



Biolipox Year-End Report 2005

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- Net income after tax amounted to SEK 116.1 million (loss:24.7) for the fourth quarter. For the full year net income after tax amounted to SEK 46.5 million (loss: 96.7).
- Earnings per share for the fourth quarter was SEK 109.11 (loss: 28.70). For the full year earnings per share was SEK 19.59 (loss: 112.26).
- Boehringer Ingelheim and Biolipox sign agreement on a new class of drugs to treat pain and inflammation
- Biolipox joins top-ranked EU-project
- Biolipox moves to new premises
- Continuous progress in drug development projects

Forthcoming financial information

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| • Interim report, January – March 2006 | 17 May 2006 |
| • Interim report, January – June 2006 | 29 August 2006 |
| • Interim report, January – September 2006 | 19 October 2006 |

Biolipox's year-end report 2005 is presented on the following pages.

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Biolipox is a research-intensive pharmaceutical company. The core of Biolipox's operations is world-leading research on arachidonic acid and its effects on inflammatory diseases - particularly asthma, chronic obstructive pulmonary disease (COPD), rhinitis, pain and arthritis. Through the in-house knowledge in the inflammatory research area, particularly arachidonic acid metabolism, Biolipox has created a portfolio of potential blockbusters in these therapeutic areas. The company has 40 employees and is owned by HealthCap, Apax Partners, Sofinnova Partners, SLS Ventures, Crédit Agricole Private Equity, Auriga Partners and the founders

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Boehringer Ingelheim and Biolipox sign agreement on a new class of drugs to treat pain and inflammation

Biolipox and Boehringer Ingelheim agreed in early November to a worldwide exclusive research and license collaboration. The aim of the collaboration is to develop a new class of drugs for the treatment of pain and inflammation. The collaboration is focused on Biolipox pre-clinical project on prostaglandin E₂.

Under the terms of the agreement, Boehringer Ingelheim made an upfront payment, and thereafter milestone and royalty payments. The agreement also includes project specific research funding to Biolipox for a period of three years. Thereafter, Boehringer Ingelheim will be responsible for all further compound development and marketing. In addition, Boehringer Ingelheim and Biolipox will co-promote the products arising from this collaboration in the Nordic and Baltic countries.

The value of the agreement reflects an opportunity with great innovative value and large market potential. In addition, the co-promotion will enable Biolipox to build up its own commercialization capabilities.

Biolipox joins top-ranked EU-project

Biolipox was selected to participate in the newly established European network EICOSANOX. The network will work to increase the understanding of the eicosanoids as well as nitric oxide and their role in inflammatory disease. The overall aim is that this increased knowledge will lead to development of new medicines in major disease areas. The eicosanoids are important inflammatory mediators.

This consortium brings together ten research centers and two biotech companies. This is a multi-disciplinary consortium of highly qualified scientific groups in the area of life sciences, coordinated by the Karolinska Institutet in Stockholm, Sweden.

The European Commission decided to support the EICOSANOX-consortium as part of the EU 6th Framework Programme. The total funding of the project amounts to EUR 10.7 million.

Biolipox moves to the Karolinska Institutet

Biolipox moved to new premises at the Karolinska Institutet in December 2005. By consolidating most of its resources in one place, the drug development process can be optimized. This also facilitates the cooperation with front line research expertise at the institute.

Continuous progress in drug development projects

Selective PGE₂ inhibitor – an effective anti-inflammatory medicine with few side effects

The project is aimed at developing a new, effective medicine for inhibiting pain, inflammation and fever, with fewer side effects than existing drugs. It is based on the discovery of a new mechanism of action, permitting selective blocking of a specific enzyme that is central to various inflammatory processes. The project progresses and several active inhibitors have been identified. The next step will be to select a “candidate drug”. Several series of molecules are developed in parallel to obtain the optimal properties for a drug. A patent portfolio with additional potential drug candidates has been built.

The non-steroidal anti-inflammatory drugs currently available are so-called cyclooxygenase inhibitors (COX-inhibitors), either non-selective COX-inhibitors such as Aspirin®, or selective COX-2 inhibitors such as Celebrex®. They act by blocking all or part of the first step in the formation of prostaglandins. This broad-based effect gives rise to side effects, since many prostaglandins are inhibited, including those necessary for the body’s proper functioning. Selective inhibition of the formation of prostaglandin E₂, which is the main inducer of pain and inflammation, markedly reduces the risk of side effects.

One out of three adults and nearly 300 000 children in the U.S. suffer from arthritis. The most common type of arthritis is osteoarthritis, which gives rise to pain and impaired mobility. It is seen in many people as they age, although it may affect younger patients as a result of injury or overuse. Rheumatoid arthritis, inflammation in several joints simultaneously, is somewhat less common, but often more disabling. It also affects young people in their active years, leading to great suffering and a high cost to society at large.

Sales for the three largest COX-2 inhibitors amounted in 2004 to more than USD 6 billion (Source: Annual reports 2004).

Eoxin enzyme inhibitors – a new class of drugs for the treatment of asthma and Chronic Obstructive Pulmonary Disease (COPD)

The eoxin enzyme inhibitor project is aimed at developing a new class of drugs for asthma, COPD and other inflammatory diseases. Biolipox has discovered a new group of mediators, i.e. eoxins, derived from arachidonic acid, which have been shown to play an important role in various inflammatory processes. The project is in early preclinical phase and progresses according to plan. Several series of molecules are developed in parallel and a patent portfolio of promising drug candidates has been built. The next step will be to select a specific drug candidate.

Asthma affects 6 to 8 percent of the adult population and about 10 percent of the children in the western world.

COPD is a permanent pulmonary inflammation (chronic bronchitis), combined with shortness of breath and impaired lung function. The inflammation brings about increased mucus production, lesions in the airway wall and lung tissue, which combined cause obstruction, thereby restricting air flow and respiration. COPD is usually caused by smoking and is a serious and incurable disease for which effective treatment is lacking. COPD affects 6 to 8 percent of the adult population.

The asthma, COPD and allergic rhinitis global market amounted to \$25.5 billion in 2004, with five brands selling over \$1.0 billion (Source: Data monitor - IMS Health Inc. 2004).

Dual effect respiratory drug – a new class of drugs for the treatment of asthma and Chronic Obstructive Pulmonary Disease (COPD)

Biolipox is working on a dual acting respiratory drug with potentially both bronchodilatory and anti-inflammatory properties. Several molecules that work well in cell systems have been identified. Patents to protect substances of interest will be filed continuously. The next step is to identify a molecule which corresponds to predefined criteria.

NLA Nasal Spray has a rapid onset of effect

Biolipox's Phase II time-to-onset study with a new nasal spray (NLA Nasal Spray) for the treatment of allergic and non-allergic rhinitis was concluded and reported during the first six months 2005. Twelve healthy volunteers were given a single intranasal dose of either NLA Nasal Spray or placebo in a randomized and crossover order. The time to reducing the inflammatory protein content in nasal lavage, resulting after a histamine challenge, was measured.

NLA was shown to have an onset of effect already 5-10 minutes after intake of drug. These results strongly support the use of NLA Nasal Spray as on-demand treatment.

A patent application relating to further formulation of NLA nasal spray was submitted during Q2 2005.

Rhinitis gives rise to an inflamed swelling in the mucous membranes of the nose, which can result in nasal congestion, itch, and sneezing. Rhinitis can be allergic or non-allergic, and the prevalence has increased sharply during the past 20 years. It is estimated that approximately 25 percent of the western world population is afflicted.

Sales of the largest drugs prescribed for rhinitis amounted to USD 5.8 billion in 2004 (Source: Annual reports 2004).

Revenues and costs 1 January – 31 December 2005

Revenues and costs

Revenues

Revenues amounted to SEK 147.0 million (0). The income was recognized during the fourth quarter and relates to research and license collaboration. The income comprises both upfront payment, i.e. compensation received upon contract signing, and research funding, both related to Biolipox' selective PGE₂ inhibitor project with Boehringer Ingelheim.

Research and development

Research and development costs for the fourth quarter increased by 16 percent to SEK 22.6 million (19.5). For the full year, research and development costs increased by 17 percent to SEK 80.1 million (68.5). Increased costs are mainly due to strengthening the research and development organisation, leading to an increase in average numbers of employees compared to previous year.

Of the total R&D costs, SEK 27.7 million (26.3) are related to contract research and external costs for pre-clinical and clinical trials.

Administration

Administrative expenses increased during the fourth quarter by 39 percent to SEK 7.7 million (5.5). The increase is due to increased legal costs in connection with outlicensing activities, and increased costs for the company's incentive program. For the full year administrative costs amounted to SEK 22.2 million (29.7), corresponding to a decrease of 25 percent compared to previous year. The substantial decrease is due to the fact that costs for the company's financing were charged against earnings in 2004 while no such costs have incurred during 2005.

Administrative expenses include costs for functions such as accounts and finance, legal, HR, business development, external communications, the President & CEO and fees for Board members.

Personnel

During the year personnel costs amounted to SEK 45.1 million (35.7), a 26 percent increase. The number of employees at the end of the year was 39 (39) while the average number of employees amounted to 39 (33). The average number of employees increased by 18 percent.

Other

Other operating income amounted during the year to SEK 1.8 million (0.3), mainly comprising grants from the EU regarding the EICOSANOX project, and exchange gains arising on accounts receivable and accounts payable in foreign currency. The increase in other operating income is primarily due to the EU grant, which is new for the year, and to increased positive exchange differences on accounts receivable. Other operating costs amounted to SEK 2.0 million (0.1) consisting of exchange losses arising on accounts receivable and accounts payable in foreign currency. The net exchange loss amounted to SEK 1.3 million (loss: 0.1).

Depreciation

Depreciation in an amount of SEK 2.1 million (1.8) was charged against earnings for the year. Depreciation relates to tangible fixed assets, mainly instruments, computers and equipment. In addition, the company's capitalized expenditure for improvement of facilities in property owned by others was subject to write-off due to the relocation to new facilities. This caused a charge of SEK 0.1 million against earnings.

Net financial income

Biolipox's net financial income for the full year amounted to SEK 2.1 million (1.3). The improved net financial income is due to higher interest income, principally stemming from higher interest-bearing bank balances and short-term investments.

Earnings

Earnings for the fourth quarter amounted to SEK 116.1 million (loss: 24.7). Earnings for the full year amounted to SEK 46.5 million (loss: 96.7). The profit was generated during the last quarter, when Biolipox received income from research and licence collaboration.

Biolipox will not be affected by tax in 2005, since the company can utilize deductible losses carried forward.

Investments and cash-flow

The cash-flow for the fourth quarter was positive at an amount of SEK 88.1 million (negative: 24.9). Cash-flow for the full year was positive at an amount of SEK 156.6 million (positive: 0.5).

Cash-flow from operating activities was positive at an amount of SEK 89.4 million (negative: 24.9) in the fourth quarter and positive at an amount of SEK 24.2 million (negative: 93.2) for the full year. The positive cash-flow is mainly due to Biolipox making a profit, less a reduction in working capital. Changes in working capital reduced the positive cash-flow from operating activities by SEK 24.3 million (positive: 1.6). The negative effect on operating cash-flow was caused by funds being tied up in accounts receivable. Accounts receivable at year-end comprised not yet due accounts receivables, and overdue accounts receivables, due to the fact that part of the amount was temporarily withheld by foreign tax authority. In 2006, we have received information that this preliminary tax will be refunded in full.

Investing activities pertaining to capital investments in machinery and equipment (mainly instruments, computers and office equipment) used cash of SEK 2.0 million (2.4).

Financing activities provided cash of SEK 134.4 million (96.1) due to proceeds in January 2005 from a new share issue.

The group's liquid funds at 31 December 2005, including bank balances and short term investments, amounted to SEK 187.2 million (30.6).

New share issues and incentive program

In January 2005 Biolipox conducted a directed new share issue comprising 2,670,895 series P6 preferential shares at a nominal value of SEK 0.10 per share, which increased the share

capital by TSEK 267. The shares were issued at EUR 5.6161 per share, and the proceeds amounted to MEUR 15. The proceeds paid to the company amounted to SEK 135.4 million.

In conjunction with the P6 share issue, the holders of P6 shares were offered another 2,670,890 warrants, with the right to purchase the same amount of P6 shares at the same conditions as for the original P6 shares.

At the annual general meeting on 28 April 2005 it was decided to issue 300,000 warrants to the subsidiary Pyrinox AB to enable issuance of stock options to primarily employees and for the purpose of financial hedge for these stock options. Each warrant gives the holder the right to acquire one common stock of Biolipox. The company's share capital could increase by SEK 30,000 if all warrants are used.

During 2005, on three occasions, a total of 475,431 stock options have been issued to management, other employees and board directors. The stock options give the right to acquire the same number of newly issued common shares at the nominal value SEK 0.10 per share until either 31 December 2014 or 31 December 2015. Of those stock options issued prior to 2005, and those issued during 2005, a total of 6,000 and 4,500 stock options respectively have been forfeited due to the fact that the holders have left their employment with Biolipox.

Biolipox has issued a total of 880,500 warrants to the subsidiary Pyrinox AB to cover future redemption of stock options and the social security costs associated with all stock options issued as per 31 December 2005, which amount to 669,231 stock options.

Personnel

At year-end 2005 Biolipox had 39 employees, of whom 34 were employed full-time and 5 employees were employed part-time. Out of those 39 employees, 33 employees were engaged in the company's research and development and 6 employees were engaged in accounts and finance, business development and management.

Business segments

The operations of Biolipox consist of research and development within certain development stages of pharmaceutical projects. These development projects are in several respects of similar nature and any future products would address similar therapeutic areas and utilize similar distribution channels. Since the Company currently has no product sales, the Company's operations are currently not divided into lines of business or geographic segments. Under these conditions the Company's operations are presented in one segment.

Contingent assets and liabilities

Biolipox has no contingent assets or liabilities, which is no change from the financial year opening.

Post-statement events

The Company has no significant post-statement events to report.

Accounting principles

This report has been prepared in accordance with RR20 Interim Reports.

In this year-end report Biolipox presents the group's consolidated results of operations and financial position. Previous financial reports have merely related to the parent company. Comparative figures relating to previous accounting periods have been restated. Since the subsidiary conducts no operations, this change in accounting principles has not been affecting income.

All other accounting principles, valuation principles and calculation methods remain unchanged compared with those applied when compiling the annual report for the 2004 fiscal year.

Annual General Meeting and dividend

The Annual General Meeting of shareholders in Biolipox will be held on Wednesday, 17 May, 2006, at 9.00 am, at the company's premises, Berzelius Väg 3, Stockholm. Registration for the Annual General Meeting will commence at 8.30 am. Registration of participation must be addressed to Biolipox not later than Friday, 12 May, at 4.00 pm.

The board of directors will propose to the Annual General Meeting that no dividend is paid for the financial year 2005. In regard to the company's early stage of development, the company is not expected to pay a dividend for the next few years.

Annual Report

The Annual Report will be available at Biolipox' website from mid March. The report will also be sent to the shareholders by mail in early April.

Consolidated income statement

Amount in SEK millions	Jan-Dec 2005	Jan-Dec 2004	Oct-Dec 2005	Oct-Dec 2004
Net sales	147.0	-	147.0	-
Administrative costs	-22.2	-29.7	-7.7	-5.5
Research and development costs	-80.1	-68.5	-22.6	-19.5
Other operating revenues	1.8	0.3	0.9	0.2
Other operating costs	-2.0	-0.1	-1.8	0.0
Operating loss	44.4	-98.0	115.8	-24.8
Profit from net financial items				
Interest income and similar items	2.1	1.3	0.3	0.2
Interest expense and similar items	0.0	0.0	0.0	0.0
Profit after net financial items	46.5	-96.7	116.1	-24.7
Tax on earnings for the period	-	-	-	-
Net income for the period	46.5	-96.7	116.1	-24.7
Earnings per share, SEK ¹	19.59	-112.26	109.11	-28.70
Earnings per share after full dilution, SEK ²	3.67	-112.26	9.10	-28.70
Number of shares at year-end	1,000,000	1,000,000	1,000,000	1,000,000
Average number of shares outstanding	1,000,000	1,000,000	1,000,000	1,000,000
Number of ordinary shares and potential ordinary shares at year-end	12,764,135	12,464,135	12,764,135	12,464,135
Average number of ordinary shares and potential ordinary shares	12,651,835	6,745,933	12,764,135	9,643,242

¹ Earnings per share are based on the average number of ordinary shares outstanding during the period. In calculating the earnings per share for the period, the dividend to which the preferential shares are entitled was taken into consideration, which reduced the period's earnings by SEK 26.9 million (reduction: 15.6). As per 31 December 2005, 8,047,306 (8,047,306) preferential shares were entitled to a cumulative dividend of SEK 53.9 million (27.0).

² Conversion of potential ordinary shares to ordinary shares can, according to recommendation RR18 of the Swedish Financial Accounting Standards Council, only give rise to a dilution effect in cases where a conversion causes a decrease in earnings per share. For this reason, no dilution effect occurred during 2004.

Key figures

	31 Dec 2005	31 Dec 2004
Number of employees at end of period	39	39
Number of employees, average	39	33
Equity/assets ratio, %	86.4%	91.5%
Net cash/equity ratio, %	90.8%	19.2%
Shareholders' equity per share, SEK	206.28	159.81
Shareholders' equity per share after full dilution, SEK ³	16.16	12.82

³ Shareholders' equity per share after full dilution has been calculated under assumption that all potential ordinary shares has been converted into ordinary shares. No consideration has been taken in regards to change of shareholders' equity at conversion of warrants to ordinary shares.

Consolidated balance sheet

Amount in SEK millions	31 Dec 2005	31 Dec 2004
<i>Fixed assets</i>		
Tangible fixed assets	4.8	4.9
Participations in Group companies	0.0	0.0
<i>Total fixed assets</i>	4.8	4.9
<i>Current assets</i>		
Accounts receivable	41.8	-
Other receivables	2.8	2.8
Deferred costs and accrued income	2.2	0.9
	0.0	135.4
Liquid assets and short-term investments	187.2	30.6
<i>Total current assets</i>	234.0	169.8
Total assets	238.8	174.7
Shareholders' equity	206.3	159.8
<i>Current liabilities</i>		
Accounts payable, trade	9.7	5.4
Liabilities, Group companies	0.0	0.0
Other short-term liabilities	3.0	1.4
Accrued costs and deferred income	19.8	8.1
<i>Total current liabilities</i>	32.5	14.9
Total shareholders' equity and liabilities	238.8	174.7

Shareholders' equity

	Share Capital	Premium Reserve	Loss carried forward	Net income for the year	Total equity
31 Dec 2003	0.4	144.5	-55.6	-63.3	26.0
Loss, preceding year			-63.3	63.3	0.0
New share issue	0.5	231.1			231.6
New share issue costs		-1.1			-1.1
Loss for the year				-96.7	-96.7
31 Dec 2004	0.9	374.5	-118.9	-96.7	159.8
Loss, preceding year			-96.7	96.7	0.0
Reduction of premium reserve		-215.6	215.6		0.0
Net income for the year				46.5	46.5
31 Dec 2005	0.9	158.9	0.0	46.5	206.3

Consolidated cash-flow statement

Amount in SEK millions	Jan-Dec 2005	Jan-Dec 2004	Oct-Dec 2005	Oct-Dec 2004
Cash flow from operating activities ¹	24.2	-93.2	89.4	-24.9
Cash flow from investing activities	-2.0	-2.4	-1.3	-0.5
Cash flow from financing activities	134.4	96.1	0.0	0.0
Cash flow for the period	156.6	0.5	88.1	-25.4
Liquid funds, opening balance	30.6	30.1	99.1	56.0
Liquid funds, closing balance	187.2	30.6	187.2	30.6
¹ Of which, changes in working capital	-24.3	1.6	-27.3	-0.7

Additional information to the cash-flow statement

Amount in SEK millions	Jan-Dec 2005	Jan-Dec 2004	Oct-Dec 2005	Oct-Dec 2004
Interest paid and received				
Interest received	2.1	1.3	0.3	0.2
Interest paid	0.0	0.0	0.0	0.0
Depreciation and write-down of assets	2.0	1.8	0.5	0.5

This report is based on audited annual accounts.

Stockholm, 9 February 2006

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