(25,951)	—
Cash flow from investment activities	69,588	(117,025)
Financing activities		
Issue of warrants	788	—
Re-purchase of warrants	(109)	—
Cash flow from financing activities	679	—
Net change in liquid funds	4,946	(326,056)
Liquid funds at beginning of year	1,048,394	1,374,450
One-off effect implementation of IAS 39	4,523	—
Exchange rate differences in liquid funds	746	—
Liquid funds at end of year	1,058,609	1,048,394

SUPPLEMENTARY DATA TO THE CASH FLOW STATEMENT—GROUP

	2005	2004
	_____ (SEK thousands)	
Interest paid and received		
Interest received	44,491	47,036
Interest paid	315	358
Adjustment for items not affecting cash flow		
Write-downs and amortization/depreciation of assets	117,118	81,587
Capital gain/loss from divestment of fixed assets	(244,947)	(199,950)
Capital gain/loss from divestment of fixed assets	—	666
Deferred pension expenses	—	(8,051)
Decreased tax liabilities	—	820
Re-evaluation short-term investment	(81,695)	(142,102)
Share of profit in limited partnerships	—	—
Deferred tax	—	(2,345)
Resolving untaxed reserves	59,643	—
	_____ (149,881)	_____ (269,375)
Acquisition of subsidiaries and other business units		
<i>Acquired assets and liabilities</i>		
Intangible fixed assets	308,110	—
Tangible fixed assets	5,632	—
Financial fixed assets	11,800	—
Operating receivables	86,246	—
Liquid funds	—	164
Total assets	_____ 411,788	_____ 164
Deferred tax liabilities	85,500	—
Loan	5,357	—
Operating liabilities	26,919	—
Total liabilities	_____ 117,776	_____ —
Purchase sum	254,014	164
Purchase sum paid	254,014	164
Less: Liquid funds in acquired operation	(30,701)	(164)
Effect on liquid funds	_____ 223,313	_____ —
Liquid funds		
<i>Liquid funds include the following:</i>		
Cash and bank balances	236,692	58,119
Short-term investments equivalent to liquid funds ⁽¹⁾	821,917	990,275
	_____ 1,058,609	_____ 1,048,394

(1) The above items have been classified as liquid funds on the following basis:

- They are subject to minimal risk for fluctuation in value.
- They can immediately be converted into cash funds.
- They have a maximum maturity of three months from the initial date of validity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 General information

Biovitrum AB (Parent Company) and its subsidiaries (collectively the Group) is a privately owned biopharma company that focuses on research and development of new drugs, sales of pharmaceutical drugs in the Nordic market and process development and manufacturing of new protein-based drugs. The Company has strong intangible rights and technologies, with a number of substances in the preclinical phase. Annual revenues, including royalties and contract fees, finance the majority of the Company's annual research budget.

The Parent Company is a limited company with registered offices in Stockholm, Sweden. The address of the head office is Berzelius Väg 8, Solna.

The consolidated financial statements for Biovitrum AB for the financial year ending December 31, 2005 were approved by the Board of Directors and CEO on March 16, 2006 and adopted at the annual general meeting of shareholders.

Note 2 Accounting principles and notes to the financial statements

The consolidated accounts are prepared in accordance with the International Financial Reporting Standards (IFRS/IAS) and the statements issued by the International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the EU Commission for adoption within the EU. The consolidated accounts have been prepared in accordance with the cost method, except as regards financial assets held for sale and financial assets and liabilities (including derivative instruments) reported at fair value via the income statement.

The financial statements for 2005 are the first complete report that the Group has prepared entirely according to IFRS. During the transition to reporting according to IFRS, IFRS 1 has been applied. This standard describes the manner in which the transition to reporting according to IFRS is to be implemented the first time. Furthermore, the Swedish Financial Accounting Standards Council's recommendation RR 30, Additional Reporting Rules for Groups, has been applied. According to the rules governing transition to IFRS/IAS, a comparative year is required, which means that 2004 also reported according to IFRS/IAS in the 2005 report. The effect of transition to IFRS/IAS for full-year 2004, including a description of differences between old accounting principles and IFRS/IAS is presented in Note 41.

The principles described have been applied consistently for all years presented unless otherwise stated.

The effect of change in accounting standards on the income statement and balance sheet

The application of IAS 32 and IAS 39, which refer to financial instruments, results in a reclassification in the balance sheet and an impact on results as a consequence of valuation of financial investments at fair value. The valuation of financial investments at fair value caused a positive effect on the opening balance of equity in 2005 amounting to SEK 4.5 million. IAS 32 and IAS 39 are applied as of January 1, 2005.

New Accounting Standards 2005

The following IFRS standards are to be adopted as of 2005, in accordance with transition regulations regarding respective recommendations or in accordance with IFRS 1, IAS 39 Financial instruments: Reporting and Measurement, and IFRS 5: Non-current Assets Held for Sale and Discontinued Operations. None of these recommendations require retroactive adoption as the comparative year 2004 is not translated as regards these recommendations.

Introduction of new accounting standards

In addition to what is entailed by the actual transition to reporting according to IFRS, i.e. that all EU approved IFRS are to be applied from January 1, 2005, the following new standards (IFRS) and interpretation statements (IFRIC) have been adopted by IASB:

IAS 1 Amendment—Formation of the financial statements: Capital Disclosures

The amendment comes into effect January 1, 2007. It is at present deemed that this amendment will result in increased supplementary disclosures regarding, among other items, the definition of capital, capital structure, and policy for the management of capital.

IAS 19 Amendment—Employee Benefits

IAS 19 was changed in December 2004. The amendment comes into effect January 1, 2006. At present, Biovitrum has not decided whether or not to apply the new possibility of reporting actuarial gains and losses. However, the expanded disclosure requirements will have an effect on reporting in the annual report for 2006.

IAS 21 Amendment—Effects of changes in exchange rates

IAS 21 was changed in December 2005. The amendment comes into effect January 1, 2006. At present, these changes to the standard are not deemed to have any effect on Biovitrum's reporting.

IFRS 7 Financial Instruments: Disclosure

The standard comes into effect January 1, 2007. For Biovitrum, the standard is not deemed to result in further disclosures compared with those provided in this annual report.

IFRIC 4 Determination of whether an agreement constitutes a leasing agreement

The interpretation statement comes into effect January 1, 2006. According to IFRIC 4, a decision regarding whether an agreement is, or contains, a leasing agreement is based on the substance of the agreement. An assessment shall be made of whether a) the agreement's completion is dependent upon the use of a particular asset or assets and b) the agreement transfers a right to use the asset or assets. The current assessment is that IFRIC 4 will not result in existing agreements being reclassified as leasing agreements.

IFRIC 7 Translation in conjunction with transition to high-inflation reporting

The interpretation statement comes into effect 1 May 2006 and applies to financial years beginning after 1 May 2006. Biovitrum currently has no operations in countries in which a transition to high-inflation accounting is a matter of current interest.

IFRIC 8 Scope of application of IFRS 2

The interpretation statement comes into effect 1 May 2006 and applies to financial years beginning after 1 May 2006. According to IFRIC 8, the rules in IFRS 2 apply to goods and services received in exchange for an equity instrument, even if such goods or services cannot be specifically identified, either in part or in their entirety.

Consolidated accounts

General

The consolidated accounts include, in addition to the Parent Company, all companies in which the Parent Company directly or indirectly has more than half the votes, or in any other manner, has a controlling influence.

The purchase method is used in the preparation of the consolidated accounts. With the purchase method, equity in the acquired subsidiary is established on the basis of the fair value of identified assets and liabilities assumed on the date of acquisition. The difference between the acquisition cost for shares in subsidiaries and the fair value of the acquired identifiable assets and liabilities constitutes goodwill or negative goodwill. Goodwill is not amortised according to plan, but is tested annually for impairment.

The income, expenses, assets and liabilities of subsidiaries are included in the consolidated accounts from the date on which that the controlling influence arises to the date it ceases. Assets and liabilities and income and expenses within the Group, as well as unrealised profits and losses between companies within the Group are eliminated.

Translation of foreign subsidiaries

The assets and liabilities of foreign subsidiaries are established in the respective functional currency, meaning the primary economic environment in which the company operates. Biovitrum's foreign subsidiaries are translated according to the current method. The current method implies that all assets, allocations and other liabilities are translated at the prevailing exchange rate on the balance sheet date in the Group's reporting currency (SEK) and exchange rate differences arising from translation are reported directly in equity in the translation reserved against equity. The income statement is translated using the average exchange rate for the period.

Untaxed reserves

The consolidated accounts contain no appropriations or untaxed reserves. Deferred tax related to these items is included in deferred tax expenses or deferred income tax liabilities. The equity portion of untaxed reserves is reported as profit brought forward.

Income

Net sales

Invoiced sales are reported as net sales. Income from the sale of goods is reported in the income statement when substantial risks and benefits are transferred to the purchaser.

Contract production revenues (ReFacto) are recognised when the products are delivered to the customer, i.e. the responsibility for risk is transferred to the customer.

Revenue from service assignments is required when the economic outcome for the completed assignment can be calculated in a reliable manner and the economic benefits accrue to the Group.

Income also includes revenue from licensing agreements such as license access fees, milestone payments and royalties from third parties in the normal course of business, as well as revenues from co-promotion. According to the milestone method, continuous "milestones" are considered separate from the initial licence fee. The initial license fees are allocated over the duration of the licensing agreement, as a separate earning period is not considered to have been completed when they were received. Subsequent milestone payments, however, are considered to belong to an individual completed portion of the agreement. This portion is reported as income immediately upon receipt, that is, when it is earned.

When the Group has a commitment to undertake research and development activities and remuneration is received for the services provided by the Group, this commitment is reported as deferred income and recognised in the period during in which the services are performed. Revenue from research collaborations is recognised in the period in which the related work is carried out. Milestone payments are recognised when they fall due for payment according to the terms of the agreement. Revenues for long-term agreements regarding development are recognised over the term of the contract.

Other operating income

Income from activities outside of the normal course of business operations are reported as other operating income. This item is primarily comprised of rental income from external tenants in previously owned property.

Governmental support

Governmental support is reported when the company meets the stipulations that are associated with the subsidies/contributions and when it can be positively established that the contributions will be acquired. Paid contributions are reported in the balance sheet as prepaid revenues and are taken up as income during the period in which they are earned. Governmental support is reported in the income statement as a reduction of corresponding expenses. Biovitrum receives governmental support principally in the form of EU contributions.

Classification, etc.

Within the Biovitrum Group, assets and liabilities are classified as either current or long-term. Long-term receivables and liabilities consist essentially of amounts for which payment is expected to fall due more than one year after balance sheet date. Current receivables and liabilities fall due within one year of balance sheet date.

Receivables and liabilities in foreign currency are translated at the closing rate of exchange. Transactions are translated at the average exchange rate for the period.

Financial instruments

The Group classifies its financial instruments in the following categories: financial assets valued at fair value via the income statement, loan receivables and accounts receivable that are held until maturity and sellable financial assets. The classification is dependant on the purpose for which the instruments were obtained. Management establishes the classification at the first accounting and reviews this decision at each reporting occasion. At present, there are only financial assets valued at fair value via the income statement.

Financial instruments reported as assets in the balance sheet include liquid funds and account receivable. Accounts payable, issued debt and equity instruments, and borrowings are reported under liabilities and shareholders' equity. Currency derivatives are reported either as assets or liabilities, depending on fluctuations in exchange rates.

Financial instruments are initially reported at the acquisition cost corresponding the instrument's fair value.

A financial asset or liability is entered into the balance sheet when the company becomes party to the instrument's contractual terms and conditions. Accounts receivable are entered into the balance sheet when invoiced. Liabilities are recorded when informed by the counterparty and a contractual obligation exists to pay, even if an invoice has not yet been received. Accounts payable are recorded when an invoice is received.

A financial asset is removed from the balance sheet when rights established according to contract have been exercised, have expired, or have been otherwise lost, surrendered or waived by the company. The same applies for parts of a financial asset. A financial liability is removed from the balance sheet when the commitment in the agreement is fulfilled or otherwise settled. The same applies for parts of a financial liability.

The acquisition and disposal of financial assets are reported on settlement date.

At each reporting occasion, the company evaluates whether there are objective indications of impairment of financial assets. A profit or loss on a financial asset or liability valued according to the real value through the income statement is to be reported through the income statement. A profit or loss on a financial asset in the category of financial assets which can be sold are reported directly in shareholders' equities, through the account change in equities.

Financial assets

Bank balances, loan receivables and accounts receivables are valued at acquisition value less accumulated depreciation. Investments are valued at current market value.

Liquid funds

The Parent Company's and the Group's liquid funds include the balances in the Group's common account and other bank accounts as well as investments of less than three months duration from acquisition date. This implies that the Group's liquid funds are only exposed to insignificant interest rate risks.

In 2004, Biovitrum adopted a portfolio view as regards securities. All investments in securities were placed on a short-term basis and were classified as current investments in the income statement. Current investments include discounting instruments, coupon instruments, securities, bonds and interest rate funds.

Accounts receivable—trade

Accounts receivable—trade are valued at accrued acquisition cost. The terms for accounts receivable are of short duration and the values are therefore reported in nominal amounts with no discounting. Write-downs of these accounts receivables are reported as operating expenses.

Liabilities

Financial liabilities are initially valued at the amount of received funds with deductions for any transaction costs. After the point in time of acquisition, the loans are valued at acquisition cost less depreciation according to the effective interest method.

Accounts payable—trade

Accounts payable—trade are classified as Other financial liabilities. The terms for Accounts payable—trade are of short duration and the values are therefore reported at nominal amounts with no discounting.

Derivative instruments

Derivative instruments are comprised of forward exchange agreements used to hedge the risk of exchange rate fluctuations. All derivatives are valued at market rates, and the market values are reported in the balance sheet.

Biovitrum's transaction exposure in foreign currencies arises due to the import and export of goods paid for in foreign currencies. All such exposure is hedged on the basis of forward exchange agreements.

For the comparative year 2004, IAS 39 has not been applied. The effect of the transition has impacted Biovitrum's equity. See Note 41.

Intangible fixed assets

Goodwill

Goodwill is comprised of the amount by which the acquisition cost exceeds the fair value of the Group's participation in the acquired subsidiaries'/associated companies' identifiable net assets at the time of acquisition. Goodwill arising in conjunction with the acquisition of subsidiaries is reported as intangible assets. Goodwill arising from the acquisition of associated companies is included in the value of the Group's holdings in the associated companies. Goodwill is tested annually for impairment and is reported at acquisition cost less accumulated write-downs. Profit or loss arising during the sale of a unit includes the remaining book value of the goodwill which refers to the sold unit. If fair net value of the acquired operation's identifiable assets, liabilities and contingent liabilities exceeds the acquisition cost, the surplus (negative goodwill) is reported immediately in the income statement.

Goodwill is distributed among cash generating units during impairment testing. Each one of these cash generating units consists of the Group's investment in each country where operations are carried out.

Licenses

Licenses are reported at acquisition cost. Licenses have a limited useful lifetime and are reported at acquisition cost reduced by accumulated depreciation. Depreciation is performed on a straight line basis in order to allocate the cost of licenses over their estimated useful lifetimes of between 5–15 years.

Costs for research and development

Expenses for development projects are reported as intangible fixed assets if the company can show that it is technically possible to complete the project and it is profitable to commercialise the results, and then only if the expenses for the project can be measured in a reliable manner. Other development expenses are reported as costs as they arise. Biovitrum's research takes place in an early stage of research and, as a result, all expenses for research are reported as costs.

Acquired R&D

Expenses for acquired research and development projects are reported as intangible assets. When an acquired research project begins to generate income, amortisation is begun and continues over the project's estimated useful lifetime. Acquired R&D is tested annually for impairment.

Software and IT projects in progress

Acquired software licenses are capitalised on the basis of the costs that arise when the software in question is acquired and put into operation. These costs are amortised over the software's estimated useful life.

Costs in connection with development or maintenance of software are reported as costs when they arise. Costs directly related to software products that are identifiable and were specially developed for Biovitrum and which are controlled by the company and are likely to generate economic benefits exceeding the cost of the software for a period longer than one year, are reported as intangible fixed assets. Direct expenses include costs for those working with development of the computer program and a reasonable portion of overhead-costs.

Expenses that enhance software performance or extend the software's useful lifetime (Development expenditure) beyond the original plan are capitalised and added to the original acquisition cost for the software.

Amortisation according to plan for computer programs that have been reported as fixed assets is performed on a straight line basis during the program's useful lifetime, however not in excess of 3 years.

Tangible fixed assets

All tangible fixed assets are reported at acquisition cost with deductions for depreciation. The acquisition cost includes expenses directly attributable to the acquisition of assets. The acquisition cost can also include transfers from equity of profit/loss from cash flow hedges meeting the criteria for hedge accounting regarding the purchase of tangible fixed assets with foreign currencies.

Additional expenditures are added to the asset's book value or reported as a separate asset, whichever is more appropriate, only when it is likely that the future economic benefits related to the asset will accrue the Group, and the asset's acquisition cost can be measured in a reliable way. All other forms of repairs and maintenance are reported as expenses in the income statement as they arise.

Depreciation of tangible fixed assets

The period of depreciation according to the plan for tangible fixed assets is based on the assets' useful lifetimes. The assets are depreciated on a straight-line basis over the estimated useful lifetime of the assets. The following periods of depreciation are applied:

Buildings	30–50 years
Plant and machinery	
Laboratory equipment and other Investments	3–7 years
Other larger investments, e.g. NMR Spectrometer, etc.	10 years
Equipment, tools, fixtures and fittings	
Computers	3 years
Servers and other larger computer hardware	3–5 years
Furniture, fixtures and fittings	5–10 years

The assets' residual value and useful lifetimes are assessed each at the close of each financial year adjusted as needed.

An asset's book value is promptly written down to its recoverable amount if the asset's book value exceeds its assessed recoverable amount.

Profit and loss from sales or disposals are determined through a comparison of the difference between sales proceeds and book value less direct selling costs. The income item is reported in the income statement.

Leased Assets

Leasing is classified as either financial or operational leasing agreements. The asset is reported in the consolidated balance sheet as a fixed asset. Corresponding commitments for future leasing fees are reported as current and long-term liabilities. The leased assets are depreciated according to plan, while the leasing charges are reported as interest and repayment of liabilities. Leasing of assets in which the lesser

retains substantial ownership of the assets is classified as operational leasing and the leasing fee is expensed on a straight line basis over the leasing period.

Write-downs

Assets that have an indefinite useful lifetime are not depreciated, but rather tested annually for impairment. Assets that are depreciated are assessed for decreases in value whenever events or changes in circumstances indicate that the reported value may not be recoverable. A write-down is performed in the amount by which the asset's book value exceeds its recoverable amount. The asset's recoverable amount is defined as the higher of the asset's fair value less selling expenses and its value in use. When assessing impairment, assets are grouped at the lowest levels at which there are separate identifiable cash flows (cash generating units). A write-down is reversed if there has been a change of the conditions which are used to determine the recovery value. A reversal is made at the maximum to the value not exceeding book value which would have been reported, with a deduction for amortisation, if no write-down would have been done.

According to IAS 36, an asset is to be written down if the book value exceeds its recoverable amount, where recovery value is defined as the highest of an asset's net selling price and value in use. When calculating the value in use, future cash flows which the asset is expected to generate are discounted at an interest rate corresponding to Biovitrum's weighted cost of capital. A separate asset is attributed to the lowest cash generating unit in which an independent cash flow can be established.

Inventories

Inventories are valued according to the lowest value principle at the lowest of either acquisition cost or net realizable value. The acquisition cost is calculated by applying the first-in—first-out principle (FIFO). Net realizable value is equivalent to the expected sales price in continuing operations less selling expenses. Obsolescence risk is taken into account.

Provisions

Provisions are reported in the balance sheet when Biovitrum has a legal or informal obligation as a result of past events, it is possible that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are recorded in the amount corresponding to the best estimate of the payment necessary to settle the obligation. If the outflow of resources is deemed to take place in the distant future, the expected future cash flow is discounted and the provisions are recorded at present value. The discount rate corresponds to the market interest before tax and the risks associated with the liability. Provisions are recorded in the balance sheet under Other Current and Long-term Liabilities.

Taxes

Taxes reported in the income statement, consist of current tax and deferred tax. Current tax is tax which shall be paid or received for the current year, as well as adjustments concerning previous years' current taxes. Deferred tax is calculated according to the balance sheet method based on temporary differences between the reported and tax values of assets and liabilities. The calculated amounts are based on the manner in which temporary differences are expected to equalise over time and with the application of tax rates and tax rules that either have been determined or are expected to be determined per the balance sheet date.

Temporary differences arise when the book value of holdings in the subsidiary differ from the acquisition cost.

Temporary differences are not taken into account in goodwill arising on consolidation, or in differences attributable to participations in subsidiaries and associated companies that are not expected to be taxed in the foreseeable future. In legal entities, deferred tax liabilities are included in untaxed reserves. In the consolidated financial statements, however, untaxed reserves are divided into deferred income tax liabilities and equity. Deferred tax assets regarding temporary deductible differences and loss carry-forward are reported to the extent that it is probable that these will give rise to lower tax payments in the future.

Employee Benefits

At Biovitrum there are both defined contribution and defined benefit plans. The Group's income is charged with the amount of pensions costs for defined contribution plans as the benefits are earned. Pension commitments are calculated without discounting, as payment for such plans fall due within twelve months.

For defined contribution plans, the Company pays established amounts of contributions to a separate legal entity, and does not have any obligation to pay additional contributions. The Group's income is charged with expenses as the benefits are earned.

For defined benefit plans, remuneration is paid to employees and former employees based on the salary level at the point in time of retirement and the number of years of service. The Group bears the risk that the promised benefits are paid.

Biovitrum primarily has defined benefit pension commitments. These pension commitments are insured with Skandia and Alecta.

The net amount of the estimated present value of the obligations is reported in the balance sheet and the fair value of plan assets is reported either as a provision or as a long-term financial receivable. For cases in which it is not possible to utilise a surplus in a plan, only that portion of the surplus that can be recovered by the Company on the basis of reduced future charges or repayments is reported.

Regarding defined benefit plans, pension costs and pension commitments are calculated according to the Projected Unit Credit Method. This method allocates the costs of pensions as the employee performs services for the Company that increase the employees' right to future remuneration. The calculation is performed annually by independent actuaries. The Company's commitments have been valued at the present value of expected future payments by applying a discount rate equivalent to the level of interest on first-class corporate bonds or government bonds with tenures equivalent to the commitments in question. The most important actuarial assumptions are described in Note 26.

Actuarial gains and losses may arise in conjunction with the determination of the present value of the obligations and the fair value of the plan assets. Such gains or losses may arise either because the actual outcome differs from the previous assumptions, or because the assumptions have changed. The portion of the accumulated actuarial gains and losses at the end of the previous year exceeding 10% of the greater of the present value of the obligations or the fair value of the plan assets is reported in income over the employees' average remaining period of service.

Interest expenses, less the amount of expected yield on plan assets, are classified as a financial expense. Other expense items in pension costs are charged to operating income.

The accounting principle for defined benefit plans described above is applied only to consolidated financial statements.

Commitments for retirement pensions and family pensions for white-collar employees in Sweden are insured on the basis of insurance premiums with Alecta. According to statement URA 42 from the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council, these are multi-employer defined benefit plans. For the financial years 2004 and 2005, the company did not have access to documentation which would enable it to report these plans as defined benefit plans. The ITP pension plan insured on the basis of insurance with Alecta is, therefore, reported as a defined contribution plan.

Compensation on termination of employment

A provision is reported in conjunction with the termination of employees only if the company is demonstrably obliged to terminate employments before the normal period of service has ended or when remuneration is offered to encourage voluntary resignation. In the event that the Company terminates employments, a detailed plan is drawn up which contains, at the least, information regarding the work place, the position and the approximate number of the involved individuals, as well as compensation for every staff category or position and the time at which the plan is to be executed.

Other

Contingent liabilities

Contingent liabilities are reported when there is a possible commitment which has arisen from events that have occurred and whose existence is based on the occurrence of one or more uncertain future events, or when there is a commitment which is not reported as a liability or a provision due to the fact that it is improbable that an outflow of resources will be required.

Note 3 Risks

Risks and risk management

Biovitrum's operations are influenced by a number of factors which may have an impact on the results and financial position of the company. The company's strategy is to continuously identify risks and attempt to mitigate them to the greatest extent possible. The risks can be divided into operational risks and financial risks. Below is a description of the financial risks deemed to be of the greatest significance to Biovitrum's development and of the manner in which the company manages them to minimise the level of risk.

Financial risks and policies

Biovitrum has a comprehensive finance policy that establishes the division of responsibility regarding financial issues between the Board, the Group manager, the Finance Director, the central finance department and other Group companies. The Finance policy is characterised by a low level of risk. The purpose is to minimise the Group's capital costs by effective management and control of the Group's financial risks.

Liquidity risk

Biovitrum's investment policy aims to reduce the Group's external borrowing as far as possible by co-ordinating the management of surplus liquidity within the Group. Investment only takes place in instruments that have low credit risk and a high level of liquidity. By high level of liquidity is meant that investments can be converted to liquid funds at any given point in time.

Currency risks

Transaction exposure

A minor portion of Biovitrum's sales are in a currency other than SEK. Further, transaction exposure arises when imported goods are paid for in foreign currency. In order to minimise the effects of exchange rate fluctuations on results, Biovitrum hedges the net cash flow by means of forward exchange agreements and currency options. In 2005, hedging activities occurred only via forward exchange agreements.

Conversion exposure

The Group's results are affected by the exchange rate fluctuations when foreign subsidiaries' results are converted to SEK. This conversion is normally not hedged.

The Group's shareholders' equity is affected by exchange rate fluctuations when foreign subsidiaries' assets and liabilities are converted to Swedish krona. The hedging of this exposure is assessed on a case-by-case basis and is currently not being done.

Interest Rate risk

Biovitrum's financial management policy is to limit short-term effects on the Group's results and cash flow due to changes and fluctuations in the financial markets. The duration of fixed interest rates on the Group's financial assets and liabilities is usually short. The Board can decide to extend fixed-rate durations in order to limit the effect of an increase in interest rates.

Customer credit risks

Biovitrum's financial transactions give rise to credit risks relating to financial counterparties. The risk that the counterparty is unable to fulfil its commitments is mitigated partially through the choice of credit-worthy counterparties and partially through the limitation of the respective counterparty's commitment.

Note 4 Conditions during preparation of financial statements for the Parent Company and Group

The Parent Company's functional currency is the SEK, which is also the reporting currency for the Parent Company and the Group. The financial reports are therefore presented in SEK.

All amounts are reported in thousands of SEK, unless otherwise stated. Assets and liabilities are reported at historical acquisition cost, with the exception of certain financial assets and liabilities that are reported at fair value.

In order to prepare the financial statements according to generally accepted accounting principles, the Board of Directors and company management make estimations and assumptions that affect the company's results and financial position as well as other submitted information. The estimations and assumptions are based on historical experience and are regularly reviewed.

Assessments made by company management in conjunction with the implementation of IFRS which have a significant influence on the financial statements and estimates which could involve considerable adjustments in the financial report of the following year are described in more detail under Note 41.

The accounting principles stated below are consistently applied in the financial statements which have been submitted and which are based on IFRS/IAS.

Stated amounts and figures within parenthesis refer to comparative year 2004.

Note 5 Distribution of Operating Revenues

<u>Group</u>	<u>2005</u>	<u>2004</u>
<i>Total revenues by major type of income</i>		
Licensing and milestone revenues	205,615	142,102
Research revenues	54,525	51,640
Royalties	191,705	167,968
Co-promotion revenues	224,738	202,938
Contract development	103,948	90,931
Contract manufacturing	156,044	131,808
Other	36	—
	<u>936,611</u>	<u>787,387</u>

Note 6 Segments

Biovitrum's primary segments are divided into business segments. It is Biovitrum's assessment that the Group's operations comprise one segment. Biovitrum's business areas and revenues comprise an integrated operation with similar risks and opportunities, which implies that different segments within the Group cannot be identified. During 2005 and the beginning of 2006, Biovitrum acquired and established a number of collaboration agreements regarding protein-based pharmaceuticals, which implies that an increasing portion of the Biopharmaceuticals organisation is working on internal projects with risks similar to those of other R&D projects.

The majority of Biovitrum's operations are conducted within of Sweden, with the exception of the relatively small portion of the research that is run in England. Biovitrum invoices partners in, above all, the USA and Europe who, in turn, distribute and invoice locally. Biovitrum has determined that geographic reporting would not provide any material information regarding Biovitrum's operations.

Note 7 Cost of Sold Goods and Services

<u>Group</u>	<u>2005</u>	<u>2004</u>
Cost of goods sold	(85,938)	(118,241)
Cost of goods sold contract		
Development	(184,726)	(130,083)
	<u>(270,664)</u>	<u>(248,324)</u>

Note 8 Other Operating Revenues

<u>Group</u>	<u>2005</u>	<u>2004</u>
Divestment real estate property	244,904	193,185
Rental income	13,916	37,570
Exchange rate profit on operating receivables/liabilities	—	—
Remuneration from KTH for access to technical equipment	4,888	2,721
Contribution received	—	1,872
Research cooperation with BioFocus	4,416	—
Other	3,833	14,796
	607	467
	<u>272,564</u>	<u>250,611</u>

Note 9 Other Operating Expenses

<u>Group</u>	<u>2005</u>	<u>2004</u>
Exchange rate losses on operating receivables/liabilities	(2,001)	(3,011)
Scrapping/Divestment of fixed assets	(7)	(666)
Cost of rented premises	(6,450)	(26,285)
Restructuring costs	(25,649)	—
Scrapping costs	(8,616)	—
Reimburse foreign VAT	91	75
Other	(61)	—
	<u>(42,693)</u>	<u>(29,887)</u>

Note 10 Important co-operation agreements

Background

Biovitrum co-operates with a number of large pharmaceutical and biotechnology companies, such as Amgen, GlaxoSmithKline, Wyeth, Santhera, Syntonix and Symphogen.

Agreements prior to 2005

Wyeth

In August 1997, Pharmacia (as it was then) entered into an agreement in which intangible property rights and contractual rights for ReFacto and related versions of the product were sold to Genetics Institute (now Wyeth). ReFacto is a synthetic recombinant factorVIII product for treatment of hemophilia. In connection with the founding of Biovitrum in 2001, this agreement was transferred to Biovitrum together with all associated rights and obligations. Through the agreement, Pharmacia (now Pfizer) retains 50% of future royalties based on the sale of ReFacto.

The agreement is valid for a period of seventeen years from the date the product was launched. Wyeth, however, has the right to cancel the sales rights of ReFacto at any time, whereby the rights to the product will be returned to Biovitrum.

Pharmacia also entered into a manufacturing agreement with Wyeth in August 1997, according to which Pharmacia would produce ReFacto at its production facility in Stockholm. This agreement was also transferred to Biovitrum, and was expanded in January 2004 such that Biovitrum became the sole producer of ReFacto. The manufacturing agreement is valid until and including 2011 with the possibility for Wyeth to extend the agreement.

According to agreement, Biovitrum also has co-promotion rights for the sale of ReFacto in the Nordic and Middle Eastern regions, including ReFacto AF and other future, more advanced versions of the product. Biovitrum receives commissions based on total net sales in the sales territory.

Amgen

Amgen has an exclusive global right to develop and commercialise Biovitrum's inhibitor enzyme 11 β -HSD1 for treatment of diabetes and other metabolic diseases. The most advanced substance included in the collaboration is presently in early clinical development.

The original agreement for development and marketing, announced in September 2003, gives Amgen exclusive rights to commercialise products in North and South America, the EU, Australia and New Zealand. Biovitrum and Amgen extended the agreement in December 2005 such that Amgen received exclusive global rights to commercialise all products that are developed under the agreement, while Biovitrum retains co-promotion rights in the Nordic region for all developed products.

Amgen will pay for and be responsible for all further development and commercialisation on a global basis. Biovitrum may receive further milestone payments related to progress made within the development work and in the applications made to authorities regarding metabolic diseases. When a product has been approved, Biovitrum will receive royalty revenues on all future sales of all products that are developed under the agreement.

Thus far, Amgen has paid licensing fees and milestone payments amounting to USD 107 million. According to the co-operation agreement, Amgen will also finance a three-year research program which will be carried out by Biovitrum with the purpose of developing further substances within the 11 β -HSD1 program.

In September 2003, Amgen entered into an agreement with Biovitrum, which gave Biovitrum co-promotion rights within the EU for Amgen's product Kineret, for treatment of rheumatoid arthritis, and within the Nordic region for all products which are developed under the agreement. The agreement also includes co-promotion rights for Amgen's product Mimpara, for the treatment of hyperparathyroid, and Kepivance, for the treatment of chemotherapy related inflammation in the mouth.

Under a third agreement, signed in September 2003, Biovitrum will carry out process development work for a period of three years within Biopharmaceuticals, paid for and led by Amgen.

GlaxoSmithKline

In October 2002, Biovitrum closed a global agreement with GlaxoSmithKline concerning the development and commercialisation of 5-HT_{2C} receptor agonists for the treatment of obesity and other diseases. Under this agreement, GlaxoSmithKline received the exclusive right to develop, register, produce and commercialise Biovitrum's existing set of proprietary 5-HT_{2C} receptor agonist compounds. Biovitrum retains the exclusive right to commercialise products developed under the agreement in the Nordic region.

According to the agreement, GlaxoSmithKline pays an initial licensing fee amounting to USD 15 million with periodic milestone payments related to development results, registration and approval by the authorities. These milestone payments could amount to a total of USD 150 million over the duration of the agreement if the development and launch of the product for treatment of obesity is successful. According to the agreement, GlaxoSmithKline will also make further milestone payments to Biovitrum for the development of products for indications other than for obesity and pay royalties for 12 years after the launch date of all other products developed under the agreement. Furthermore, GlaxoSmithKline will pay all development costs. GlaxoSmithKline, however, has the right to cancel the agreement on a country-by-country basis or in its entirety with relatively short notice if continued product development cannot be justified within the context of the agreement.

Under the agreement, Biovitrum will also carry out certain studies, after which GlaxoSmithKline will fund and conduct further development, registration and production. These studies involve Phase IIb studies of BVT.933. In May 2003, Biovitrum and GlaxoSmithKline announced that they had decided to concentrate future development on more selective 5-HT_{2C} receptor agonist compounds and that the Phase IIb study of BVT.933 would be discontinued.

Santhera

In July 2005, Biovitrum entered into an exclusive licensing and co-operation agreement with Santhera, a Swiss biopharma company focused primarily on neuromuscular diseases. The agreement gave Biovitrum exclusive global rights to Santhera's DPP-IV inhibitor program for the development of substances and commercialisation of future products for treatment of a number of metabolic diseases. The agreement includes an initial license payment of EUR 4 million and further milestone payments totalling EUR 10 million upon entering clinical phase II studies. The companies will share future revenues according to the contracted percentage allocations, including milestone payments and royalties from sub-licensing agreements.

Agreements after 2005

Syntonix

Biovitrum has closed an agreement with the American company Syntonix Pharmaceuticals for the joint development and commercialisation of Syntonix's recombinant (genetically modified by artificial means) Factor IX product for the treatment of hemophilia B (FIX:Fc). According to the agreement, Syntonix receives initial licensing compensation and Biovitrum makes an equity investment in Syntonix.

Biovitrum and Syntonix will jointly develop and commercialise FIX:Fc. Syntonix is responsible for marketing in North America and Biovitrum is responsible for marketing in Europe, Russia and the Middle East. The companies will equally share the costs and profits for development and commercialisation of FIX:Fc. Under the terms of the agreement, Syntonix will receive milestone payments and an additional equity investment from Biovitrum based on the progress of the program. In the future, Biovitrum and Syntonix may decide to expand the collaboration to include additional protein products. See Note 40 for more information.

Symphogen

Biovitrum and the Danish company Symphogen have signed an agreement for the joint development and commercialisation of Sym001, Symphogen's leading product. Sym001 is a combination of 25 different recombinant (genetically modified by artificial means) anti-Rhesus D-antibodies for the treatment of both ITP (Idiopathic Thrombocytopenic Purpura), a bleeding disorder in which the blood's ability to coagulate is reduced, and HDN (hemolytic disease for newborns), anemia in new-born babies caused by the mother developing antibodies against the baby's red blood cells.

According to the new co-operation agreement, Symphogen receives initial compensation for the transferral of technology and will receive a milestone payment in relation to the progress that is made in the program. Symphogen is responsible for marketing in the North, Central and South Americas and Biovitrum for Europe, Russia and the Middle East. The companies will seek partners for other parts of the world market. The companies share equally both the cost of developing anti-RhD as well as the future profits. See Note 40 for more information.

Note 11 Cost according to Type of Cost

<u>Group</u>	<u>2005</u>	<u>2004</u>
Raw materials and consumables	(2,214)	(20,602)
Other external costs	(423,737)	(357,501)
Personel costs	(525,671)	(507,037)
Depreciation and write-downs	(84,933)	(81,587)
Other operating expenses	(42,693)	(29,887)
Sum expenses	<u>(1,079,248)</u>	<u>(996,614)</u>

Note 12 Personnel, Personnel Costs and Remuneration to Board Members and Executive Management

<u>Average number of employees</u>	<u>2005 of which men</u>		<u>2004 of which men</u>	
Group and Parent Company				
Sweden	571	44%	577	45%
Demark	1	—	1	—
Finland	2	100%	1	—
Norway	1	50%	—	—
United Kingdom	28	50%	—	—
Total	<u>604</u>	<u>44%</u>	<u>579</u>	<u>45%</u>

Salaries, other remunerations and social security expenses

<u>Group and Parent Company</u>	2005		2004	
	<u>Salaries and remunerations</u>	<u>Social security costs</u>	<u>Salaries and remunerations</u>	<u>Social security costs</u>
Parent Company	280,956	155,205	282,422	161,950
(of which pension cost)	(1)	(53,719)	(1)	(63,869)
Subsidiary	20,506	6,794	—	—
(of which pension costs)		(2,243)	(—)	(—)
Group total	301,462	161,999	282,422	161,950
(of which pension costs)	(1)	(55,962)	(1)	(63,869)

(1) Of the Group's and Parent Company's pensions costs, SEK 1,453 thousand (1,200) pertain to the Board and CEO. The Group's outstanding pension commitments for the Board and CEO amount to SEK 0 thousand (0).

Salaries and other remuneration distributed by country and among board members, etc., and other employees

<u>Parent Company</u>	2005		2004	
	<u>Board and CEO</u>	<u>Other employees</u>	<u>Board and CEO</u>	<u>Other employees</u>
Sweden	6,081	271,913	5,367	276,237
(of which bonuses, etc.)	(1,507)	(—)	(1,080)	(—)
Demark	—	825	—	591
Finland	—	1,228	—	227
Finland	—	910	—	—
Parent Company total	6,081	274,875	5,367	277,055
(of which bonuses, etc.)	(1,507)	(—)	(1,080)	(—)
Subsidiaries in Sweden	592	6,469	—	—
Subsidiaries outside Sweden	4,910	8,535	—	—
Subsidiary total	5,502	15,004	—	—
Group total	11,583	289,879	5,367	277,055
(of which bonuses, etc.)	(1,507)	(—)	(1,080)	(—)

Wages/salaries and other remuneration paid to Biovitrum's Board, CEO and Group management

The Annual General Meeting of shareholders in 2005 decided that the chairman of the Board of Directors shall receive SEK 300 thousand (300) as remuneration and the other members of the Board shall receive SEK 250 thousands (250).

During 2005, CEO Mats Petterson received a salary of SEK 3,324 thousand (3,324) and a bonus for the year amounting to SEK 1,507 thousand (1,080). Biovitrum pays a premium of 30% of the pensionable salary for Mats Petterson's future pension benefits. The pensionable salary amounts to SEK 4,000 thousand per annum, and no adjustment is made to this amount.

Mats Petterson is entitled to a period of notice of 24 months, if notice is given by Biovitrum, and he must give six months notice if he decides to end his employment. However, severance pay may amount to a maximum of the current salary for the number of months remaining until normal pension age.

The CEO, Group management and a number of key individuals receive bonuses in addition to their salaries. The bonus, which follows a system adopted by the Board of Directors, is based on the cash flow/results of Biovitrum and/or the individual's own department in combination with individual goals.

Biovitrum's pension plan for senior executives changed from a defined benefit plan to a defined contribution plan in 2005. The new pension plan for senior executives entails that Biovitrum pay premiums corresponding to 27% of the employees' pensionable salaries into a pension plan established exclusively for the employee. The employees are covered by the ITP plan and pensions for senior executives consist of the alternative ITPn. The premium to Alecta is included in the agreed 27%. The pensionable salary has a maximum of 50 income base amounts.

In conjunction with the transition from a defined benefits plan to a defined contributions plan, individual agreements have been made stipulating a contribution exceeding 27%. In these instances, the premiums to Alecta for the ITP plan's basic benefit have been excluded and are paid in addition to the agreed contribution level.

One person is still covered by the defined benefits plan for senior executives. This plan entitles the individual to annual remuneration in accordance with the ITP plan from the age of 60 with the following supplement: 32.5% of salary constituting the pension base between 30 and 50 basic income amounts. The plan further includes a guarantee of 50% in pension if the employee voluntarily resigns after having completed a full period of service upon reaching retirement age.

Remuneration to Senior Executive Management Parent company, SEK.

	Fixed salary	Variable salary	Pension	Financial instruments	Other benefits	Sum
Board Chairman	500,000					500,000
Other board members	750,000					750,000
CEO	3,239,856	1,506,533			86,368	4,832,757
Other group executive members	9,570,084	3,653,930			219,441	13,443,455
	<u>14,059,940</u>	<u>5,160,463</u>	<u>—</u>	<u>—</u>	<u>305,809</u>	<u>19,526,212</u>

Biovitrum's Employee Warrants Program

To attract and retain competent and motivated personnel, Biovitrum has established a long-term incentive program. Part of the program consists of shares that senior executives have acquired from one of the owners in conjunction with the founding of Biovitrum. The Board of Directors and employees held a total of 170,000 shares as of balance sheet date.

In addition to these shares, the incentive program also includes warrants. At the General Meeting of shareholders in 2001, a decision was made to issue a total of 4,975,000 warrants. The warrants program is open to all employees. The company has since distributed or sold a total of 4,663,100 warrants as follows. Employees received 3,317,300 warrants in 2001, free of charge, on which the company paid social security contributions of SEK 8 million for the warrants' benefit value. During the same year, senior executives bought 764,000 warrants at a price corresponding to market value on acquisition date. From 2002 to 2005, an additional 423,900 warrants were sold, 105,000 in 2005, and 288,500 were distributed free of charge. During the four-year period, 130,600 warrants have been repurchased. The company was therefore in possession of 311,900 warrants as of the balance sheet date. Of the 4,663,100 total outstanding warrants, the management group and Board of Directors hold 1,340,000.

Warrants in thousands

	2005	2004
Outstanding per January 1	4,585,200	4,599,300
Allotted free of charge during the period	—	5,000
Sold during the period	105,000	—
Bought back during the period	(27,100)	(19,000)
Outstanding per December 31	4,663,100	4,585,200
Redeemable per December 31	4,663,100	—

The same issue price and benefit value apply for all of the allotments and purchases conducted under the program. The issue price is SEK 118 per share. The estimated market value, which is equivalent to the benefit value on the date of distribution or purchase, amounted to SEK 7.50 per warrant. The 2001 valuation was conducted by independent valuers from an investment bank. The warrants may be used for subscription to shares from November 30, 2005 to November 30, 2006.

Allotment of warrants to key individuals in Biovitrum has taken place after 2002. When allotment has taken place without charge, the fair value of the warrants is reported as personnel costs with a corresponding increase in shareholder's equity. Fair value is calculated at the time of allotment and allocated over the vesting period.

Financial instruments and shares

	<u>2005</u>
Allotted	170,000

Financial instruments pertaining personnel and board members

	<u>2005</u>
Allotted	4,585,200
Sold	105,000
Repurchased	(27,100)
	<u><u>4,663,100</u></u>

Note 13 Specification of men and women in the Board and Management

<u>Group</u>	<u>2005</u>	<u>2004</u>
The Board Members		
Men	5	7
Women	3	2
	<u>8</u>	<u>9</u>
CEO and executive management		
Men	6	4
Women	2	—
	<u>8</u>	<u>4</u>

Note 14 Absence due to illness

<u>Group</u>	<u>2005</u>	<u>2004</u>
Leave of absence due to illness in relation to ordinary working hours specified according to age and sex:		
29 years and younger	0.41%	0.60%
30–49 years	2.32%	2.10%
50 years and older	2.01%	1.40%
Total leave of absence due to illness in relation to ordinary working hours .	2.06%	1.70%
<i>of which:</i>		
Men	23.48%	19.03%
Women	76.52%	80.97%
Portion of leave of absence due to illness for leave of absence of		
60 consecutive days or more	49.08%	28.32%

The information above refers to the period full year 2005 and full year 2004 in accordance with the Annual Accounts Act 5:18a.

Note 15 Depreciation/amortisation of intangible and tangible fixed assets

<u>Group</u>	<u>2005</u>	<u>2004</u>
Depreciation according to plan by type of asset		
Capitalized software expenses	(3,421)	(3,421)
Koncessioner, patent, licenser, varumärken	(188)	—
Land and buildings	(5,183)	(5,981)
Plant and machinery	(59,682)	(50,172)
Equipment, tools, fixtures and fittings	(16,459)	(22,013)
	<u>(84,933)</u>	<u>(81,587)</u>
Depreciation according to plan by function		
Cost of goods and services sold	(25,262)	(16,352)
Sales and marketing expenses	(64)	(90)
Administration expenses	(5,566)	(5,946)
Research and development expenses	(38,338)	(38,031)
Other operating expenses	(15,703)	(21,168)
	<u>(84,933)</u>	<u>(81,587)</u>

Note 16 Expenses for operational leasing

	<u>2005 Group</u>	<u>2004 Group</u>	<u>2005 Parent Company</u>	<u>2004 Parent Company</u>
Contractual future leasing costs with non-cancellable contracts, falling due as follows:				
Within 1 year	2,127	972	1,107	972
Between 1 and 5 years	1,940	2,064	1,311	2,064
	<u>4,067</u>	<u>3,036</u>	<u>2,418</u>	<u>3,036</u>
Leasing costs for the year	9,571	1,526	3,097	1,526
Contractual future rental costs for premises with non-cancellable contracts, falling due as follows:				
Within 1 year	64,197	56,200	55,295	64,800
Between 1 and 5 years	316,416	211,400	273,734	211,400
Later than 5 years	243,915	26,800	243,915	26,800
	<u>624,528</u>	<u>294,400</u>	<u>572,944</u>	<u>303,000</u>
Leasing costs for the year	85,625	35,754	111,721	56,361

The most important leasing contracts are:

- Näringsparadis 2 AB
- Vasakronan AB
- Föreningssparbanken Finans
- Cohen Capital (former EVP)
- Karolinska Institutet
- Akademiska Hus
- Pfizer

Property sales

Biovitrum AB sold properties through its subsidiaries in 2004 and 2005. Hornsberg 10 was sold in 2005 to Index Real Estate and Paradiset 12–14 was sold in 2004 to Guldsålen J 301 AB, after which Biovitrum entered into leasing agreements regarding the same properties.

The purchase amount for the sale of Hornsberg 10 AB totalled a net amount of SEK 492 million and capital gain mounted to SEK 245 million. Transaction costs have been deducted in the calculation of capital gain. In order to execute the transaction, renegotiation of the leasing agreement with Pfizer was required, which entailed that Biovitrum continue to sub-lease the Hornsberg 10 premises from Pfizer for a period of 2 years. Biovitrum also has the premises at Paradiset, at which the entire Biopharmaceuticals

operation will be consolidated. Provisions for the costs for the vacant premises have been made against the capital gains.

The purchase net amount for the sale of Paradiset AB in 2004 was SEK 266 million, with capital gain amounting to SEK 193 million. Biovitrum has entered into a leasing agreement for the premises that expires in 2019.

The decisive factor for the classification of a leasing agreement is the extent to which the economic risks and benefits associated with ownership of the leasing object are retained by the lesser or transferred to the lessee. As regards properties, an assessment of the leasing agreement will be made concerning both buildings and land.

Biovitrum bases its position primarily on the fact that the current value of minimum leasing charges do not comprise a significant portion of the fair value of the property and that there is generally no significant indication that a financial leasing agreement exists.

As the leasing agreement is considered to be operational, the profit attributable to the sale of the property is reported immediately.

Note 17 Remuneration and Reimbursement paid to Auditors

	Group	
	2005	2004
<i>Öhrlings PricewaterhouseCoopers</i>		
Auditing assignments	950	1,134
Other assignments	2,805	3,183
	3,755	4,317
Other auditor		
Auditing assignments	299	—
Other assignments	72	—

Note 18 Exchange rate differences affecting profit/loss

	Group	
	2005	2004
Exchange rate differences affecting operating profit/loss	2,863	(290)
Financial exchange rate differences	4,374	3,341
	7,237	3,051

Note 19 Result from participation in Group companies

	2005	2004
	Result from limited partnership	27,233
Capital gain from disposal of subsidiaries	344,214	—
Write-down of shares in limited partnership	(32,185)	(34,820)
Dividend from Group company	—	232,800
	339,262	209,409

Note 20 Financial income and similar items

	Group	
	2005	2004
Interest income, miscellaneous	45,056	49,895
Exchange rate gains/losses on short-term receivables	4,374	3,341
Other	—	16
	49,430	53,252

Note 21 Financial expenses and similar items

	<u>Group</u>	
	<u>2005</u>	<u>2004</u>
Interest expenses, miscellaneous	(228)	(215)
Financing expenses	(1,260)	(1,028)
Other	(87)	(143)
	<u>(1,575)</u>	<u>(1,386)</u>

Note 22 Appropriations, miscellaneous

	<u>2005</u>	<u>2004</u>
Tax allocation fund, reversal during the year	—	698
	—	<u>698</u>

Note 23 Tax on profit/loss for the year

Current tax expense (-)/tax income (+)

	<u>2005</u>	<u>2004</u>
Tax expense for the year	(1,000)	—
	<u>(1,000)</u>	<u>—</u>

Deferred tax income

Deferred tax value in loss carry-forward	—	2,345
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Total tax report in the Group	<u>(1,000)</u>	<u>2,345</u>
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Reconciliation of actual tax

	<u>Group</u>	
	<u>2005 Amount</u>	<u>2004 Amount</u>
Pre-tax profit	177,781	93,250
Tax on the basis of prevailing tax rate for Parent Company	(49,779)	(26,110)
Tax differences, divestment of shares in limited partnerships	—	—
Other non-deductible expenses	(2,143)	(2,455)
Non-taxable income	136,175	56,011
Increase in loss carry-forward without corresponding capitalization of deferred tax	(84,923)	(59,286)
Decreased/increase in deductible temporary difference without corresponding capitalization of deferred tax	(331)	34,184
Reported actual tax	<u>(1,000)</u>	<u>2,345</u>

Note 24 Intangible assets

	Group				Total
	R&D	Trademarks and licences	Software and other	I.T.—project in progress	
At January 1, 2004					
Cost	—	—	10,262	—	10,262
Accumulated depreciation and amortization	—	—	(1,425)	—	(1,425)
Net book amount	—	—	8,837	—	8,837
January 1–December 31, 2004					
Opening net book amount	—	—	8,837	—	8,837
Depreciation	—	—	(3,421)	—	(3,421)
Closing net book amount	—	—	5,416	—	5,416
At December 31, 2004					
Cost	—	—	10,262	—	10,262
Accumulated depreciation and amortization	—	—	(4,846)	—	(4,846)
Net book amount	—	—	5,416	—	5,416
January 1–December 31, 2005					
Opening net book amount	—	—	5,416	—	5,416
Exchange differences	—	—	—	—	—
Acquisition of subsidiary	305,500	4,381	—	—	309,881
Additions	—	37,756	—	13,153	50,909
Disposals	—	—	—	—	—
Depreciation	—	(88)	(3,421)	—	(3,509)
Closing net book amount	305,500	42,049	1,995	13,153	362,697
At December 31, 2005					
Cost	305,500	42,137	10,262	13,153	371,052
Accumulated depreciation and amortization	—	(88)	(8,267)	—	(8,355)
Net book amount	305,500	42,049	1,995	13,153	362,697

Note 25 Tangible assets

Group	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Plant in progress	Sum
At January 1, 2004					
Cost	357,109	670,512	276,355	70,257	1,374,233
Accumulated depreciation and amortization	(116,488)	(529,800)	(226,308)	—	(872,596)
Net book amount	240,621	140,712	50,047	70,257	510,637
January 1–December 31, 2004					
Opening net book amount	240,621	140,712	50,047	70,257	501,637
Start up of plant in progress	—	—	—	(70,257)	(70,257)
Additions	261	84,114	30,630	33,071	148,076
Disposals	(57,490)	(547)	(8,672)	—	(66,709)
Depreciation	(5,981)	(50,172)	(22,013)	—	(78,166)
Closing net book amount	177,411	174,107	49,992	33,071	434,581
At December 31, 2004					
Cost	281,302	746,637	232,419	33,071	1,293,429
Accumulated depreciation and amortization	(103,891)	(572,530)	(182,427)	—	(858,848)
Net book amount	177,411	174,107	49,992	33,071	434,581
January 1–December 31, 2005					
Opening net book amount	177,411	174,107	49,992	33,071	434,581
Exchange differences	—	—	—	(17,980)	(17,980)
Acquisition of subsidiary	—	5,632	—	—	5,632
Additions	—	48,547	32,597	59,110	140,254
Disposals	(172,228)	(2,514)	(5,820)	—	(180,562)
Depreciation	(5,183)	(59,682)	(16,459)	—	(81,324)
Closing net book amount	—	166,090	60,310	74,201	300,601
At December 31, 2005					
Cost	—	746,104	136,288	74,201	956,593
Accumulated depreciation and amortization	—	(580,014)	(75,978)	—	(655,992)
Net book amount	—	166,090	60,310	74,201	300,601

Note 26 Pension commitments

Pension obligations are calculated annually, as of balance sheet date, based on actuarial basis.

In addition to the numbers below the Company reports social security expenses on pension costs, 24.26%, in reported assets in accordance with URA 43 (Statement number 43 from the Swedish Financial Accounting Standards Council’s Emerging Issues Task Force)

Financial Fixed Assets

	2005	2004
Deferred pension expenses	1,663	13,219
Receivable social security expenses on pensions	403	(541)
	2,066	12,678

Amounts in the income statement are as follows:

	2005	2004
Service cost	(15,174)	(13,713)
Interest cost	(2,431)	(2,330)
Expected return on plan assets	3,446	3,225
Actuarial gains and losses	(14)	—
Settlement gains and losses	—	(1,348)
	(14,173)	(14,166)

Actual return on assets amounted to SEK 1,751 (3,557) thousands.

Cost for defined benefit plans are reported under following headings in the income statement

	2005	2004
Cost of goods and services sold	(398)	(327)
Sales and marketing expenses	(2,380)	(2,495)
Administration expenses	(7,529)	(7,328)
Research and development expenses	—	(143)
Other operating expenses	(14,173)	(14,166)
	(24,480)	(24,459)

Actuarial assumptions on balance sheet date

(weighted average)	January 1, 2005	December 31, 2005	January 1, 2005	December 31, 2004
Discount rate	5,00%	3.75%	5.25%	5.00%
Average compensation increase	3.50%	3.00%	3.50%	3.50%
Average pension increase	2.00%	2.00%	2.00%	2.00%
Income base increase	2.50%	2.50%	2.50%	2.50%
Expected rate of return on plan assets	5.00%	3.75%	5.25%	5.00%

Amounts in the balance sheet have been calculated as follows:

	2005	2004
Estimated fair value of plan assets at end of year	52,985	59,723
Estimated benefit obligation at end of year	(67,040)	(48,637)
Estimate under (-)/over (+) funded status	(14,055)	11,086
Unrecognised net gain (+)/loss (-)	15,718	2,133
	1,663	13,219

Specification of changes in net asset reported in the balance sheet

	2005	2004
Net asset/liability at beginning of year according to adopted balance sheet	13,219	6,740
Net pension expense	(14,173)	(14,166)
Remuneration	(26,468)	(12,936)
Pension payments	11,106	81
Settlements	—	15,550
Employer contribution	17,979	17,950
Net asset at end of year	1,663	13,219

Note 27 Participants in Group companies

Participants in Group companies

	2005	2004
<i>Accumulated acquisition values</i>		
Accumulated acquisition values, opening balance	488,563	476,980
Acquisitions	294,015	164
Divestment of participation in Group Companies	—	(10)
Participation in limited partnerships	27,234	11,429
	809,812	488,563
<i>Accumulated write-down</i>		
Opening balance	(34,820)	—
This years write-down	(32,185)	(34,820)
	(67,005)	(34,820)
Book value end of period	742,807	453,743

Specification of Parent Company and Group's holding in Group companies

Subsidiary/Corp Identity No/Domicile

Book value end of period

	No of shares	Share in % ⁽¹⁾	Book value
Biovitrum Treasury AB, 5566 16-7317, Stockholm	1,000	100.0	100
Paradisat B.V., 34209249, Amsterdam, Holland	180	100.0	164
Fastighetsaktiebolaget Paradiset, 556149-2611, Stockholm	900	90.0	90
<i>Hornet Fastighetsbolag KB, 916613-5534, Stockholm</i>	<i>1</i>	<i>1.0</i>	<i>—</i>
<i>Fastighetsbolaget Paradiset KB, 916400-9350, Stockholm</i>	<i>1</i>	<i>1.0</i>	<i>—</i>
Hornet Fastighetsbolag KB, 916613-5534, Stockholm	1	99.0	412,101
Fastighetsbolaget Paradiset KB, 916400-9350, Stockholm	1	99.0	36,137
Nya Hornsberg 10 AB, 556568-8321, Stockholm	1,000	100.0	100
Nya Paradiset 19 AB, 556603-1943, Stockholm	1,000	100.0	100
<i>Fastighetsaktiebolaget Paradiset, 556149-2611, Stockholm</i>	<i>100</i>	<i>10.0</i>	<i>—</i>
Cambridge Biotechnology Limited, 4221335, Cambridge UK	1,000	100.0	127,308
Arexis AB, 556573-5130, Göteborg	1,000	100.0	166,607
<i>Arexis Inflamm AB, 556584-4676, Gothenburg</i>	<i>1,000</i>	<i>100.0</i>	<i>100</i>
			742,807

(1) Refer to the percentage of capital holding which is equal to the percentage of voting rights.

Note 28 Transactions with associates

The Biovitrum Group's transactions with associates, other than those that covered by Group reporting, consist of transactions with Pfizer. All transactions with Pfizer were at arms length. During the year, the purchase of goods and services as well as rent from Pfizer amounted to SEK 27 million (40). The majority of these expenses are property-related, *i.e.* rental and operation costs.

Biovitrum and Pfizer share the royalties from Wyeth. Wyeth pays Biovitrum which, in turn, pays Pfizer. Pfizer's share amounts to SEK 150 million (132).

During 2005, Biovitrum AB's invoicing Pfizer amounted to SEK 91 million (117). The majority of this income is attributable to process development services performed by Biovitrum.

Property-related income, primarily rents, from Pfizer amounted to SEK 9 million (35).

Note 29 Acquired operations

During the year Biovitrum acquired two companies: Cambridge Biotechnology (CBT) in April and Arexis in August. Payment for both acquisitions was in cash and Biovitrum's ownership interest amounts to

100% of both companies. The total purchase amount for the acquired companies, including milestone payments made to CBT, was SEK 254 million.

The table below provides a specification of surplus values. The majority of the surplus value is in Research and Development. In conjunction with the bookclosing, these surplus values were tested and no impairment was deemed to exist. The method used was probability-adjusted future cash flows.

The acquisition of CBT could result in further milestone payments until Proof of Concept, *i.e.* after the successful completion of clinical phase IIa studies (PoC). In total, a further payment in the form of cash and Biovitrum shares could be required. The shares and the majority of the cash payment take place in conjunction with PoC.

The acquisition of Arexis can also result in further payments, if certain criteria are fulfilled. The agreement contains a total of 17 milestones with a total amount of SEK 675 million. These milestones are distributed among five different projects and are valid until such time as the product/products are approved for launch. Each payment made is comprised of 50% cash, with the remainder in the form of Biovitrum shares.

Income effects attributable to the acquired companies amounted to SEK 74.4 million, after taxes. Had the acquisition taken place per January 1, the company's profit would have been SEK 54.3 million lower, *i.e.* a total of SEK 128,7 million.

Any additional purchase amounts will be reported when milestones have been reached, as it is uncertain when or if the payments will be made.

Cambridge Biotechnology Ltd.

	Purchase price allocation	
	(Amounts in SEK million)	
Purchase price		
—cash payment		111.2
—direct cost related to the acquisition		16.1
Total purchase price		127.3
Fair values acquired net assets		(31.3)
Other intangible assets		96.0
	Assets and liabilities in acquired operation	
	Fair Value	Acquired book value
	(Amounts in SEK million)	
Acquired R&D	133.3	—
Tangible assets	4.0	4.0
Other current assets	37.7	37.7
Total assets in acquired operations	175.0	41.7
Deferred income tax liabilities	37.3	
Current liabilities	10.3	10.3
Total liabilities in acquired operations	47.6	10.3
Acquired net assets	127.4	31.4
		Liquid funds
		(Amounts in SEK million)
Liquid funds		
Cash payment		(111.2)
Paid acquisition costs		(16.1)
Liquid funds in acquired operations		28.5
Effect on liquid funds		(98.8)

Arexis Group

	Purchase price allocation (Amounts in SEK million)
Purchase price	
—cash payment	125.0
—direct cost related to the acquisition	1.7
Total purchase price	126.7
Fair values acquired net assets	9.1
Other intangible assets	135.8

	Assets and liabilities in acquired operation	
	Fair value	Acquired book value
	(Amounts in SEK million)	
Acquired R&D	172.2	—
Other intangible assets	2.6	2.6
Tangible assets	1.7	1.7
Deferred income tax receivables	11.8	—
Other current assets	8.6	8.6
Total assets in acquired operations	196.9	12.9
Long-term borrowings	5.4	5.4
Deferred income tax liabilities	48.2	—
Current liabilities	16.6	16.6
Total liabilities in acquired operations	70.2	22.0
Acquired net assets	126.7	(9.1)
Liquid funds		
Cash payment	(125.0)	
Paid acquisition costs	(1.7)	
Liquid funds in acquired operations	2.2	
Effect on liquid funds	(124.5)	

Note 30 Deferred tax receivables and liabilities

	Group 2005		
	Deferred tax receivable	Deferred tax liability	Net
Acquired R&D	—	(85,500)	85,500
Deferred pension expense	—	(578)	(578)
Loss carry-forward	12,378	—	12,378
	12,378	(86,078)	(73,700)
Offsetting	(578)	578	—
Net deferred tax receivable	11,800	(85,500)	(73,700)
	Group 2004		
	Deferred tax receivable	Deferred tax liability	Net
Deferred pension expense	—	4,599	4,599
Loss carry-forward	(4,599)	—	(4,599)
	(4,599)	4,599	—
Offsetting	4,599	(4,599)	—
Net deferred tax receivable	—	—	—

Note 32 Accounts receivable and other receivables

	Group	
	2005	2004
Accounts receivable	84,298	140,545
Minus: reservations for decrease in receivable	—	—
Accounts receivable—net	84,298	140,545
Tax receivables	23,069	4,204
Other receivables	54,901	26,535
Total other receivables	77,970	30,739
Total accounts receivables and other receivables	162,268	171,284

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customer, internationally dispersed.

Note 33 Prepaid expenses and accrued income

	Group	
	2005	2004
Accrued royalty reserves	38,949	32,000
Accrued co-promotion revenues	27,838	22,600
Accrued contract development revenues	9,732	9,564
Accrued interest income	5,685	6,242
Accrued research contribution	2,881	—
Prepaid rents	16,809	9,607
Prepaid insurance expenses	3,184	2,338
Prepaid IT Software & Licences	3,007	5,394
Real Estate development	—	3,869
Sub-contracted work semi-finished products	—	4,975
Contribution received	2,040	—
Other items	30,963	10,885
	141,088	107,474

Note 34 Current investments and liquid funds

Specification of security

	Group			
	2005		2004	
	Listed value or equivalent	Book value	Listed value or equivalent	Book value
<i>Short-term investment</i>				
Discount securities	258,503	258,503	230,408	230,426
Coupon securities	203,741	203,741	218,528	216,312
Structured bonds	100,445	100,445	91,874	90,000
	562,689	562,689	540,810	536,738
<i>Liquid funds</i>				
Interest rate funds	821,917	821,917	990,275	990,275
Cash and Bank	236,692	236,692	58,119	58,119
	1,058,609	1,058,609	1,048,394	1,048,394

Effective rate on short-term investment has been 2,07%. These investments has an average maturity date of 30 days.

Note 35 Current assets

There are no receivables maturing later than 1 year from balance sheet date.

Note 36 Other liabilities, long-term

	Group	
	2005	2004
Licence sales Amgen	309,086	390,781
	309,086	390,781

Note 37 Other provisions**Provisions**

	Group	
	Year ended December 31,	
	2005	2004
Opening balance	34,172	—
Costs incurred	(25,168)	—
Allocation this year	84,107	34,172
Closing balance	93,111	34,172

Other provisions relate to restructuring cost of rent, personnel and disposal of tangible assets.

Other provisions

	Group	
	Year ended December 31,	
	2005	2004
Long term	14,774	—
Short term	78,337	34,172
Total provisions	93,111	34,172

Note 38 Accrued expenses and deferred income

	Group	
	2005	2004
Provision for vacation pay and bonus including social security contributions .	58,528	53,259
Accrued social security contributions	27,713	20,062
Restructuring reserve	—	1,447
Restructuring reserve Hornet	36,573	—
Licence agreements Amgen	176,621	142,102
Prepaid revenues	45,671	66,305
Other items	52,430	20,886
	397,536	304,061

Note 40 Events after end of the fiscal year

In January 2006, Biovitrum and Syntonix in the USA entered into an agreement to jointly develop and commercialize recombinant Factor IX to treat hemophilia. Syntonix technology has resulted in a promising, long-acting recombinant Factor IX product that has the potential to reduce the number of intravenous injections required for hemophilia B patients. This leads to increased convenience for the patients and thereby has interesting market potential. The project is in preclinical phase. Biovitrum paid USD 6 million, of which USD 4 million was in licensing fees and USD 2 million was an investment in shares in Syntonix. Biovitrum will also make milestone payments when certain criteria are achieved. Biovitrum and Syntonix will share development costs and future profits.

Yet another co-operation agreement was announced in February, when the Danish company Symphogen entered into an agreement to jointly develop and commercialize Symphogen's leading product, Sym001, a combination of 25 different recombinant anti-Rhesus D antibodies for the treatment and

prophylactic treatment of certain blood disorders. Biovitrum paid EUR 2 million in licensing fees and will make further milestone payments when certain criteria are met. Biovitrum and Syntonix will share future costs and profits.

In February, Biovitrum also acquired exclusive license and distribution rights for the pharmaceutical preparation Aloxi in the Nordic region. Aloxi is a potent and long-acting medication to combat nausea frequently arising in conjunction with cancer treatments. Aloxi belongs to the second generation of serotonin subtype 3 (5-HT₃) receptor antagonists. Biovitrum paid an initial licensing fee of EUR 200,000.

Note 41 Important estimations and assumptions for accounting purposes

The group makes estimations and assumptions about the future. The estimations for accounting purposes that result, by definition, seldom correspond to actual results. The estimations and assumptions that result in high risk for significant adjustments in the reported values of assets and liabilities for the coming financial year are described below.

Impairment testing of acquired R&D and other intangible assets

In the calculation of future cash flows for acquired projects for the Company's assessment of impairment of acquired R&D, assumptions regarding future circumstances and estimations of key parameters have been made. However, it is the opinion of Company management that potential changes, on the basis of currently available information, will not have such significant effects that the recoverable amounts would be reduced to a value lower than the reported value.

Assumptions in the calculation of pension benefits

The actuarial calculations of pension commitments and pension costs are based on actuarial assumptions as specified in Note 2. A change in any of these assumptions could result in a significant effect on the calculated pension commitments and pension costs.

None of the assumptions in Note 2 deviate from what can be understood as accepted practice in the Swedish market.

Indirect production costs

Costs for production consist of direct production costs such as raw materials, consumables, media, and labour, as well as indirect costs such as personnel costs, depreciation, maintenance, etc.

The indirect production costs are calculated based on a method for the calculation of standard costs. This method is regularly revised in order to ensure a reasonable calculation of the degree of usage, lead times and other relevant factors. Changes in the method for calculation of indirect production costs, including degree of usage, lead times, etc, can have an effect on the gross margin and the overall valuation of inventories.

Income

The Group deems the likelihood of future economic benefit accruing to the Group on the basis of a number of factors, including the customer's payment history and credit-worthiness. On certain occasions, the Group requests payment in advance, a signing fee, from the customer. If the Group deems a receivable as doubtful, a provision is made for the receivable until it is possible to determine whether or not the Group will receive payment. According to the Group's routines for advances, advance payments are reported as other current liabilities until they are earned.

In addition, the Company reports allocated income from licensing agreements. According to the milestone-method, continuous milestones are considered as separate from the initial licensing fee. The initial licensing fee is allocated over the agreement's estimated useful lifetime, as no separate earning period is considered to have been completed at the time it is received. However, subsequent milestone payments are considered to belong to a particular, completed portion of the agreements. This portion is recognised as income immediately upon receipt, i.e. when it is earned.

In September 2003, Biovitrum entered into a "Development and Marketing Collaboration Agreement" with Amgen. This agreement is quite complex and contains a number of components which are to be delivered at different points in time. On signing the agreement, Biovitrum received a large payment in the form of an initial licensing fee. In addition, Biovitrum can receive a number of milestone

payments during the development period. The Company has deemed that the earning period shall be five years, based on the design of the project and the formulation of the agreement. Of the original payment of SEK 711 million, SEK 142 million is recognised as income annually until September 2008. In December 2005, the agreement was expanded to include the global rights to 11β-HSD₁, see Note 10. Amgen paid a licensing fee of SEK 94 million, which was allocated over the same period as the first licensing fee. In December 2005, Amgen made a milestone payment of a further SEK 64 million, which was recognised as income in its entirety.

The company is evaluating the current status of the project in order to assess whether the profit shall continue to be allocated over the estimated economic useful lifetime.

Taxes

Deferred tax receivables have been reported in the Group based on an assessment that it will be possible to utilise them to lower tax payments in the future. Deferred tax is calculated according to the balance sheet method, based on the temporary differences between reported and tax values of assets and liabilities. The amounts are calculated based on the manner in which temporary differences are expected to be offset and with the application of the tax rates and tax regulations that have been established or announced on the reporting date.

Leasing/Rent

The Company has made an assessment of the current value of future minimum leasing charges and related these to the selling prices indicated in the property sales agreements in 2004 and 2005. See Note 16.

The minimum leasing charges are, in this case, the rental costs that are established in the leasing agreements. Variable fees and any maintenance costs and taxes are excluded. The distribution of minimum leasing fees between land and buildings shall, according to IAS 17, be based on the fair value of the respective assets. The Company has utilised the property's tax assessment value as the basis of distribution in order to divide minimum leasing charges between buildings and land.

Land that is not transferred to the lessor on expiration of the leasing agreement continues to always be an operational leasing agreement. In this case ownership rights to the land are not transferred to Biovitrum at the end of the term of the lease, which is the reason no calculation of minimum leasing charges has been made.

In the context of the fact that the current value of the minimum leasing charges does not constitute a significant portion the property Paradiset's fair value, this cannot be seen to be an indication of a financial leasing agreement. In conjunction with the sale of Hornsberg 10, Biovitrum signed an agreement with Index Real Estate for two years, which is the reason the company deems the rental to be an operational lease.

Note 42 Transition to IFRS

Group

From January 1, 2005, all companies listed on any stock exchange within the European Union are required to prepare their consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The Swedish Financial Accounting Standards Council began transition to IFRS several years ago by issuing reporting recommendations (RR) based on IFRS.

IFRS requires that comparison figures for financial year 2004 be recalculated in accordance with the principles that will be in force per December 31, 2005. The comparison figures for 2004 have been recalculated to agree with IFRS.

Parent Company

Biovitrum AB continues to utilise the principles that apply to legal entities, which entails continued application of Financial Accounting Standards Council recommendations to the extent that they are applicable for the parent company of a group. As of January 1, 2005, Biovitrum follows Financial Accounting Standards Council recommendation RR 32 "Reporting for Legal Entities", which replaces previous recommendations RR 1–29. In this context, transition to IFRS will not result in a change from

2004 accounting principles for the Parent Company. Therefore, comparison figures have not required recalculation and are unchanged from those reported in the 2004 annual financial statements.

Due to application of RR 32 being future-orientated during 2005, one principle has changed in the Parent Company's accounting. As according to RR 32, the Parent Company is to present its report in accordance with all applicable IFRS/IAS if the rules do not provide an exemption from application, current investments are reported at fair value. In the 2004 financial statements, these investments were reported according to the lowest value principle. As the Swedish Companies Act permits changes in value during a period to be reported in the income statement, and, furthermore, this is the principle chosen for the Group's accounting in accordance with IAS 39, Biovitrum will adopt the same principles as the Group in this regard. For further information, see comments under IAS 39, below.

Changes in accounting principles in conjunction with transition to IFRS

Below follows a description the change of accounting principles that arise as a result of Biovitrum's adaptation to IFRS, as well as of the effects resulting from this change.

Those recommendations that have resulted in changes in accounting principles compared with the 2004 annual financial statements are discussed under separate headings. The calculated effect of transition to IFRS on 2004 comparison figures is preliminary, as these regulations may be changed during 2005.

IFRS 1

IFRS 1 governs the manner in which a company is to act in conjunction with first-time application of IASB's international reporting recommendations, and, in accordance with these, the recommendations have been applied retroactively to the extent required by IFRS 1.

IFRS 2

Biovitrum reports its employee warrants program in accordance with IFRS 2. To a certain extent, such reporting has also been done retroactively as regards warrants issued within the time interval for the transitional regulations for IFRS 2. For warrants issued prior to November 7, 20002, Biovitrum has not applied IFRS 2.

This recommendation entails that the warrants program be valued at the time of issue at fair value, and that the value be subsequently allocated over the vesting period as personnel expenses. This remuneration to employees resulted in the issue by Biovitrum of equity instruments (subscription options to which employees are entitled) and therefore the cost for each period gives rise to a corresponding increase in restricted equity.

According to previously applied principles, the warrants program itself has not generated any personnel costs other than social security costs on benefits for options allotted without receipt of payment equivalent to the corresponding market value of the warrants.

IAS 19

As of January 1, 2004, Biovitrum is applying Financial Accounting Standards Council Recommendation RR 29: Employee Benefits. As the company has previous applied RR 29, which corresponds to IAS 19, no change is required as regards Biovitrum's reporting of pension commitments compared with the 2004 financial statements.

IAS 39

The possibility of applying IAS 39 in 2004 has not been utilised. The change in principles regarding valuation of financial instruments takes place from January 1, 2005. Biovitrum has chosen to report all changes in value of current investments in the income statement. The change in principles as regards the valuation of short term investments at fair value does not result in a deferred tax effects per January 1, 2005, as offset against Biovitrum's accumulated loss carry forward is deemed possible.

IFRS opening balance January 1, 2004

Effects of change in accounting principles affecting opening balances for IFRS are:

- Warrants. Application of IFRS 2 as regards warrants provides an effect on the opening balance of equity, which is reported as an increase in the Group's restricted equity in the amount of SEK 0.6 million and a corresponding increase in loss carried forward
- Revenue recognition. Licensing income received in October 2003 from Amgen amounting to SEK 711 million was recognised immediately, in accordance with previous accounting principles. With the application of IFRS, this income is to be allocated. The allocation period is five years and the opening effect per January 1, 2004 is a decrease in equity of SEK 675 million and a corresponding increase in current liabilities of SEK 141,2 million and in long-term liabilities of SEK 532.9 million
- Current investments amounting to SEK 497 million have been reclassified as liquid funds in accordance with IAS 39

IFRS-related effects on comparison figures for December 31, 2004

- Warrants. The application of IFRS to warrants has resulted in an increase in personnel costs in 2004 amounting to SEK 0.8 million, as well as an increase in restricted equity in corresponding amounts
- Current investments with a term to maturity of fewer than 3 months from the date of acquisition in an amount of SEK 990.3 million have been reclassified as Liquid funds in accordance with IAS 39. The instruments in question refer to Interest funds
- Revenue recognition. Licensing income received in October 2003 from Amgen amounting to SEK 711 million was recognised immediately, in accordance with previous accounting principles. With the application of IFRS, this income is to be allocated. The effect on December 31, 2004 comparison figures is a decrease in equity of SEK 532.9 million and an increases in current liabilities of SEK 142.1 million and in long-term liabilities of SEK 390.8 million

IFRS-related effects on comparison figures for December 31, 2004 due to correction of errors

- In actuarial calculations of pension commitments for 2004, the settlement of the Swedish defined benefit plan that Biovitrum implemented in 2004 was not correctly taken into consideration. As a result, pension costs for 2004 calculated according to the accounting principles applicable at the time, RR 29, was SEK 15.4 million too low, of which SEK 3.7 million refers to deferred tax.
- Management fees have been improperly classified as income, which resulted in an increase in financial income of SEK 1.1 million (and an increase in a corresponding amount)

CONSOLIDATED INCOME STATEMENT

	Previous Presentation	Adjustment	Transition to IFRS	IFRS
	2004 Full Year	2004 Full Year	2004 Full Year	2004 Full Year
	(Amounts in SEK million)			
Total revenues	645.3	—	142.1	787.4
Cost of goods and services sold	(248.3)	—	—	(248.3)
Gross profit	397.0	—	142.1	539.1
Sales and marketing expenses	(34.5)	—	—	(34.5)
Administration expenses	(129.2)	(19.2)	—	(148.4)
Research and Development	(534.7)	—	(0.8)	(535.5)
Items affecting comparability	193.2	—	(193.2)	—
Other operating revenues	57.4	—	193.2	250.6
Other operating expenses	(29.9)	—	—	(29.9)
Operating profit/loss	(80.7)	(19.2)	141.3	41.4
Interest income and similar items	52.2	1.1	—	53.3
Interest expenses and similar items	(0.3)	(1.1)	—	(1.4)
	51.9	—	—	51.9
Profit/loss after financial items	(28.8)	(19.2)	141.3	93.3
Tax on profit/loss for the period	2.3	—	—	2.3
Profit/loss for the period	(26.4)	19.2	141.3	95.6
Earnings/loss per share after tax (SEK)	(0.51)	—	—	1.83

The Swedish Financial Accounting Standards Council requires that redemption prices be discounted. However, in accordance with IFRS, Biovitrum does not discount the redemption price.

CONDENSED CONSOLIDATED BALANCE SHEET

	Previous Presentation	Transition to IFRS	IFRS	Current	Adjustment	Transition to IFRS	IFRS
	2003 Full *Dec 31	2004 Full Jan 1	2004 Full Jan 1	2004 Dec 31	2004 Dec 31	2004 Dec 31	2004 Full Dec 31
(Amounts in SEK million)							
ASSETS							
Fixed Assets							
Intangible fixed assets . . .	8.8	—	8.8	5.4	—	—	5.4
Tangible fixed assets	501.7	—	501.7	434.6	—	—	434.6
Financial fixed assets	6.0	—	6.0	16.4	(3.7)	—	12.7
	516.5	—	516.5	456.4	(3.7)	—	452.7
Current Assets							
Inventories	66.9	—	66.9	84.2	—	—	84.2
Current receivables, non- interest bearing	189.6	—	189.6	294.2	(15.4)	—	278.8
Short-term investments . .	1,485.0	(497.0)	988.0	1,527.0	—	(990.3)	536.7
Liquid funds	120.9	497.0	617.9	58.1	—	990.3	1,048.4
	1,862.4	—	1,862.4	1,963.5	(15.4)	—	1,948.1
Total assets	2,378.9	—	2,378.9	2,420.0	(19.2)	—	2,400.8
EQUITY AND LIABILITIES							
Shareholders' equity	2,102.1	(675.0)	1,427.1	2,075.6	(19.2)	(532.9)	1,523.5
Long-term liabilities							
Long-term liabilities, non- interesting bearing	—	532.9	532.9	—	—	390.8	390.8
	—	532.9	532.9	—	—	390.8	390.8
Current liabilities							
Current liabilities, non- interesting bearing	276.8	142.1	418.9	344.4	—	142.1	486.4
	276.8	142.1	418.9	344.4	—	142.1	486.4
Total equity and liabilities	2,378.9	—	2,378.9	2,420.0	(19.2)	—	2,400.8
Equity							
Equity according to previously relevant accounting principles						2,102.1	2,075.6
Adjustment of pension liabilities 2004						0	(19.2)
Distribution over a period of time of deferred income, Amgen						(675.0)	(532.9)
Equity according to IFRS						(675.0)	(552.1)
						1,427.1	1,523.3

Other transition principles according to IFRS 1 and IFRS standards

When adopting IFRS, Biovitrum had a possibility to value tangible assets at actual value. Biovitrum has chosen not to apply that possibility, but to continue to follow present principles i.e. acquisition value reduced with accumulated depreciations.

Biovitrum has not adopted IFRS 2 as regards share related remunerations on shareholders' equity, which were allocated on November 7, 2002 or earlier.

According to the IFRS transition principles, actuarial profit and loss that has arisen before January 1, 2004 shall be set to zero and be carried forward to shareholders' equity on date of transition. Biovitrum has set to zero all actuarial profit and loss as per 2004.

To the Board of Directors of Biovitrum AB

Audit report regarding historical financial statements

We have examined the financial statements for Biovitrum AB presented on pages F-43–F-69, which comprise the balance sheets as per 31 December 2004 and 31 December 2003, and the income statements and cash flow statements for the financial years ending on these dates, as well as a summary of significant accounting principles and other disclosures.

The Board of Directors' and the Managing Director's responsibility for the financial statements

The preparation and presentation of the financial statements in an accurate manner in accordance with the Annual Accounts Act and according to the requirements of the Prospectus Directive implemented by Commission Regulation 809/2004/EC are the responsibility of the Board of Directors and Managing Director. This obligation includes the design, implementation and maintenance of internal controls relevant for the preparation and appropriate presentation of financial statements which are free of material misstatement, whether the misstatements are due to impropriety or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements on the basis of our audit. We have conducted our audit in accordance with proposed recommendation RevR 5, *Examination of prospectus*, issued by FAR, the institute for the accounting profession in Sweden. This recommendation requires that we plan and perform our audit in order to obtain a high, but not absolute, degree of assurance that the financial statements are free of material misstatement.

Work performed

An audit in accordance with FAR's proposed recommendation RevR 5 entails that we execute audit procedures to obtain audit evidence supporting the amounts and disclosures contained in the financial statements. The audit procedures selected are based on our assessment of the risk for material misstatement in the financial statements, whether due to impropriety or error. In assessing such risks, we consider the internal controls that are relevant to the company's preparation and fair presentation of the financial statements as a basis for designing audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes the evaluating the accounting principles applied and the reasonableness of significant accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the financial statements.

We believe that our audit provides a reasonable basis for our opinion set out below.

Opinion

It is our opinion that the financial statements give a true and fair view of Biovitrum AB's results and financial position per 31 December 2005 and 31 December 2004 in accordance with the Annual Accounts Act.

Stockholm, 1 September 2006

PricewaterhouseCoopers

Peter Bladh
Authorised Public Accountant

INCOME STATEMENT—GROUP

	Note	Year ended December 31,	
		2004	2003
(SEK in thousands)			
Total Revenues	1	645,285	1,657,378
Cost of goods and services sold		(248,324)	(611,980)
Gross profit		396,961	1,045,398
Sales and marketing expenses		(34,510)	(37,176)
Administration expenses		(129,179)	(114,986)
Research and development expenses		(534,698)	(583,167)
Result from divestment real estate property		193,185	—
Other operating revenues	7	57,426	59,837
Other operating expenses	8	(29,887)	(36,095)
Operating profit/loss	2-6, 9-10, 14	(80,702)	333,811
Result from financial items			
Interest income and similar items	12	52,224	36,842
Interest expense and similar items	13	(358)	(924)
		51,866	35,918
Profit/loss after financial items	14	(28,836)	369,729
Tax on profit for the year	16	2,345	—
Profit/loss for the year		(26,491)	369,729
Earnings/loss per share		(0.51)	7.06
Earnings/loss per share after dilution ⁽¹⁾		(0.51)	7.06
Number of shares		52,331,400	52,331,400
Average number of shares		52,331,400	52,331,400
Outstanding warrants causing dilution		425,267	567,033
Number of shares after full dilution		52,331,400	52,331,400
Average number of shares after full dilution ⁽¹⁾		52,331,400	52,331,400

(1) When loss, outstanding warrants does not result in any dilution.

BALANCE SHEET—GROUP

	Note	Year ended December 31,	
		2004	2003
(SEK in thousands)			
ASSETS			
Fixed assets			
Intangible fixed assets			
Capitalized software expenses	17	5,416	8,837
		<u>5,416</u>	<u>8,837</u>
Tangible fixed assets			
Land and buildings	18	177,411	240,621
Plant and machinery	19	174,107	140,712
Equipment, tools, fixtures and fittings	20	49,992	50,047
Constructions in progress and advance payments for tangible fixed assets	21	33,071	70,257
		<u>434,581</u>	<u>501,637</u>
Financial fixed assets			
Deferred pension expenses	5	16,426	—
		<u>16,426</u>	<u>—</u>
Total fixed assets		456,423	510,474
Current assets 24			
Inventories			
Raw materials and consumables		13,883	4,609
Work-in-progress		28,992	41,153
Finished products and goods for sale		41,323	21,138
		<u>84,198</u>	<u>66,900</u>
Current receivables			
Accounts receivables, trade		140,545	86,831
Tax receivables		4,204	1,139
Other receivables		26,535	37,140
Prepaid expenses and accrued revenues	25	122,922	64,475
		<u>294,206</u>	<u>189,585</u>
Short-term investments	26	1,527,013	1,485,098
Cash and bank balances		58,119	120,891
		<u>1,963,536</u>	<u>1,862,474</u>
Total current assets		1,963,536	1,862,474
TOTAL ASSETS		<u>2,419,959</u>	<u>2,372,948</u>

	Note	Year ended December 31,	
		2004	2003
(SEK in thousands)			
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
<i>Restricted Equity</i>			
Share capital		23,760	23,760
Restricted reserves		797,415	797,917
		821,175	821,677
<i>Non restricted equity</i>			
Non-restricted reserves		1,280,937	904,675
Net profit/loss for the year		(26,491)	369,729
		1,254,446	1,274,404
Total shareholders' equity		2,075,621	2,096,081
Current liabilities			
Prepayments from customers		14,140	—
Accounts payable		124,758	83,105
Other liabilities		9,309	21,956
Accrued expenses and prepaid revenues	28	196,131	171,806
		344,338	276,867
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	29	2,419,959	2,372,948

	Note	Year ended December 31,	
		2004	2003
(SEK in thousands)			
PLEGGED ASSETS AND CONTINGENT LIABILITIES—GROUP			
Pledged assets			
For own liabilities and provisions			
Blocked liquid funds, bank account		—	1,263
		—	1,263
Contingent liabilities		None	None

SHAREHOLDERS' EQUITY—GROUP

	Share capital	Restricted equity	Non- restricted equity	Total shareholders' equity
	(SEK in thousands)			
Shareholders' equity, January 1, 2003	23,760	797,976	904,102	1,725,838
Warrants issued		723		723
Repurchased warrants		(209)		(209)
Transfers between restricted and non-restricted equity		(573)	573	—
Net profit/loss for the year			369,729	369,729
Shareholders' equity, December 31, 2003	23,760	797,917	1,274,404	2,096,081
Shareholders' equity January 1, 2004	23,760	797,917	1,274,404	2,096,081
Adjustment of opening balance ⁽¹⁾			6,030	6,030
Adjusted shareholders' equity, January 1, 2004 . .	23,760	797,917	1,280,434	2,102,111
Translation difference		—	1	1
Transfers between restricted and non-restricted equity		(502)	502	—
Net profit/loss for the year			(26,491)	(26,491)
Shareholders' equity, December 31, 2004	23,760	797,415	1,254,446	2,075,621

(1) One-time effect of implementing the new accounting standard RR29 Employee benefits.

CASH FLOW STATEMENT—GROUP

	Year ended December 31,	
	2004	2003
	(SEK in thousands)	
Operations		
Profit/loss for the year	(26,491)	369,729
Adjustment for items not affecting cash flow	(128,093)	133,271
	(154,584)	503,000
Cash flow from operations before change in working capital	(154,584)	503,000
Change in working capital		
Decreased(+)/Increase(−) inventories	(17,298)	78,531
Decreased(+)/Increase(−) operating receivables	(104,621)	163,786
Increase(+) operating liabilities	67,471	10,285
	(209,032)	755,602
Cash flow from operations	(209,032)	755,602
Investment activities		
Investment in intangible fixed assets	—	(5,347)
Investment in tangible fixed assets	(77,819)	(80,261)
Divestment tangible fixed assets	265,993	—
Investment in short-term financial assets	(305,199)	(68,066)
	(117,025)	(153,674)
Cash flow from investment activities	(117,025)	(153,674)
Financial activities		
Issue of warrants	—	723
Re-purchase of warrants	—	(209)
	—	514
Cash flow from financing activities	—	514
Net change in liquid funds	(326,056)	602,442
Liquid funds at beginning of year	1,374,450	772,008
Liquid funds at end of year	1,048,394	1,374,450

SUPPLEMENTARY DATA TO THE CASH FLOW STATEMENT—GROUP

	<u>Year ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
	(SEK in thousands)	
Interest paid and received		
Interest received	47,036	33,558
Interest paid	358	924
Adjustments for items not affecting cash flow		
Write-downs and amortization/depreciation of assets	81,587	89,660
Write-down of inventory	—	42,102
Capital gains/loss from divestment of fixed assets	(199,950)	—
Capital gains/loss from divestment of fixed assets	666	1,509
Deferred pension expenses	(8,051)	—
Deferred tax	(2,345)	—
	<u>(128,093)</u>	<u>133,271</u>
Acquisition of subsidiaries and other business units		
Acquired assets and liabilities		
Liquid funds	164	—
Total assets	<u>164</u>	<u>—</u>
Purchase sum	164	—
Purchase sum paid	<u>164</u>	<u>—</u>
Less: Liquid funds in acquired operation	(164)	—
Effect on liquid funds	<u>—</u>	<u>—</u>
Liquid funds		
<i>Liquid funds include the following:</i>		
Cash and bank balances	58,119	120,891
Short-term investments equivalent to liquid funds ⁽¹⁾	990,275	1,253,559
	<u>1,048,394</u>	<u>1,374,450</u>

(1) Short-term investments, including non-liquid short-term investments, and cash and bank balances, together, amount to SEK 1,585 million.

The above items have been classified as liquid funds on the following basis:

- They are subject to minimal risk for fluctuation in value.
- They can immediately be converted into cash funds.
- They have a maximum maturity of three months from the initial date of validity.

ACCOUNTING PRINCIPLES AND NOTES TO THE FINANCIAL STATEMENTS

General accounting principles

The annual report has been prepared in accordance with the Swedish Annual Accounts Act, statements from the Swedish Financial Accounting Standards Council's Emerging Issues Task Force and the recommendations of the Swedish Financial Accounting Standards Council for the financial year 2004 (RR 1:00—RR 29), with the exception of RR 25 Segment Reporting which Biovitrum has chosen not to apply, as the Company is not listed on the stock exchange.

Amounts are presented in TSEK (thousands of Swedish Kronor) unless otherwise stated. MSEK is an abbreviation for millions of Swedish Kronor.

Amounts and numbers listed in parenthesis refer to comparative figures from 2003.

New accounting principles

As from January 1, 2004 Biovitrum applies the Swedish Financial Accounting Standards Council's recommendation RR 29 Employee Benefits to its financial reporting.

RR 29 Employee Benefits was issued by the Swedish Financial Accounting Standards Council in December 2002 and is, in all significant respects, consistent with IAS 19 Employee Benefits.

For the Group's financial position and results, the implementation of RR 29 has resulted in a positive effect on profit of MSEK 8.1 for 2004 and in a financial asset amounting to MSEK 16.4. The effect on income for the previous year, MSEK 8.3 with a tax deduction of 28%, MSEK 6.0, has been reported as adjusted of opening balance of equity. This recommendation has not implied any change in the Parent Company's reported income or financial position.

For more information refer to the section entitled Employee benefits and Note 5.

Transition to IFRS

As from the first quarter in 2005, Biovitrum reports its financial results in accordance with the IFRS (International Financial Reporting Standards).

The EU adopted the IAS 2005 regulation in June 2002, entailing that companies quoted on the stock exchange within the EU are obliged to prepare and publish their consolidated accounts in accordance with IFRS as from 2005. Biovitrum will apply IFRS even though it is not an obligation for the Company.

The consolidated accounts were prepared in accordance with Swedish accounting principles prior to January 1, 2005. In recent years, these principles have been adjusted to a large extent to IFRS, and companies applying IFRS for the first time are allowed certain exceptions from the retroactive application requirement.

The transition to IFRS is expected to have a limited effect, in terms of extent, on Biovitrum's reporting. The difference between results after taxes reported according to Swedish accounting principles and according to IFRS in 2004 is, to a large degree, attributable to revenue recognition, which led to an allocation of the recognized licensing revenue from Amgen amounting to MSEK 711 in 2003.

Allocation takes place over five years and increases net sales and operating income by MSEK 142 for 2004.

As a result of reporting in accordance with IFRS 2, there will be a minor impact upon employee stock options issued after 7 November 2002. Consequently, there be an increase in personnel cost of MSEK 0.8 for 2004.

The transition to IFRS has had a positive effect of MSEK 141 on the net income for 2004.

Another regulation which may have an effect the accounts beginning in 2005 is IAS 39 Financial Instruments: Recognition and Measurement.

Biovitrum's operations

Biovitrum was established on 1 August 2001 when Pfizer (formerly Pharmacia) transferred its plasma operations, development unit for biotechnology-based pharmaceuticals and the research unit for metabolic disorders to Biovitrum.

Consolidated accounts

The consolidated accounts have been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 1:00.

The consolidated financial statements include the accounts of the Parent Company and companies in which the Parent Company, directly or indirectly, holds more than 50% of the votes, or, in some other respect, have a controlling influence.

The consolidated accounts were prepared according to the purchase method, which means that the Parent Company's acquisition costs for the shares in the subsidiary are eliminated against the subsidiary's acquisition cost, i.e. the subsidiary's equity (including the equity portion of untaxed reserves) at the time of acquisition, based on a market valuation of the subsidiary's net assets. Consequently, the Group's equity includes only that portion of the subsidiary's equity that has arisen after the acquisition.

The difference between the acquisition cost of the shares and the market value of the subsidiary's net assets at the time of acquisition is allocated to the subsidiary's identifiable assets if these have been reported at an amount below the market value. The remaining amount is reported as goodwill.

Valuation principles etc.

Assets, provisions and liabilities have been valued at the acquisition costs, unless otherwise stated.

Fixed assets

Tangible and intangible fixed assets are reported at net value after deductions for accumulated amortization and depreciation according to plan.

Amortization and depreciation according to plan are based on the acquisition cost and estimated useful life of the assets.

Intangible fixed assets

Costs for research and development

Costs incurred on development projects are reported as intangible fixed assets when it is probable that the project will be a success considering its commercial and technical feasibility, and only if the cost can be measured in a reliable manner. Other development expenses are reported as costs as they arise. Biovitrum performs research activities early in the research stage and, as a result, all costs are expensed as incurred.

Computer software

Costs associated with the development and maintenance of computer software are recognized as an expense as incurred. Costs directly associated with identifiable and specially developed software products controlled by Biovitrum, and that will generate economic benefits exceeding costs beyond one year, are reported as intangible fixed assets. Direct costs include staff costs of the software development team and a reasonable share of overhead costs.

Expenditure, which enhances the performance of computer software programs or extends the useful life of the computer software beyond the original planned life are capitalized and added to the original acquisition cost of the software. Amortization according to plan for computer programs reported as fixed assets are amortized according to the straight-line method over their useful lives, not exceeding a period of three years.

Other intangible fixed assets

Other intangible fixed assets acquired by the Company are reported at net acquisition cost, less accumulated amortization and write-downs.

Additional expenses

Additional expenses for intangible fixed assets are only added to acquisition cost if they increase the future financial benefits. All other expenditure is expensed as they arise.

The following amortization rates are applied:

<u>Acquired intangible fixed assets</u>	<u>Useful life Group</u>
Computer software	3 years

Tangible fixed assets

Buildings and land

Buildings are depreciated according to the straight-line method over their useful lifetimes. Acquisition costs include direct costs attributable to the building.

Plant and machinery

Plant and machinery include equipment and machinery intended for use in the Company’s operations. The asset is depreciated on a straight-line basis over its useful lifetime. The acquisition cost includes direct expenses attributable to the asset. Additional expenditure, which enhances or extends the performance of the asset, is capitalized. Expenses for maintenance or repairs are expensed as they arise.

Depreciation principles for tangible fixed assets

Depreciation according to is based on the original acquisition costs, less potential residual value. Depreciation takes place on a straight-line basis over the asset’s useful lifetime.

The following depreciation rates are applied:

	<u>Useful life Group</u>
Buildings	30–50 years
Plant and machinery	
Laboratory equipment and other investments	3–7 years
Other larger investments, e.g. NMR Spectrometer, etc.	10 years
Equipment, tools, fixtures and fittings	
Computers	3 years
Servers and other larger computer hardware	3–5 years
Furniture, fixtures and fittings	5–10 years

Liquid funds

Liquid funds consist of cash and bank balances and short-term investments, which comprise interest bearing securities with a maturity of less than three months from acquisition date and possess a high level of liquidity, which means it can immediately be converted into cash.

Liquid funds are valued in accordance with the Swedish Annual Accounts Act, that is, at the lower of acquisition cost and fair value.

Expenses in conjunction with new share issues

In the consolidated financial statements, expenses relating to new share issues are, where appropriate, reported after consideration of tax effects, as a deduction from new share settlement.

The Parent Company reports these expenses as financial expenses in those cases in which it is not specifically evident from the issue prospectus that a portion of the issue settlement will be utilized to cover the expenses relating to that issue.

Borrowing costs

Borrowing costs are charged to earnings during the period to which they are attributable, regardless of whether the borrowed funds have been utilized.

Write-downs

The reported values of the Group's assets are checked every balance sheet date to determine whether there is any indication of impairment. In the event of any such indication, the asset's recoverable amount is calculated as the higher of the value in use or the net realizable value. A writedown is performed if the recoverable amount of an asset is less than its reported value. When calculating the value in use, future cash flows are discounted at an interest rate, before tax, reflecting current market assessments of risk-free interest rate levels and the risks inherent in the specific asset. In the case of an asset, which does not, independently of other assets, generate cash inflow, the recoverable amount of the cash-generating unit to which the asset belongs is calculated and applied. A write-down will be reversed if there has been a change in the calculations that were used to determine the recoverable amount. A write-down is only be reversed to the extent that the asset's book value does not exceed the book value that would have been reported, with deductions for depreciation, if no write-down had taken place.

A write-down of goodwill is reversed only if the write-down was caused by a specific external event of an exceptional nature, which is not expected to recur and the increase in the recoverable amount is directly attributable to the effect of the specific event.

Accounts receivable

Accounts receivable are reported at their original amounts, with provisions for bad debts. Provisions for bad debts are made when it is probable that the Company will not receive the entire amount that has fallen due for payment, according to the original terms and conditions of the receivable.

Other receivables

Receivables are reported in the amounts that, on the basis of individual assessment, are estimated to be received.

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency are translated at the closing rate of exchange in accordance with RR 8 of the Swedish Financial Accounting Standards Council. Exchange rate differences on operating receivables and operating liabilities are included in operating income, whereas exchange rate differences on financial receivables and liabilities are reported among financial items.

Hedged receivables and liabilities are valued at the underlying forward rate, as appropriate.

Gains and losses attributable to hedges are reported as gains and losses as the hedged items arise.

Gains and losses on outstanding currency forward contracts, entered into in order to hedge future commercial flows, are reported as the commercial flow is realized. For other currency forward contracts not meeting the criteria for hedge accounting, a full market valuation is made on a portfolio basis and these amounts are charged to income.

Inventories

Inventories are valued in line with RR 2 of the Swedish Financial Accounting Standards Council, at the lower of acquisition cost, in accordance with the first-in, first-out principles, and fair value. Obsolescence is taken into account. For proprietary semi-finished and finished products, acquisition cost consists of other direct manufacturing costs and a reasonable share of indirect costs.

Short-term investments

Purchases and sales of investments are realized on trade date, which is the date on which the Company commits to purchase or sell the asset. Investments are originally reported at their acquisition cost, including transaction costs. Short-term investments are valued at the lower of acquisition cost or fair value.

Biovitrum applies the portfolio approach to its securities holdings. All securities are invested short-term and are classified as short-term investments in the balance sheet. Short-term investments consist of discount securities, coupon securities, structured bonds and interest rate funds.

Financial risks

Biovitrum's liquid funds and short-term investments are exposed to financial risks. The financial policy adopted by the Company stipulates the management of these risks.

Interest rate risks will arise if there is a change in the market interest rate compared to securities held. Biovitrum's investments consist of securities with varying tenures and a maximum average duration restricted by the planned utilization of funds. Counterpart risk is managed by investing in securities in which the issuer has a good credit rating. Liquidity risk is avoided by investing in liquid assets, in addition to matching maturities with expected cash flow.

Liquid funds and short-term investments are denominated in SEK. Exchange rate risks arise when the Company has operations in foreign currencies. Net cash flows in foreign currencies are hedged using the instruments defined in the Company's financial policy, that is, foreign exchange forward contracts and currency swaps.

Valuation of financial assets

The nominal value, less estimated adjustments for financial assets and liabilities with tenures of less than 12 months, are assumed to approximate fair value. The fair value of publicly traded securities is based on quoted market prices on balance sheet date. The effects of re-evaluation arising in conjunction with market value valuations are charged to the income statement.

Taxes

The Group and the Parent Company apply the Swedish Financial Accounting Standards Council's Recommendation RR 9 Income Taxes. Total tax consists of current and deferred tax. Taxes are reported in the income statement, except in those cases in which the underlying tax effect is charged directly to shareholders' equity. The accompanying tax effect is also reported in shareholders' equity. Current tax is the tax which shall be paid or received for the current year. This also includes adjustments of current tax concerning previous years.

Deferred tax is calculated in accordance with the balance sheet method, based on temporary differences between the reported values and fiscal values of assets and liabilities. The calculated amounts are based on the manner in which temporary differences are expected to even out over time and with the application of tax rates and tax rules that have been either determined or expect to be determined on balance sheet date. Temporary differences are not taken into account in goodwill arising on consolidation, or in differences attributable to participations in subsidiaries and associated companies that are not expected to be taxed in the foreseeable future.

In the Parent Company, untaxed reserves are reported with the inclusion of deferred income tax liabilities. In the consolidated financial statements, however, untaxed reserves are specified as deferred income tax liabilities and equity. Deferred tax assets regarding temporary differences and losses carry-forward are reported to the extent that it is probable that they can be settled against a surplus when taxed in the future.

Employee benefits

Pension obligations

As from January 1, 2004, Biovitrum's pension obligations have been calculated in accordance with RR 29. The difference compared with pension provisions reported as per December 31 2003 had had an impact of MSEK 6.0 upon the opening amount of equity. In accordance with RR 29, comparative figures for 2003 have not been recalculated on the basis of the new accounting principle.

For defined contribution plans, the Company pays established amounts of contributions to a separate legal entity, and does not have any obligation to paid additional contributions. The Group's income is charged with expenses in line with the earning of the benefits.

For defined benefit plans, remuneration is paid to employees and former employees based on the salary level at the point in time of retirement and the number of years of service. The Group bears the risk for paying the remuneration.

Biovitrum primarily has defined benefit plan pension commitments. These pension commitments are insured with Procordias Pensionssiftelse I, Skandia and Alecta.

The net amount of the estimated present value of the obligations is reported in the balance sheet and the fair value of the plan assets is reported either as a provision or as a long-term financial receivable. For cases in which it is not possible to utilize a surplus in a plan, only that portion of the surplus that can be recovered by the Company, on the basis of reduced future contributions or repayments, is reported.

Regarding defined benefit plans, the amount of pension costs and pension obligations are calculated according to the Projected Unit Credit Method. This method distributes the costs of pensions in line with the employee performing services for the Company, increasing the employees' right to future remuneration. The calculation was performed by an independent actuary. The Company's commitments have been valued at the present value of expected, future payments, by applying a discount rate equivalent to the level of interest on first-class corporate bonds or government bonds with a tenure equivalent to the commitments in question. The most important actuarial assumptions are described in Note 5.

Actuarial gains and losses may arise in conjunction with the determination of the present value of the obligations and the fair value of the plan assets. Such gains or losses may arise either on the basis of the fact that the actual outcome differs from the previous assumptions, or that the assumptions have changed. The portion of the accumulated actuarial gains and losses at the end of the previous year, exceeding 10% of the greater of the present value of the obligations or the fair value of the plan assets, is reported in income over the employees' average remaining period of service. Interest expenses, less the amount of expected yield on plan assets, are classified as a financial expense. Other expense items in pension costs are charged to operating income.

If the pension costs and pension provisions established for Swedish plans according to RR 29 deviate from the equivalent amount if such costs and provisions had been established according to FAR 4, a cost for special employer's contributions on the differences is also reported, in accordance with URA 43.

The accounting principle for defined benefit plans described above is applied to only the consolidated financial statements. The Commitments for old-age pensions and family pensions for white-collar employees in Sweden are insured on the basis of insurance premiums with Alecta. According to statement URA 42 from the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council, these are multiemployer defined benefit plans. For the financial year 2004, the Company did not have access to the details which would enable it to report these plans as defined benefit plans. The ITP pension plan, insured on the basis of insurance premiums with Alecta is, therefore, reported as a defined contribution plan. Contributions for pension insurances for the year, subscribed with Alecta, amount to MSEK 17.8 (2003: MSEK 19.2).

Alecta's surplus can be allocated between the policy holders and/or the insured individuals. At year end 2004 Alecta's surplus, measured at collective consolidation level, amounted to 128.0% (2003: 119.9%). The collective consolidation level is comprised of the market value of Alecta's assets as a percentage of the insurance commitments, calculated in accordance with Alecta's actuarial calculation assumptions, which do not agree with RR 29.

On December 31 2004, long-term receivables in pension plans amounted to MSEK 16 (8), reported as financial fixed assets in the balance sheet. For more information, see Note 5.

Shares and warrants

The Company has a long-term incentive program comprising shares and warrants. Shares purchased by senior executives have been acquired on the basis of estimated market value. The offer to acquire warrants was provided to all employees. The warrants have been acquired in the basis of estimated market value at the time of acquisition. Social security contributions for warrants distributed to employees free of charge have been recognized and paid for by the Company.

Provisions

Provisions are reported in the balance sheet when the Company has a legal or contractual obligation as a result of past events, it is possible that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Revenue recognition

Revenue comprises contract-manufacturing revenue derived from the value of sales of goods (excluding VAT and similar taxes, trade discounts and intra-Group transactions) and contract development fees.

In certain cases, at the customer's written request, the Company enters into bill and hold transactions whereby title and risk is transferred to the customer, but the goods are not shipped until a specified later date. Biovitrum recognizes revenue associated with the sale of goods under bill and hold arrangements when the goods are complete, ready to ship, and the bill and hold criteria have been met.

Revenue also comprises income derived from license agreements such as license access fees, milestone payments and royalties receivable from third parties in the normal course of business as well as co-promotion revenues. Non-refundable license fees are recognized when paid. When the Group is required to undertake research and development activities, and the fee is creditable against services provided by the Group, the license fee is deferred and recognized over the period during which the services are performed. Contract research fees are recognized in the accounting period in which the related work is carried out. Access fees and milestone payments are recognized when they fall due according to the terms of the contract. Revenues for long-term contracts are recognized over the term of the contract. Rental income is accrued in accordance with the rental contracts. Rental revenues are reported under the heading "Other operating revenues".

Items affecting comparability

RR 4 of the Swedish Financial Accounting Standards Council is applied, which implies that exceptional events and transactions of material significance are specified within each income category. Examples of such events and transactions are capital gains from the sale of substantial fixed assets, write-downs and restructuring costs.

Elimination of transactions between Group companies

Intra-Group receivables and liabilities and transactions between companies in the Group, as well as the accompanying unrealized profits, are eliminated in their entirety.

Group contributions and shareholders' contributions

The Company reports Group contributions and shareholders' contributions in accordance with statements issued by the Swedish Financial Accounting Standards Council's Emerging Issues Task Force. For Biovitrum, this implies that shareholders' contributions are reported directly against the recipient's equity and that Group contributions are reported directly to non-restricted shareholders' equity.

Group information

Of the Parent Company's total purchases and sales in SEK, 2.1% (1.7%) of purchases and 0% (0%) of sales refer to other companies within the Group to which the Parent Company belongs.

Note 1 Distribution of revenues

	Year ended December 31,	
	2004	2003
Group		
Total revenues by major type of income		
Licensing and milestone revenues	—	718,514
Research revenues	51,640	61,744
Royalties	131,808	122,000
Co-promotion	90,931	40,461
Contract development	194,704	198,115
Contract manufacturing	176,202	516,544
	<u>645,285</u>	<u>1,657,378</u>

Note 2 Employees, payroll expense and remuneration paid to the Board and executive management

	Year ended December 31, 2004	Of whom, men	Year ended December 31, 2003	Of whom, men
<u>Average number of employees</u>				
Group and Parent Company				
Sweden	577	45%	558	45%
Denmark	1	—	—	—
Finland	1	—	—	—
Total	<u>579</u>	<u>45%</u>	<u>558</u>	<u>45%</u>

Salaries, other remunerations and social security expenses

	Year ended December 31,			
	2004		2003	
<u>Group and Parent Company</u>	<u>Salaries and remunerations</u>	<u>Social Security expenses</u>	<u>Salaries and remunerations</u>	<u>Social Security expenses</u>
Parent Company	282,422	161,950	280,589	162,608
(of which pension cost)		(63,869) ⁽¹⁾		(64,232) ⁽¹⁾
Group total	282,422	161,950	280,589	162,608
(of which pension cost)		(63,869) ⁽¹⁾		(64,232) ⁽¹⁾

(1) Of the Group's and Parent Company's pensions costs, SEK 1,200 thousand (1,200) pertain to the Board and CEO. The Group's outstanding pension commitments for the Board and CEO amount to SEK 0 thousand (0).

Salaries, other remunerations distributed by country and among board members, etc., and other employees

	Year ended December 31,			
	2004		2003	
<u>Parent Company</u>	<u>Board and CEO</u>	<u>Other employees</u>	<u>Board and CEO</u>	<u>Other employees</u>
Sweden	5,367	276,237	4,451	276,138
(of which bonuses, etc.)	(1,080)	(—)	(1,181)	(—)
Denmark	—	591	—	—
(of which bonuses, etc.)	(—)	(—)	(—)	(—)
Finland	(—)	227	(—)	(—)
(of which bonuses, etc.)	(—)	(—)	(—)	(—)
Parent Company total	5,367	277,055	4,451	276,138
(of which bonuses, etc.)	(1,080)	(—)	(1,181)	(—)
Group total	5,367	277,055	4,451	276,138
(of which bonuses, etc.)	(1,080)	(—)	(1,181)	(—)

Wages/salaries and other remuneration paid to Biovitrum's Board, CEO and Group management

The Annual General Meeting of shareholders in 2004 decided that the chairman of the Board of Directors shall receive SEK 300 thousand as remuneration and the other members of the Board shall receive SEK 250 thousands. It was also decided SEK 50 thousands would be the reimbursement to each chairman in the committees established by the Board until the next Annual General Meeting.

Mats Pettersson, CEO, received SEK 3,324 thousand (3,270) in salary. A bonus of SEK 1,180 thousand (1,181) was also paid for 2004. Biovitrum pays a premium of 30 percent of the pension-entitling salary for Mats Pettersson's pension benefits. The pension entitling salary currently amounts to SEK 4,000 thousand annually and no adjustment of this amount will be made.

Mats Pettersson is subject to a period of notice of 24 months, if notice is served by Biovitrum, and six months if he, himself, serves notice. However, severance pay may amount to a maximum of the current salary for the number of months remaining to the ordinary pension age.

In addition to a salary, the CEO, Group management and a number of key personnel receive a bonus. The bonus, which are in line with a system adopted by the Board, are based on Biovitrum's and/or the profit/cash flow of the department at which the individual is employed, combined with individual goals.

Biovitrum's pension plan for senior managers covers eight individuals. The CEO is not covered by the afore mentioned pension plan. These individuals are entitled to an annual remuneration from the age of 60. The benefit is equivalent to ITP with following supplement: 32.5 percent of the salary constituting the pension base between 30 and 50 base amounts. The employment agreements of certain senior managers include rules governing severance pay in the event of notice served by the company. The rules governing severance pay imply that in the event of notice being served by the Company, the employee is entitled to an amount of salary corresponding to the monthly salary for 12 or 18 months. To attract and retain skilled and motivated personnel, Biovitrum has drawn up a long-term incentive program. Part of the program consists of shares that have been acquired by senior executives from one of the owners in connection to Biovitrum being established. The transaction was conducted on the basis of estimated market prices. The Board and employees hold a total of 135,000 shares as per December 31, 2004.

In addition to shares, the incentive program includes warrants. At the Annual General Meeting of shareholders in 2001, a decision was made to issue a total of 4,975,000 warrants. The warrants program covers all employees. Subsequently, the company distributed a total of 4,680,200 warrants to as follows: During 2001, employees have received 3,317,300 warrants free of charge and the company paid social security fees of SEK 8 millions for the benefit value of these. During the same year senior executives bought 764,000 options at a price corresponding to market value on the acquisition date. During 2002 through 2004 and an additional 274,400 warrants were sold and 324,500 distributed free of charge. Of these 593,900 warrants, 20,000 have been sold to a member of the Board and 130,000 distributed free of charge amongst the members of Biovitrum Scientific Advisory Board. For the warrants distributed free of charge the company has covered the costs related to the benefit value. A total of 95,000 warrants has been repurchased during these 3 years. Consequently, the company holds 389,800 warrants as per December 31, 2004. Of the total 4,585,200 outstanding warrants, the Board and senior executives holds 1,030,000 warrants.

The same subscription price and benefit value apply for the allotments and purchases conducted during the years. The subscription price is SEK 118 per share. The estimated market value, which is thus equivalent to the benefit value on the date of the distribution and purchase, respectively, was SEK 7.50 per warrant. The valuation was conducted by an impartial valuer from an investment bank. The warrants may be used for subscribing to shares as of November 30, 2005 through November 30, 2006. The Board, however, is entitled to approve subscription earlier than November 30, 2005.

Note 3 Specification of men and women in the Board and Management

	Group	
	2004	2003
The Board Members		
Men	7	8
Women	2	1
CEO and executive Management		
Men	4	8
Women	—	—

Note 4 Absence due to illness

	Group	
	2004	2003
Leave of absence due to illness in relation to ordinary working hours specified according to age and sex:		
29 years and younger	0.60%	0.90%
30–49 years	2.10%	2.20%
50 years and older	1.40%	3.00%
Total leave of absence due to illness in relation to ordinary working hours of which	1.70%	2.20%
Men	19.03%	30.20%
Women	80.97%	69.80%
Portion of leave of absence due to illness for leave of absence of 60 consecutive days or more	28.32%	54.40%

The information above refers to the period full year 2004 and July 1–December 31, 2003 in accordance with the Annual Accounts Act.

Note 5 Deferred pension expenses

The Company applies as of January 1, 2004 Swedish Financial Accounting Standards Council recommendation number 29 Employee Benefits.

Pension obligations are calculated annually, as of balance sheet date, based on actuarial basis.

In addition to the numbers below the Company reports social security expenses on pension costs, 24.26%, in reported assets in accordance with URA43 (Statement number 43 from the Swedish Financial Accounting Standards Council’s Emerging Issues Task Force).

<u>Financial Fixed Assets</u>	<u>December 31, 2004</u>
Deferred pension expenses	13,219
Receivable social security expenses on pensions, 24.26%	3,207
	16,426
<u>Amounts in the income statement are as follows</u>	<u>2004</u>
Service cost	13,713
Interest cost	2,330
Expected return on plan assets	(3,225)
Settlement gain (-)/loss(+)	1,348
	14,166

Actual return on assets amounted to SEK 3,557 thousands.

	<u>2004</u>
Cost for defined benefit plans are reported under following headings in the income statement:	
Cost of good and services sold	3,873
Sales and marketing expenses	327
Administration expenses	2,495
Research and development expenses	7,328
Other operating expenses	143
	<u><u>14,166</u></u>

<u>Actuarial assumptions on balance sheet date (weighted average)</u>	<u>January 1, 2004</u>	<u>December 31, 2004</u>
Discount rate	5.25%	5.00%
Average compensation increased	3.50%	3.50%
Average pension increase	2.00%	2.00%
Income base increase	2.50%	2.50%
Expected rate of return on plan assets	5.25%	5.00%

<u>Amounts in the balance sheet has been calculated as follows</u>	<u>December 31, 2004</u>
Estimated fair value of plan assets at end of year	59,723
Estimated benefit obligation at end of year	48,637
Estimated under (-)/over (+) funded status	(11,086)
Unrecognized net gain (+)/loss(-)	(2,133)
	<u><u>(13,219)</u></u>

<u>Specification of changes in net asset reported in the balance sheet</u>	<u>December 31, 2004</u>
Net asset/liability at beginning of year according to adopted balance sheet	—
Effect of change in accounting principle	—
Net asset beginning of year adjusted to new accounting principle	(6,740)
Net pension expense	14,166
Employer contributions	(20,645)
Net asset at end of year	<u><u>(13,219)</u></u>

Note 6 Remuneration and reimbursement paid to auditors

	<u>Year ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
Group		
Öhrlings PricewaterhouseCoopers		
Auditing assignments	1,134	1,500
Other assignments	3,183	1,234

Note 7 Other operating revenues

	Year ended December 31,	
	2004	2003
Group		
Rental Income	37,570	46,680
Exchange rate profit on operating receivables/liabilities	2,721	8,198
Remuneration from KTH for access to technical equipment	1,872	2,496
Research cooperation with Bio Focus	14,796	—
Other	467	2,463
	<u>57,426</u>	<u>59,837</u>

Note 8 Other operating revenues

	Year ended December 31,	
	2004	2003
Group		
Exchange rate losses on operating receivables/liabilities	(3 011)	(6 944)
Scrapping/Divestment of fixed assets	(666)	(1,509)
Cost of rented premises	(26,285)	(27,642)
Reimbursed Foreign VAT	75	—
	<u>(29,887)</u>	<u>(36,095)</u>

Note 9 Depreciation/amortization of intangible and tangible fixed assets

	Year ended December 31,	
	2004	2003
Group		
Depreciation according to plan by type of asset		
Capitalized software expenses	(3,421)	(1,425)
Land and buildings	(5,981)	(7,179)
Plant and machinery	(50,172)	(54,828)
Equipment, tools, fixtures and fittings	(22,013)	(26,228)
	<u>(81,587)</u>	<u>(89,660)</u>
Depreciation according to plan by function		
Cost of goods and services sold	(16,352)	(15,107)
Sales and marketing expenses	(90)	(86)
Administration expenses	(5,946)	(6,084)
Research and development expenses	(38,031)	(42,246)
Other operating expenses	(21,168)	(26,137)
	<u>(81,587)</u>	<u>(89,660)</u>

Note 10 Expenses for operational leasing

	<u>2004 Group</u>	<u>2003 Group</u>
Contractual future leasing costs with non-cancellable contracts, failing due as follows:		
Within 1 year	972	438
Between 1 and 5 years	2,064	90
Later than 5 years	—	—
	<u>3,036</u>	<u>528</u>
Leasing costs for the year:	1,526	845
Contractual future rental costs for premises with non-cancellable contracts, failing due as follows:		
Within 1 year	56,200	21,319
Between 1 and 5 years	211,400	58,891
Later than 5 years	26,800	—
	<u>294,400</u>	<u>80,210</u>
Leasing costs of the year	35,754	20,800

Note 11 Result from participation in Group Companies

	<u>Year ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
Result from limited partnership	11,429	7,711
Write-down of shares in limited partnership	(34,820)	—
Dividend from Group Company	232,800	—
	<u>209,409</u>	<u>7,711</u>

Note 12 Interest income and similar items

	<u>Year ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
Group		
Interest income, miscellaneous	49,895	38,815
Investment management fees	(1,028)	(863)
Exchange rate losses on short-term receivables	3,341	(1,110)
Other	16	—
	<u>52,224</u>	<u>36,842</u>

Note 13 Interest expenses and similar items

	<u>Year ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
Group		
Interest expense, miscellaneous	(215)	(924)
Other	(143)	0
	<u>(358)</u>	<u>(924)</u>

Note 14 Effect of exchange rate differences on profit/loss

	Year ended December 31,	
	2004	2003
Group		
Exchange rate differences affecting operating losses	(290)	1,254
Financial exchange rate differences	3,341	(1,110)
	<u>3,051</u>	<u>144</u>

Note 15 Appropriations, miscellaneous

	Year ended December 31,	
	2004	2003
Tax allocation funds, reversal during the year	698	795
	<u>698</u>	<u>795</u>

Note 16 Tax on loss for the year

	Year ended December 31,	
	2004	2003
Group		
Current tax expenses (-)/tax income (+)		
Tax expense for the year	—	—
	<u>—</u>	<u>—</u>
Deferred tax income		
Deferred tax value in loss carry-forward	2,345	—
	<u>2,345</u>	<u>—</u>
Total tax reported in the Group	<u>2,345</u>	<u>—</u>

	Year ended December 31,			
	2004		2003	
	Percent	Amount	Percent	Amount
Reconciliation of actual tax				
Group				
Pre-tax profit		(28,836)		369,729
Tax on the basis of prevailing tax rate for				
Parent Company	28.0%	8,074	28.0%	(103,524)
Other non-deductible expenses	(8.5%)	(2,455)	0.5%	(1,733)
Non-taxable income	194.2%	56,011	(0.4%)	1,488
Increase in loss carry-forward without corresponding capitalization of deferred tax . .	(205.6%)	(59,286)	0.0%	—
Utilization of non activated loss carry-forwards from previous years	0.0%	—	27.2%	100,566
Decrease/increase in deductible temporary differences without corresponding capitalization of deferred tax	0.0%	—	0.9%	3,203
Report actual tax	8.1%	2,345	0.0%	—

Note 17 Intangible fixed assets

	Year ended December 31,	
	2004	2003
	Group	Group
Capitalized software expenses		
Accumulated acquisition value		
Acquisition value, opening balance	10,262	4,915
Investments for the year	—	5,347
Acquisition value, closing balance	10,262	10,262
Accumulated depreciation according to plan		
Accumulated depreciation, opening balance	(1,425)	—
Depreciation according to plan, this year	(3,421)	(1,425)
Accumulated depreciation, closing balance	(4,846)	(1,425)
Net book value beginning of period	8,837	4,915
Net book value end of period	5,416	8,837

Note 18 Land and buildings

	Year ended December 31,	
	2004	2003
	Group	Group
Accumulated acquisition value		
Acquisition value, opening balance	357,109	356,400
Acquisitions	261	709
Divestments and scrapping	(76,068)	—
	281,302	357,109
Accumulated depreciation according to plan		
Accumulated depreciation, opening balance	(116,488)	(109,309)
Divestments and scrapping	18,578	—
Depreciation according to plan, this year	(5,981)	(7,179)
	(103,891)	(116,488)
Net book value end of period		
Land and buildings	177,411	240,621
Where of		
Net book value—Buildings	103,387	123,213
Net book value—Land	74,024	117,408
Tax assessment value, buildings (in Sweden)	196,003	269,752
Tax assessment value, land (in Sweden)	47,200	73,296

All of the Group's property holdings are considered as real estate used in business operations.

Note 19 Plant and machinery

	Year ended December 31,	
	2004	2003
	Group	Group
Accumulated acquisition value		
Acquisition value, opening balance	670,512	648,955
Acquisitions	84,114	51,984
Divestments and scrapping	(7,989)	(30,427)
	<u>746,637</u>	<u>670,512</u>
Accumulated depreciation according to plan		
Accumulated depreciation, opening balance	(529,800)	(504,916)
Divestments and scrapping	7,442	29,944
Depreciation according to plan, this year	(50,172)	(54,828)
	<u>(572,530)</u>	<u>(529,800)</u>
Net book value end of period	174,107	140,712

Note 20 Equipment, tools, fixtures and fittings

	Year ended December 31,	
	2004	2003
	Group	Group
Accumulated acquisition value		
Acquisition value, opening balance	276,355	296,092
Acquisitions	30,630	18,169
Divestments and scrapping	(74,566)	(37,906)
	<u>232,419</u>	<u>276,355</u>
Accumulated depreciation according to plan		
Accumulated depreciation, opening balance	(226,308)	(236,960)
Divestments and scrapping	65,894	36,880
Depreciation according to plan, this year	(22,013)	(26,228)
	<u>(182,427)</u>	<u>(226,308)</u>
Net book value end of period	49,992	50,047

Note 21 Plant in progress and advance payments for tangible assets

	Year ended December 31,	
	2004	2003
	Group	Group
Opening balance	70,257	60,859
Start-up of plan in progress	(70,257)	(7,790)
Investments	33,071	17,188
Book value end of period	33,071	70,257

Note 22 Participation in Group Companies

	Year ended December 31,	
	2004	2003
Accumulated acquisition values		
Accumulated acquisitions values, opening balance	476,980	454,069
Acquisitions	164	200
Capital injection	—	15,000
Divestment or participation in Group Companies	(10)	—
Participation in limited partnerships	11,429	7,711
	<u>488,563</u>	<u>476,980</u>
Accumulated write-down		
This years write-down	(34,820)	—
	<u>(34,820)</u>	<u>—</u>
Book value end of period	<u>453,743</u>	<u>476,980</u>

Specification of Parent Company and Group's holdings in Group Companies

<u>Subsidiary/Corp Identity No/Domicile</u>	<u>No of Shares</u>	<u>Share in %⁽¹⁾</u>	<u>Book Value</u>
Biovitrum Treasury AB, 556616-7317, Stockholm	1,000	100.0	100
Paradisat B.V., regno 34209249, Amsterdam, Holland	180	100.0	164
Fastighetsaktiebolaget Paradiset, 556149-2611, Stockholm	900	90.0	90
Hornet Fastighetsbolag KB, 916613-5534, Stockholm	1	1.0	—
Fastighetsbolaget Paradiset KB, 916400-9350, Stockholm	1	1.0	—
<i>Hornet Fastighetsbolag KB, 916613-5534, Stockholm</i>	1	99.0	416,705
<i>Fastighetsbolaget Paradiset KB, 916400-9350, Stockholm</i>	1	99.0	36,484
Nya Hornsberg 10 AB, 556568-8321, Stockholm	1,000	100.0	100
Nya Paradiset 19 AB, 556603-1943, Stockholm	1,000	100.0	100
<i>Fastighetsaktiebolaget Paradiset, 556149-2611, Stockholm</i>	100	10.0	—
			<u>453,743</u>

(1) Refers to the percentage of capital holding, which is equal to the percentage of voting rights.

Note 23 Deferred tax receivable

	<u>Deferred tax receivable</u>	<u>Deferred tax liability</u>	<u>Net</u>
Group December 31, 2004			
Deferred pension expenses	—	4,599	4,599
Loss carry-forward	(4,599)	—	(4,599)
	<u>(4,599)</u>	<u>4,599</u>	<u>—</u>
Offsetting	4,599	(4,599)	—
Net deferred tax receivable	<u>—</u>	<u>—</u>	<u>—</u>
	<u>Deferred tax receivable</u>	<u>Deferred tax liability</u>	<u>Net</u>
Group December 31, 2003			
Land and buildings	—	(9,098)	(9,098)
Tax allocation reserve	—	(195)	(195)
Loss carry-forward	9,293	—	9,293
	<u>9,293</u>	<u>(9,293)</u>	<u>—</u>
Offsetting	(9,293)	9,923	—
Net deferred tax receivable	<u>—</u>	<u>—</u>	<u>—</u>

Non-reported deferred tax receivables

Deductible temporary differences and loss carry-forwards for tax purposes for which deferred receivables are not reported in the income statements and balance sheets:

<u>Group</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Deductible temporary differences	1,501	—
Deficit for tax purpose	78,563	9,733
	<u>80,064</u>	<u>9,733</u>
<u>Parent Company</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Deductible temporary differences	—	—
Deficit for tax purpose	83,163	19,644
	<u>83,163</u>	<u>19,644</u>

The loss carry-forwards for tax purposes refers to the Parent Company. According to current tax legislation, this deficit can be carried forward indefinitely. Deferred tax receivables will be reported for the above items when it is deemed likely that the Group will be able to utilize the amounts to offset future taxable profits.

Change in deferred tax in temporary differences and loss carry-forward

	Amount January 1	Reported in income statement	Other changes reported against equity	Amount December 31
Group 2004				
Land and buildings	(9,098)	9,098	—	—
Deferred pension expense	—	(2,254)	(2,345)	(4,599)
Tax allocation reserves	(195)	195	—	—
Utilization of loss carry-forward	9,293	(4,694)	—	4,599
	<u>—</u>	<u>2,345</u>	<u>(2,345)</u>	<u>—</u>
Group 2003				
Land and buildings	(9,911)	813	—	(9,098)
Financial fixed assets	430	(430)	—	—
Tax allocation reserves	(418)	223	—	(195)
Utilization of loss carry-forward	9,899	(606)	—	9,293
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Parent Company 2004				
Utilization of loss carry-forward	195	(195)	—	—
	<u>195</u>	<u>(195)</u>	<u>—</u>	<u>—</u>
Parent Company 2003				
Utilization of loss carry-forward	418	(223)	—	195
	<u>418</u>	<u>(223)</u>	<u>—</u>	<u>195</u>

Note 24 Current assets

There are no liabilities maturing later than five years from balance sheet date.

Note 27 Tax allocation reserve

	<u>Dec 31, 2004</u>	<u>Dec 31, 2003</u>
Tax allocation reserve: Reserve taxation, 2000	—	698
	<u>—</u>	<u>698</u>

Note 28 Accrued expenses and deferred revenues

<u>Group</u>	<u>Year ended December 31, 2004</u>
Provision for vacation pay and bonus including social security contributions	53,259
Accrued social security contributions	20,062
Provision for restructuring Biopharmaceutical business area	1,447
Provision for restructuring R&D and Staff	34,172
Prepaid revenues	66,305
Other items	20,886
	<u>196,131</u>

<u>Group</u>	<u>Year ended December 31, 2003</u>
Provision for vacation pay and bonus including social security contributions	47,317
Accrued social security contributions	21,320
Provision for restructuring Biopharmaceutical business area	18,696
Provision for costs for production agreement with Octapharma	50,270
Prepaid revenues	21,958
Other items	12,245
	<u>171,806</u>

Note 29 Other liabilities, long-term

There are no liabilities maturing later than five years from balance sheet date.

To the Board of Directors of Biovitrum AB

Review report

We have reviewed the interim report for Biovitrum AB (publ) for the period January 1, 2006 to June 30, 2006. The accurate preparation and presentation of the interim report in accordance with IAS 34 and the Annual Accounts Act is the responsibility of the Board of Directors. Our responsibility is to express a conclusion on the interim report on the basis of our review.

We have performed our review in accordance with the Standard for Review SÖG 2410 Review of interim financial information performed by the company's appointed auditor, issued by the FAR, the institute for the accounting profession in Sweden. A review consists of making inquiries, primarily to individuals responsible for financial and accounting matters, performing an analytical examination and undertaking other review procedures. A review has a different focus and a significantly more limited scope than an audit conducted in accordance with RS, the Swedish auditing standards, and generally accepted auditing practice in general. The procedures involved in a review do not allow us to obtain a level of assurance that would make us aware of all important circumstances that might have been identified if an audit had been performed. Consequently, a conclusion provided on the basis of a review does not have the same level of certainty as a conclusion based on an audit.

Based on our review, no circumstances have come to our attention which would cause us to believe that the interim report is not, in all material respects, prepared in accordance with IAS 34 and the Annual Accounts Act.

Stockholm, August 24, 2006

PricewaterhouseCoopers AB

Peter Bladh
Authorised Public Accountant

CONSOLIDATED INCOME STATEMENT

	6 months ended June 30,	
	2006	2005
	(amounts in SEK millions)	
Total revenues	708.1	357.9
Cost of goods and services sold	(190.4)	(104.4)
Gross Profit	517.7	235.5
Sales and Marketing expenses	(17.1)	(13.1)
Administration expenses	(66.2)	(55.3)
Research and Development expenses	(303.2)	(264.7)
Other operating revenues	5.4	20.4
Other operating expenses	(46.9)	(21.4)
Operating profit/loss	89.7	(80.6)
Interest income and similar items	3.5	31.1
Interest expenses and similar items	(0.3)	(0.1)
	3.2	31.0
Profit/loss after financial items	92.9	(49.6)
Tax on profit/loss for the period	0.5	(0.4)
Profit/loss for the period	93.4	(50.0)
Earnings/loss per share after tax (SEK) ⁽²⁾	1.9	(1.0)
Earnings/loss per share after tax after full dilution (SEK) ⁽¹⁾⁽²⁾	—	—
Number of shares	43,302,600	52,331,400
Average number of shares	48,390,653	52,331,400
Outstanding warrants	4,651,400	4,674,700
Number of shares after dilution ⁽¹⁾	43,302,600	52,331,400
Average number of shares after dilution ⁽¹⁾	48,390,653	52,331,400

(1) As Biovitrum is not a listed company, a fair value has not been set and hence no calculation of dilution is made.

(2) Recalculated taking into consideration the bonus issues made on April 12, 2006.

CONSOLIDATED BALANCE SHEET

	6 months ended June 30,	
	2006	2005
	(amounts in SEK millions)	
Fixed Assets		
Intangible fixed assets	409.2	129.8
Tangible fixed assets	249.1	451.3
Financial fixed assets	29.6	12.7
	687.9	593.8
Current assets		
Inventories	120.1	141.2
Current receivables, non-interest bearing	277.1	236.0
Liquid funds & short term investments	1,176.3	1,361.3
	1,573.5	1,738.5
Total assets	2,261.4	2,332.3
EQUITY AND LIABILITIES		
Shareholders' equity	1,420.9	1,484.8
Long term liabilities		
Long term liabilities, non-interest bearing	228.1	319.9
	228.1	319.9
Current liabilities		
Current liabilities, non-interest bearing	612.4	527.6
	612.4	527.6
Total equity and liabilities	2,261.4	2,332.3

CHANGE OF CONSOLIDATED SHAREHOLDERS' EQUITY

	6 months ended June 30,	
	2006	2005
	(amounts in SEK millions)	
Opening balance equity	1,707.7	1,528.0
Warrants issue (+)/Repurchase warrants (–)	—	1.1
Redemption of shares	(378.9) ⁽¹⁾	—
Exchange rate difference	(1.3)	5.7
Net profit/loss for the year	93.4	(50.0)
Equity, end of period	1,420.9	1,484.8

(1) Referring to redemption and payment of Pfizer's shares.

CASH FLOW STATEMENT

	6 months ended June 30,	
	2006	2005
	(amounts in SEK millions)	
Net result	93.4	(50.0)
<i>Adjustment for items not affecting cash flow:</i>		
Depreciations and Write down	36.8	43.7
Other items	(61.9)	(71.1)
Cash flow from operations before change in working capital	68.3	(77.4)
Change in working capital	(16.7)	(11.2)
Cash flow from operations	51.6	(88.6)
Investment in subsidiary	—	(84.6)
Investment in intangible fixed assets	(53.6)	(4.5)
Investment in tangible fixed assets	(22.1)	(54.5)
Divestment of tangible fixed assets	—	0.1
Investment/Divestment of financial assets	(15.7)	(221.0)
Cash flow from investing activities	(91.4)	(364.5)
Redemption of shares	(378.9)	—
Issue of warrants	—	1.2
Re-purchase of warrants	—	(0.1)
Cash flow from financing activities	(378.9)	1.1
Net change in cash	(418.7)	(452.1)
Liquid funds at the beginning of the period	1,058.6	1,048.4
One-time effect implementing IAS 39	—	4.5
Translations difference in cash flow	(1.3)	2.8
Liquid funds at the end of the period	638.6	630.6
Short-term investments	537.7	757.7
Liquid funds and short-term investments at the end of the period	1,176.3	1,361.3

KEY RATIOS AND OTHER INFORMATION

	6 months ended June 30,	
	2006	2005
	(SEK)	
Return on		
Shareholders' equity	6.0%	(3.3)%
Total capital	3.7%	(2.1)%
Margins		
Operating margin	12.7%	(22.5)%
Profit margin	13.2%	(14.0)%
Per share data		
Shareholders' equity per share (SEK)	32.8	28.4
Shareholders' equity per share after full dilution (SEK) ⁽¹⁾	—	—
Cash flow per share (SEK)	(8.7)	(8.6)
Cash flow per share after full dilution (SEK) ⁽¹⁾	—	—
Other Information		
Equity ratio	62.8%	63.7%

(1) As Biovitrum is not a listed company, fair value has not been set, and hence no calculation of key ratios reflecting dilution is made.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Accounting principles

This interim report has been prepared in accordance with IAS 34 “Interim Financial Reporting”, which is in accordance with the requirements in the recommendation of Redovisningsrådet RR 31 “Interim reporting”.

As from January 1 2005 Biovitrum AB is practising International Financial Reporting Standards (IFRS), in accordance with EU regulations. The accounting principles applied are those described in Biovitrum’s Annual Report 2005. The Parent Company applies RR 32 accounting principles for juridical persons.

In this interim report the following new standards, amendments to standards and interpretations effective January 1 2006 have been included. These new standards, amendments and interpretations have been approved by the EU, expect amendments in IAS 21.

IAS 19 Amendments Employee benefits

This amendment comes into effect for financial years beginning on or after January 1 2006. At present Biovitrum has not yet decided whether or not to apply the new possibilities of reporting actuarial gains and losses. However, the expanded disclosure requirements will have an effect on reporting in the annual report for 2006.

IAS 21 Amendments Effects of changes in exchange rates

The amendments come into effect January 1 2006. At present, these changes to the standard are not deemed to have any effect on Biovitrum’s reporting.

IFRIC 4 Determination of whether an agreement constitutes a leasing agreement

The interpretation statement comes into effect January 1 2006. According to IFRIC 4, a decision regarding whether an agreement is, or contains, a leasing agreement is based in substance of the agreement. An assessment shall be made of whether (a) the agreement’s completion is dependent upon the use of particular asset or and (b) the agreement transfers a right to use the asset or asset. The current assessment is that IFRIC 4 will not result in existing agreements being reclassified as leasing agreements.

IFRIC 5 Rights to interests arising from decommissioning, restoration and environmental funds

This interpretation is not relevant for Biovitrum.

IFRIC 6 Liabilities arising from participation in a specific market—waste electrical and electronic equipment

This interpretation is not relevant for Biovitrum.

IFRIC 7 Translation in conjunction with transition to high-inflation reporting

The interpretation statement came into effect March 1 2006 and applies to financial years beginning on or after March 1 2006. Biovitrum has currently no operations in countries in which transition to high-inflation accounting is a matter of interest.

IFRIC 8 Scope of application of IFRS 2

The interpretation statement comes into effect May 1 2006 and applies to financial years beginning after May 12006. According to IFRIC 8, the rules in IFRS 2 apply to goods and services received in exchange for an equity instrument, even if such goods or services cannot be specifically identified, either in part or in their entirety. This statement is not relevant for Biovitrum as no such transactions exist.

Note 1 Related party transactions

On March 31, 2006 the Annual General Meeting decided to redeem Pfizer’s 9,028,800 (after the split) Biovitrum shares, corresponding to 19% of the capital. The total redemption sum amounts to SEK 378.9 million. When Pharmacia (later acquired by Pfizer) spun out Biovitrum in 2001, an agreement was made with the owners to acquire these shares at a pre-arranged price. Because of Biovitrum’s strong financial position, this agreement was renegotiated in December 2005, which resulted in a redemption of

Pfizer's Biovitrum shares. The shares are redeemed and liquidated. In parallel, Biovitrum will make a bonus issue of a total of 4,811,400 shares.

Payment was made on April 18 to Pfizer for their shares in Biovitrum, which the Annual General Meeting on March 31, decided to redeem.

REGISTERED OFFICE OF THE COMPANY

Biovitrum AB (publ)
Berzelius väg 8
SE-112 76 Stockholm
Sweden

LEGAL ADVISERS

To Biovitrum AB (publ) and the Selling Shareholders

As to U.S. Law
Latham & Watkins
99 Bishopsgate
London EC2M 3XF
United Kingdom

As to Swedish Law
White & Case Advokat AB
Nybrogatan 3,
SE-114 34 Stockholm
Sweden

To the Managers

As to U.S. Law
Davis Polk & Wardwell
99 Gresham Street
London EC2V 7NG
United Kingdom

As to Swedish Law
Gernandt & Danielsson Advokatbyrå
Hamngatan 2
PO Box 5747
114 87 Stockholm
Sweden

INDEPENDENT AUDITORS OF THE COMPANY

PricewaterhouseCoopers
Torsgatan 21
SE-113 97 Stockholm
Sweden

September 14, 2006

