



Interim Report January – June 1999

Net sales for the period amounted to MSEK 31.2.

The consolidated result after financial items was a loss of MSEK 16.3.

Important events after the end of the report period

- A directed issue of 6 million shares earned the company MSEK 136.4 after deduction of issue expenses.*
- Merck & Co., Inc. made a public bid for SIBIA Neurosciences, Inc.*
- 15 percent of the shares in PartnerTech AB were acquired.*

In January, a non-cash issue was made to acquire 100 percent of Björkman Tigerschiöld Intressenter AB and Björkman Fritzell Tigerschiöld AB, plus 70 percent of G. Kallstrom & Co AB ("the KBB companies").

Through the acquisition, Skandigen extended its scope of operations beyond biotechnology to also include investments in a number of Swedish growth companies, mainly in the fields of contract manufacturing of advanced industrial components,

electronics and information technology. Investment activities are divided into three business areas: Technology, Biotechnology and Services & Trade, comprising the following holdings ¹:

Industriförvaltnings AB Skandigen

TECHNOLOGY		BIOTECHNOLOGY		SERVICES & TRADE	
Arkivator	13.8%	CMA Microdialysis	56.0%	Beep Network	40.0%
Axis	17.5%	Fermentech Medical	97.0%	H. Lundén FK	14.0%
MYDATA	33.3%	Gamma Diagnostik	92.0%	PBK Outsourcing	49.5% ²
Vellinge Electronics	37.3%	BioNative	23.8%	Plenia	37.5% ²
LGP Telecom	2.2%	InRo Biomedtek	33.3%	TPC Security	20.6%
Micronic	0.8%	SIBIA Neurosciences	10.4%	The Chimney Pot	19.9%
		Sepragen	2.4%		

¹ The ownership percentage reflects Skandigen's 70 percent ownership in G.Kallstrom & Co AB.

² Inclusive options and convertibles.

STRENGTHENED ORGANIZATION AND ACQUISITIONS

Patrik Tigerschiöld was appointed president in April 1999. The organization has furthermore been strengthened by a couple of additional recruitments. Håkan Dahlin assumed the post of Financial Manager at the end of the summer. Mr. Dahlin (M.Sc. in Business and Economics) comes

to Skandigen from Skanska, where he has held various financial posts during the past eight years.

The Annual General Meeting decided to acquire 19.9 percent of The Chimney Pot AB (TCP) by means of a directed non-cash issue of no more than 800,000 shares. TCP, founded in 1996, specializes in post-production and special effects for video

and film productions. The acquisition gives Skandigen a stake in the rapidly expanding media business.

An extraordinary General Meeting of the Shareholders was held on 1 July. The Meeting approved a directed new issue of 6 million shares for the purpose of obtaining funds for new investments, preferably to be made in companies with a technological

or IT-related profile. The reason for bypassing the preferential rights of the shareholders was to broaden ownership by bringing some new institutional owners. The objective is that this should lead to improved liquidity in the share. Some dozen or so Swedish and international institutions chose to subscribe to the issue, priced at SEK 23.5 per share, which was on a level with the market price at the time of issuance.

GROUP STRUCTURE

The new Group structure consists of the Parent Company Industriförvaltnings AB Skandigen and the subsidiaries Fermentech Medical Ltd., CMA Microdialysis AB, Gramma Diagnostik AB, Björkman Tigerschiöld Intressenter AB, Björkman Fritzell Tigerschiöld AB and G. Kallstrom & Co AB. Skandigen acquired 49 percent of CMA Microdialysis in February, after which the Group's total ownership stake amounts to 56 percent. The shares were acquired for a nominal amount, with the proviso that the seller will obtain a price premium should Skandigen sell the shares within a given period of time. The holding company BMPI Liquidating Trust was liquidated during 1999.

The acquisition of the KBB companies will be accounted for as a so-called "reverse acquisition", which gives the most true and fair view of the transaction in terms of both financial position and results. This entails that Skandigen is valued at its market value at the time the offer was made public, giving rise to goodwill of MSEK 97.2. The goodwill will be amortized over a period of five years, resulting in an annual charge to earnings of MSEK 19.4.

SKANDIGEN GROUP – SALES AND EARNINGS

The Group's net sales for the period January – June 1999 amounted to MSEK 31.2

(21.3). The sales are entirely attributable to the biotechnology business. CMA Microdialysis's sales amounted to MSEK 18.8 and Fermentech Medical's to MSEK 12.3 (21.3). Fermentech Medical's sales were negatively affected by a reduction of the stock volume by the distributor.

The consolidated net result for the first six months was a loss of MSEK 16.3 (loss: 1.1), equivalent to a loss of SEK 0.33 per share. The figure for the current number of shares (which increased by 6 million following the share issue after the end of the report period) is a loss of SEK 0.29 per share. The corresponding figure last year, based on the number of shares outstanding at that time, was a loss of SEK 0.11 per share. Earnings have been charged with amortization of net goodwill arising from the acquisition totaling MSEK 7.8 (0) and increased costs for the clinical trials of Fermentech Medical's hyaluronan product for treatment of osteoarthritis. The Group's research and development costs amounted to MSEK 9.1 (5.4), which is equivalent to 29 (25) percent of sales.

PARENT COMPANY

The Parent Company's income for the period January – June was MSEK 2.6 (loss: 2.7).

SUBSIDIARIES

Fermentech Medical's loss for the period was MSEK 5.9 (income: 1.7), while the loss for CMA Microdialysis was MSEK 3.7.

CAPITAL EXPENDITURES

The Group's capital expenditures amounted to MSEK 28.0 (1.1), of which investments in shares account for MSEK 26.3.

LIQUIDITY AND EQUITY/ASSETS RATIO

The Group's cash balances and short-term investments amounted to MSEK 30.3 (14.1)

at the end of the period. The Group's interest-bearing liabilities at the end of the period amounted to MSEK 0.3 (8.7). The Group's equity/assets ratio was 82 (81) percent. Equity per share amounted to SEK 6.8 (10.9).

The new issue of 6 million shares, which earned the company MSEK 136.4, was carried out after the end of the period. The total number of shares in the company after the issue is 55,043,875.

PERSONNEL

The average number of employees in the Group as per 30 June 1999 was 80 (30).

BUSINESS AREAS

Technology

Arkivator AB is a high-tech manufacturing group focusing on production and assembly of advanced industrial components, primarily in aluminum and steel. The Group's net sales for the period January – June 1999 amounted to MSEK 257 (266). The main reason for the slight fall in net sales is stock level adjustments in the telecoms sector, as a result of which deliveries during the first quarter were at a lower level than normal. Income before standard tax amounted to MSEK 39 (57), having been charged with costs for the closure of two units and the start-up of the new production capacity. Earnings per share after standard tax amounted to SEK 3.11 (4.48). The forecast for 1999 calls for increased sales during the second half of the year and greatly improved earnings. Earnings for the year as a whole are expected to be on a par with last year. Arkivator is quoted on the OTC list. The Skandigen Group owns 13.8 percent of Arkivator.

Axis AB develops and markets products that enable connection of various types of peripheral equipment to computer net-

works. Net sales for the fiscal year May 1998 – April 1999 amounted to MSEK 559.8 (521.7), while income after net financial items amounted to MSEK 0.8 (11.2, including capital gains of MSEK 26.0). Axis continues to strengthen its market position. Since the beginning of the year, the company has intensified its cooperation with world-leading technology companies such as Microsoft and Sun. Axis's technology resources have increased by over 20 percent during the fiscal year. The Skandigen Group owns 17.5 percent of Axis.

MYDATA automation AB develops, manufactures and markets advanced equipment for surface mounting of electronic components on printed circuit boards. Net sales for January – June 1999 amounted to MSEK 207.3 (190.2), while the result after net financial items amounted to a loss of MSEK 6.4 (loss: 11.2). The market for placement machines remained weak. MYDATA has increased its market share during the period. The Skandigen Group owns 33.3 percent of MYDATA.

Vellinge Electronics AB conducts contract manufacture of electronic products and is one of Sweden's largest producers of circuit boards. Net sales for the period May 1998 – April 1999 amounted to MSEK 402.5 (329.2), while income after net financial items amounted to MSEK 31.0 (27.5). The Skandigen Group owns 37.3 percent of Vellinge Electronics.

Since the end of the reporting period, Skandigen has acquired 15 percent of the votes and equity in **PartnerTech AB** from Addum AB. Furthermore, Skandigen has issued an option permitting Addum AB to sell an additional 756,200 shares for a price of SEK 53 per share on the 21 February 2000. PartnerTech's business concept is to contract-manufacture complete modules and products within electronics and advanced mechanics. PartnerTech is quot-

ed on the Stockholm Stock Exchange's O list. As Skandigen already has interests in companies active within this industry, we see opportunities to take an active role in the ongoing process of consolidation.

Biotechnology

The subsidiary **Fermentech Medical Ltd's** sales of Ophthalin, which is used in cataract surgery, amounted to MSEK 12.3 (21.3) for the period. Sales are in a build-up phase in a number of countries outside Europe. Demand is weak in Asia and Latin America due to the economic situation there, which has led to further stock level adjustments by the distributor. The loss for the period was SEK 5.9 (income: 1.7). Earnings were charged with R&D costs of MSEK 5.9, including costs for the clinical trials of the company's hyaluronan product for treatment of osteoarthritis. The studies have now been concluded, which means that external R&D costs will decrease during the second half of the year. The objective is to obtain registration for the new product in the EU during the third quarter. The Skandigen Group owns 97.0 percent of Fermentech Medical.

The subsidiary **CMA Microdialysis AB** (CMA), which manufactures and markets microdialysis equipment, reported net sales of MSEK 18.8 for the period. CMA's sales for the corresponding period last year amounted to MSEK 20.6. The decrease is attributable to the products for preclinical research. CMA has intensified its marketing of instruments for clinical applications mainly in the areas of neurosurgery and neuro-intensive care. The loss for the first six months was MSEK 3.7 (loss: 2.7). R&D costs amounted to MSEK 3.2, equivalent to 17 percent of sales. The Skandigen Group owns 56.0 percent of CMA.

On the second of August, after the end of the report period, Merck & Co., Inc. sub-

mitted a public purchase offer for **SIBIA Neurosciences, Inc.** The bid is USD 8.5 in cash per share, for a total purchase price of USD 87 million. Skandigen holds 986,696 shares in SIBIA, equivalent to about 10 percent of the outstanding shares. Together with other shareholders in SIBIA, representing a total of about 33 percent of the shares, Skandigen has issued an option to Merck in conjunction with the offer. The option gives Merck the right to acquire Skandigen's shares in SIBIA for the bid price of USD 8.5 per share, or whatever higher price Merck may pay by reason of the offer. If the shares are sold for USD 8.5, Skandigen will realize a capital gain of about MSEK 21. Merck's offer for SIBIA is associated with a number of conditions, one being that Merck is able to acquire a majority of the shares. The transaction is expected to be completed in September 1999.

Services & Trade

Multisound Technology MST AB was merged in March with **TPC Security AB**. The Skandigen Group increased its holding in the merged company, TPC Security AB, to 20.6 percent in conjunction with a new issue.

NEXT REPORT

Skandigen's Interim Report for the first nine months will be published on November 8, 1999.

Stockholm, August 30, 1999

Industriförvaltnings AB Skandigen (publ)

Patrik Tigerschiöld
President

Summary Consolidated Statement of Income

Amounts in SEK '000	Jan. – June 1999	Jan. – June 1998	Jan. – Dec. 1998
Net sales	31,222	21,292	35,816
Change in inventories	1,197	–462	1,627
Other operating revenues	252	176	313
	32,671	21,006	37,756
Raw materials and supplies	–8,532	–5,736	–11,038
Other external expenses	–20,076	–9,557	–21,641
Personnel expenses	–16,220	–5,346	–10,458
Depreciation			
Goodwill	–7,812		
Tangible assets	–2,974	–1,757	–3,626
Operating loss	–22,943	–1,390	–9,007
Financial income and expense, net	6,596	285	695
Loss after financial items	–16,347	–1,105	–8,312
Taxes	–	–	–
Minority shares	97	–	–
Net loss for the period	–16,250	–1,105	–8,312

CMA Microdialysis AB is consolidated in the Group from the first quarter of 1999.

The results from participations in associated companies are not included for the first 6 months of 1999 in the consolidated financial statements in this interim report.

Consolidated Statement of Cash Flows

Amounts in SEK '000	1999 Jan. – June	1998 Jan. – June	1998 Jan. – Dec.
Cash flow from operating activities before change in working capital	–6,783	652	–4,689
Change in working capital	–36,968	–3,981	1,002
Cash flow from operating activities	–43,751	–3,329	–3,687
Cash flow from investing activities	47,948	–1,100	13,124
Cash flow from financing activities	–2,878	8,708	10,245
Cash flow for the period	1,319	4,279	19,682

Summary Consolidated Balance Sheet

Amounts in SEK '000	June 30 1999	June 30 1998	Dec. 31 1998
ASSETS			
Fixed assets			
Intangible assets	75,655	–	–
Tangible assets	14,327	12,960	12,119
Financial assets	219,463	80,000	58,466
Total fixed assets	309,445	92,960	70,585
Current assets			
Other current assets	67,336	23,824	24,769
Cash and bank balances	30,341	14,089	29,476
Total current assets	97,677	37,913	54,245
Total assets	407,122	130,873	124,830
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	335,395	106,598	99,482
Minority interest	37,452	8	8
Provisions	6,968	5,523	4,459
Liabilities	27,307	18,744	20,881
Total shareholders' equity and liabilities	407,122	130,873	124,830

CMA Microdialysis AB is consolidated in the Group from the first quarter of 1999.

The results from participations in associated companies are not included for the first 6 months of 1999 in the consolidated financial statements in this interim report.

Quarterly Summary - Skandigen Group

Amounts in MSEK	2/99	1/99	4/98	3/98	2/98	1/98
Operating revenues	16.3	15.2	3.7	10.9	11.3	10.2
Change in inventories	0.4	0.8	1.9	0.2	1.3	–1.8
	16.7	16.0	5.6	11.1	12.6	8.4
Expenses	–27.0	–28.6	–11.9	–12.4	–11.6	–10.8
Operating income/loss	–10.3	–12.6	–6.3	–1.3	1.0	–2.4
Net financial items	4.8	1.8	0.2	0.2	0.1	0.2
Income/loss for the period	–5.5	–10.8	–6.1	–1.1	1.1	–2.2

This report has not been subject to separate examination by the Company's auditors.