

## Interim Report

### Contact:

Jeff Bork, President and CEO  
 Tel: +46 734-22 16 60  
 Mats-Olof Wallin, CFO  
 Tel: +46 705-93 52 73

Biotage AB  
 Kungsgatan 76  
 753 18 Uppsala  
 Tel: 018- 565900  
[www.biotage.com](http://www.biotage.com)  
 Orgnr 556539-3138

### Interim report January – September 2004

- Sales in the period January – September 2004 amounted to 260.4 MSEK (68.6 MSEK and 250.0 MSEK pro-forma), corresponding to a pro-forma increase by 4 percent
- Sales in the third quarter were negatively affected by delays in the deliveries of the new purification system and amounted to 84.5 MSEK
- During the period restructurings were made which added 5 MSEK to the operating costs but will yield annual savings of 15 MSEK. Adjusted for these non-recurring expenses, costs amounted to 68.3 MSEK.
- Biotage extended the licensing agreement with 454 Corporation, increasing the minimum royalty by 0.25 USD per year for at least two years
- The operating result for the period January – September improved to -93.3 MSEK (-205.1 and -386.2)
- The result after tax for the nine months amounted to -94.9 MSEK (-189.6 and -369.8)
- Earnings per share amounted to -1.64 SEK (-5.44 and -6.40)

Amounts in KSEK	3rd quarter 2004	3rd quarter 2003	Pro-forma Q3 2003	9 months 2004	9 months 2003	Pro-forma 9M 2003
Net sales	84 469	27 418	91 594	260 406	68 573	249 985
Operating expenses	-77 719	-137 990	-241 199	-216 912	-245 517	-495 931
Operating result	-36 151	-121 708	-198 548	-93 283	-205 110	-386 243
Net result	-41 360	-116 914	-193 686	-94 857	-189 568	-369 816

Sales in the third quarter did not develop as expected since the software to the new purification instrument took longer to complete than planned and deliveries were delayed. The systems are now ready and are being delivered to the customers. Biosystems also had a slow quarter, but sales in both business areas are expected to be stronger in the fourth quarter. However, the company's gross margin improved during the period due to new products with higher margins and a more favorable product mix. The order intake in the third quarter was on the same level as the sales, which means that the orderbook remains high.

Biotage carried out a restructuring in the third quarter, reducing the number of positions in Sweden by 14. This added 5 MSEK to third quarter costs, but will lead to future annual costs savings of approx. 15 MSEK. Operating costs<sup>1</sup>, adjusted for the restructuring costs, amounted to 68.3 MSEK, which is in line with what the company has previously

<sup>1</sup> Operating costs refers to costs for sales, administration and R&D

communicated. In order to increase efficiency, research and development will be concentrated in Uppsala in the fourth quarter.

### **Group financial position**

#### *Third quarter 2004*

##### *Sales per business area*

MSEK	3rd quarter 04	3rd quarter 03 (pro-forma)
Discovery Chemistry	63.8	64.2
Biosystems	20.7	27.4
<b>Group</b>	<b>84.5</b>	<b>91.6</b>

##### *Sales per geographic market, third quarter 2004*

%	USA	Europe	Rest of the world
Discovery Chemistry	58	26	16
Biosystems	59	38	3
<b>Group</b>	<b>59</b>	<b>29</b>	<b>12</b>

During the third quarter 2004 the group's net sales increased by 208 percent to 84.5 MSEK, compared to 27.4 MSEK for the corresponding period last year. Pro-forma third quarter sales in 2003 totaled 91.6 MSEK, i.e. a sales decrease by 8 percent in 2004. As previously mentioned, sales were negatively affected by delays in the deliveries of the new system for purification of drug compounds. The delays were due to the completion of the software taking longer than planned.

Operating expenses (excluding costs for goodwill amortization) amounted to 77.7 MSEK in the third quarter 2004, compared to 138.0 MSEK the same period last year. Pro-forma the operating expenses (excluding costs for goodwill amortization) amounted to 241.2 MSEK in the third quarter 2003. Third quarter operating expenses included 5.0 MSEK in restructuring expenses relating to personnel in Sweden and the U.S. During the third quarter the value of the Swedish krona has risen compared to the company's major transaction currencies. As an effect of this, other operating income and other operating expenses have been negatively affected to the amount of 4.4 MSEK. Net financial income has for the same reason been charged with negative exchange rate differences amounting to 2.1 MSEK.

Biotage reported a net loss of 41.4 MSEK for the third quarter 2004, compared to a net loss of 116.9 MSEK for the same period last year. The pro-forma net loss for the third quarter in 2003 was 193.7 MSEK.

#### *January – September 2004*

##### *Sales per business area*

MSEK	Jan-Sep 04	Jan-Sep 03 pro-forma
Discovery Chemistry	188.5	181.4
Biosystems	71.9	68.6
<b>Group</b>	<b>260.4</b>	<b>250.0</b>

##### *Sales per geographic market, January – September 2004*

%	USA	Europe	Rest of the world
Discovery Chemistry	58	33	9
Biosystems	52	42	6
<b>Group</b>	<b>56</b>	<b>35</b>	<b>9</b>

During the period January to September 2004 the group's net sales increased by 280 percent to 260.4 MSEK, compared to 68.6 for the corresponding period last year. Pro-forma sales in the period January – September 2003 amounted to 250.0 MSEK.

The gross margin for the period January – September 2004 was 60 percent, compared to 59 per cent for the corresponding period last year. The pro-forma gross margin in 2003 was 58 percent. The gross margin was positively influenced by new products and by changes in prices and the product mix, and negatively by the weakening of the US dollar in relation to the Swedish currency.

Operating expenses (excluding costs for goodwill amortization) amounted to 216.9 MSEK in the period January – September 2004, compared to 245.5 MSEK the same period last year. Pro-forma the operating expenses (excluding costs for goodwill amortization) amounted to 495.9 MSEK in the period January – September 2003. The cost reduction compared to last year is mainly an effect of the staff reduction programs and the integration and coordination accomplished in the group.

The group's investments in tangible and intangible assets amounted to 6.1 MSEK. During the period the company capitalized development costs amounting to 12.7 MSEK. The costs for amortization (excluding goodwill amortization) amounted to 26.4 MSEK. Of this sum, 9.2 MSEK refers to amortized capitalized development costs, 1.8 MSEK to patents and license rights and 15.4 MSEK to other amortization. Goodwill amortization for the period amounted to 31.8 MSEK, attributable to the acquisitions of Personal Chemistry and Biotage LLC.

Biotage reported a net loss of 94.9 MSEK, corresponding to –1.64 SEK per share, for the period January – September 2004, compared to a net loss of 189.6 MSEK, or –5.44 SEK per share, for the same period last year. The pro-forma net loss for the period January – September 2003 amounted to 369.8 MSEK.

The improved result compared to last year is attributable to growing sales and to considerably lower costs. The cost reduction is in line with the plan adopted by the company for integration and coordination of the operations.

#### *Balance sheet items*

At September 30, 2004 cash and securities totaled 12.3 MSEK, compared to 74.9 MSEK at December 31 2003. During the nine-month period the company has utilized short-term credits amounting to 44.5 MSEK. In addition to this, there are 14.3 MSEK of unused credits. The company thus has available liquid assets of 26.6 MSEK.

At the balance sheet date the company had a total goodwill of 360.0 MSEK, attributable to the acquisitions of Personal Chemistry and Biotage LLC. Other intangible fixed assets in the form of patents and license rights amount to 23.0 MSEK and capitalized development costs amount to 25.2 MSEK.

At the balance sheet date the equity capital amounted to 507.0 MSEK, compared to 609.5 MSEK at December 31 2003. 5.1 MSEK has been added to the equity capital through a non-cash issue due to utilization of the option program from 1997.

#### *Pro-forma reporting*

A pro-forma report has been prepared for illustrative purposes. The pro-forma accounting covers Biotage AB, Biotage LCC, Personal Chemistry AB and the subsidiaries of these companies.

Pro-forma income statements have been prepared as if the acquisitions were concluded at January 1, 2003. The goodwill accrued through the acquisitions has in the pro-forma statements been amortized over 10 years.

### **Discovery Chemistry (Medicinal chemistry)**

Amounts in KSEK	3rd quarter 2004	3rd quarter Pro-forma 2003	Jan-Sep 2004	Jan-Sep Pro-forma 2003
Sales	63 746	64 176	188 466	181 412
Operating result	-10 396	-64 960	-17 896	-139 822

Sales in the third quarter remained at the same level as pro-forma the corresponding period last year. The order intake for the new purification system meets the expectations and microwave synthesis sales continued to be strong. Discovery Chemistry received several large orders during the period, among other things one of the world's major pharma companies ordered systems for more than 1 MUSD, or close to 8 MSEK. The order included 34 purification systems and several systems for microwave synthesis.

Unfortunately the products were not delivered according to plan due to a delay in the development of the software in the new purification systems. The systems are now ready and are being delivered to the customers. The delay has not diminished customer demand. The interest in the new systems Initiator and SPX remain strong.

The gross margin in the third quarter improved compared to the first six months, when it was 58 percent, and now amounts to 64 percent. This is due to new products with higher margins and to a favorable mix of systems and consumables sales.

During the third quarter the business area applied for three patents concerning integration of synthesis and purification. In addition, four other patents relating to different areas of purification and synthesis were approved during the quarter.

A restructuring will be made within the business area. Among other things, the R&D department in Charlottesville will be moved to Uppsala. Concentrating research and developing in one location will enable more efficient development processes in the future. Discovery Chemistry is working to enhance its product offering by own development as well as by acquisitions.

The positive investment pattern among pharma companies is expected to remain stable. The business area has a positive outlook on profitability development during the year and it can be expected to be profitable from the fourth quarter this year.

### **Biosystems (Genetic analysis)**

Amounts in KSEK	3rd quarter 2004	3rd quarter 2003	Jan-Sep 2004	Jan-Sep 2003
Sales	20 723	27 418	71 940	68 573
Operating result	-16 262	-121 708	-37 497	-205 110

Third quarter sales amounted to 20.7 MSEK, lower than the same period last year. Sales for the first nine months still exceed those in 2003, however; 71.9 MSEK compared to 68.6 MSEK. Sales were slow in the third quarter, but are expected to improve during the fourth quarter. The product mix affected the gross margin negatively during the quarter and diminished to 54 percent, compared to 60 percent for the first six months.

Biotage will discontinue the cooperation with Corbett in Europe, effective January 1, 2005, as sales development has not met expectations. The distribution of Corbett's products in the U.S. has developed better and this cooperation will therefore continue.

In the third quarter Biosystems extended the license agreement with 454 Corporation. The minimum royalty has been increased from 1 MUSD per year to 1.25 MUSD per year, for a minimum of two years with an option to prolong the agreement during the entire life of the patent. This means that the agreements in total can give Biotage a minimum royalty of 13 MUSD up until 2014, whereof 3 MUSD have been paid so far.

Biosystems continues to focus on the market for cancer and microbiology research. This entails an important shift in customer group focus from academia towards medical institutes, laboratories and pharma companies. This new customer group is less dependent on public funding and is expected to contribute to an improved future sales development.

As a service to customers who have not yet purchased an instrument of their own but have a need for high quality data, Biosystems has begun offering to develop and perform tests. The service is expected to lead to increased instrument sales in the future.

The Food and Drug Administration (FDA) have approved the registrations (Device Class 1) of the PSQ 96MA and PSQ HS 96A systems in the U.S. This means that Biotage can market these products to clinical reference laboratories as well as to research laboratories, above all in the U.S.

### **Human resources**

At the end of the third quarter the company had 235 employees, compared to 298 at the start of the year.

### **Parent company**

The group's parent company, Biotage AB, has wholly-owned subsidiaries in Sweden, the United States, United Kingdom, France, Germany and Japan. The parent company conducts strategic business development, central marketing, research and development, manufacturing and administrative functions for the group. For the period January – September 2004 the parent company reported income amounting to 61.3 MSEK (59.7) and the result before appropriations and taxes was -25.3 MSEK (-101.9). Long-term investments, intangible and tangible fixed assets during the period amounted to 3.5 MSEK (2.9). Liquid funds at the end of the period amounted to 0.8 MSEK (22.8 as of December 31, 2003). During the fourth quarter, the parent company, Biotage AB, will be converted to a holding company for the corporate group. Operations will be transferred to the subsidiary Biotage Sweden AB.

### **Future prospects**

During the fourth quarter 2003 Biotage's sales amounted to 112 MSEK pro-forma. The company estimates that sales will amount to the same level during the fourth quarter this year. At this sales level, the company estimates that it is possible to reach a positive cash flow and a positive operating result before goodwill amortization.

### **Next report**

The Year-End financial report for 2004 will be published on February 9, 2005.

**Accounting principles**

The same accounting principles have been applied in this interim report as in the latest annual report. This interim report has been established in accordance with the recommendation RR20 of the Swedish Financial Accounting Standards Council.

This report has not been reviewed by the company's auditors.

Uppsala October 21, 2004

Jeff Bork

President and CEO

**About Biotage**

Biotage is a global company active in life science research with strong technologies, a broad range of operations and a long-term view of the market. The company offers solutions, knowledge and experience in the areas of genetic analysis and medicinal chemistry. The customers include the world's top 30 pharmaceutical companies, the world's top 20 biotech companies, and leading academic institutes. The company is headquartered in Uppsala and has offices in the U.S., Japan and several European countries. Biotage has approx. 235 employees and had pro-forma sales of 362 MSEK in 2003. Biotage is listed on the Stockholm stock exchange. Website: [www.biotage.com](http://www.biotage.com)

Certain statements in this press release are forward-looking. These may be identified by the use of forward looking words or phrases such as "believe," "expect," "intend," and "should," among others. These forward-looking statements are based on Biotage's current expectations. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for such forward-looking statements. In order to comply with the terms of the safe harbor, Biotage notes that a variety of factors could cause actual results and experience to differ materially from the anticipated results or other expectations expressed in such forward-looking statements. Such uncertainties and risks include, but are not limited to, risks associated with management of growth and international operations (including the effects of currency fluctuations), variability of operating results, the commercial development of the microwave synthesis and flash purification in the drug discovery market, DNA sequencing and genomics market, nucleic acid-based molecular diagnostics market, and genetic vaccination and gene therapy markets, competition, rapid or unexpected changes in technologies, fluctuations in demand for Biotage's products (including seasonal fluctuations), difficulties in successfully adapting the Company's products to integrated solutions and producing such products, and the Company's ability to identify and develop new products and to differentiate its products from competitors.

INCOME STATEMENTS

<b>Group</b> <b>Amounts in KSEK</b>	<b>2004-01-01</b>	<b>2003-01-01</b>	<b>2004-07-01</b>	<b>2003-07-01</b>	<b>1)Proforma 2003-01-01</b>
	<b>2004-09-30</b>	<b>2003-09-30</b>	<b>2004-09-30</b>	<b>2003-09-30</b>	<b>2003-09-30</b>
Net Sales	260 406	68 573	84 469	27 418	249 985
Cost of goods sold	-105 021	-28 166	-32 721	-11 136	-104 657
<b>Gross profit</b>	<b>155 385</b>	<b>40 407</b>	<b>51 748</b>	<b>16 282</b>	<b>145 328</b>
Selling expenses	-126 163	-62 114	-42 653	-22 410	-168 910
Administrative expenses	-35 370	-29 408	-10 861	-9 019	-63 540
Research and development costs	-56 985	-57 672	-19 741	-15 664	-106 304
Other operating income	7 097	384	-1 020	-471	384
Other operating expenses	-5 492	-8 335	-3 444	-2 760	-27 005
Non recurring items	0	-88 372	0	-87 666	-130 556
<b>Operating expenses</b>	<b>-216 912</b>	<b>-245 517</b>	<b>-77 719</b>	<b>-137 990</b>	<b>-495 931</b>
Depreciation goodwill	-31 755	0	-10 181	0	-35 640
<b>Operating loss</b>	<b>-93 283</b>	<b>-205 110</b>	<b>-36 151</b>	<b>-121 708</b>	<b>-386 243</b>
Financial income net	-1 519	15 695	-5 183	4 866	16 580
<b>Result after financial items</b>	<b>-94 801</b>	<b>-189 415</b>	<b>-41 334</b>	<b>-116 842</b>	<b>-369 663</b>
Tax expense	-56	-153	-26	-72	-153
<b>Net loss for the period</b>	<b>-94 857</b>	<b>-189 568</b>	<b>-41 360</b>	<b>-116 914</b>	<b>-369 816</b>
Weighted average shares outstanding	57 792 108	34 855 157	57 792 108	35 025 271	57 792 108
Weighted average shares outstanding after dilution	58 308 880	34 986 340	58 105 494	35 740 874	58 308 880
Common shares outstanding	57 792 108	57 735 495	57 792 108	57 735 495	57 792 108
Net loss per share	-1,64	-5,44	-0,72	-3,34	-6,40
Net loss per share after dilution*	-1,64	-5,44	-0,72	-3,34	-6,40

\*) As the earnings per share would decrease the loss per share when considering dilution, as a result of shares outstanding, the earnings per share have only been calculated without consideration of dilution

# **BALANCE SHEET**

<b>Amounts in KSEK</b>	<b>Group</b>	
	<b>2004-09-30</b>	<b>2003-12-31</b>
<b>ASSETS</b>		
Goodwill	359 989	402 567
Capitalized expenditure for development	25 230	18 279
Other intangible assets	22 954	21 183
Tangible assets	96 616	107 603
Financial assets	46 829	46 768
<b>Total fixed assets</b>	<b>551 618</b>	<b>596 400</b>
Inventory	84 393	76 039
Account receivable	59 270	65 717
Other current assets	10 511	13 597
Liquid funds	12 335	74 900
<b>Total current assets</b>	<b>166 508</b>	<b>230 253</b>
<b>TOTAL ASSETS</b>	<b>718 127</b>	<b>826 653</b>
<b>EQUITY AND LIABILITIES</b>		
Restricted equity	1 313 646	1 321 279
Non-restricted equity	-806 613	-711 780
<b>Total equity</b>	<b>507 033</b>	<b>609 499</b>
Provisions	16 011	32 740
Long term liabilities	40 144	32 990
Short term liabilities	154 939	151 424
<b>Total liability</b>	<b>211 094</b>	<b>217 154</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>718 127</b>	<b>826 653</b>



## CASH FLOW STATEMENT

<b>Amounts in KSEK</b>	<b>Group</b>	
	<b>2004-01-01 2004-09-30</b>	<b>2003-01-01 2003-09-30</b>
<b>Operating activities</b>		
Cash flow from operating activities	-43 928	-123 194
Changes in working capital	-56 557	46 476
Cash flow from investment activities	-18 785	84 698
<b>Cash flow after investments</b>	<b>-119 270</b>	<b>7 980</b>
Cash flow from financial activities	57 063	0
<b>Cash flow during period</b>	<b>-62 208</b>	<b>7 980</b>
<b>Cash and liquid assets beginning of period</b>	<b>74 900</b>	<b>25 655</b>
<b>Increase of liquid assets through acquisitions</b>		<b>21 998</b>
<b>Exchange differences</b>	<b>-357</b>	<b>-</b>
<b>Cash and liquid assets end of period</b>	<b>12 335</b>	<b>55 633</b>
<b>Cash, cash equivalents and investments in high grade Debt securities end of period</b>	<b>12 335</b>	<b>361 549</b>

## CHANGES IN EQUITY

<b>Amounts in KSEK</b>	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
<b>Balance brought forward January 1</b>	<b>609 499</b>	<b>616 161</b>
Current new share issue due to expiration of options program from 1997	5 132	
Non-cash issue	-	250 201
Translation differences	-12 741	-
Net result 1 January – 30 September	-94 857	-189 568
<b>Balance carried forward 30 September</b>	<b>507 033</b>	<b>676 794</b>