annual report 1996

SKANDIGEN

Annual Meeting of Stockholders

TIME AND PLACE

The Annual General Meeting of Skandigen AB will be held in Salénhuset, Norrlandsgatan 15, Stockholm, on Tuesday, May 6, 1997, at 5 p.m.

NOTIFICATION

Stockholders who wish to participate in the Meeting must notify the Board of Directors no later than 4 p.m. on Friday, May 2, 1997, by writing to the following address: Skandigen AB, Norrlandsgatan 15, S-111 43 Stockholm, or by telephone +46-8-796 95 90.

The notification must state name, address, national registration number (where applicable) and registered stockholding.

RIGHT TO PARTICIPATE

Stockholders whose stock is registered in the name of a trustee must temporarily re-register the stock in their own name in order to be entitled to participate in the Meeting. Such registration must be effected by VPC no later than Friday, April 25, 1997. This means that stockholders must notify their trustees of their intention in good time prior to this date.

PROPOSED DIVIDEND

The Board of Directors proposes that no dividend be paid by the Company for the 1996 fiscal year.

Financial Information 1997

May 6 – Interim Report Jan.–March
August 25 – Interim Report Jan.–June
November 17 – Interim Report Jan.–September

Skandigen AB's financial information is published in Swedish and English. Reports can be ordered from Skandigen AB, Norrlandsgatan 15, S-111 43 Stockholm, telephone +46-8-796 95 90.

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Skandigen AB, subsidiaries and part-owned companies

FERMENTECH MEDICAL LTD.

The subsidiary Fermentech Medical's product, Ophthalin™, which is used in cataract surgery, was launched throughout Europe by the distributor Ciba Vision. In 1997, product launch was started in certain countries outside Europe. In late 1996, clinical studies for treatment of osteoarthritis commenced, but preliminary results in February 1997 indicated a need for reformulation of the product. The clinical trials are currently on hold pending further preclinical development work.

BIOSTAR, INC.

The part-owned company BioStar established distributorships for the company's rapid diagnostic tests in Europe and other areas. BioStar and the Australian company Biota developed a prototype rapid test for influenza. In 1997 the parties signed a letter of intent for further development and commercialization of the test. BioStar made technical progress which further increases the proprietary technology's areas of use.

SIBIA NEUROSCIENCES, INC.

The part-owned company SIBIA Neurosciences was quoted on NASDAQ in May 1996. SIBIA achieved a number of significant accomplishments including the advancement of its drug discovery and development programs and the signing of several important partnership and licensing agreements. In 1997 SIBIA has commenced clinical trials of its patented compound for the treatment of Parkinson's disease.

THE SKANDIGEN GROUP

The Group's sales totaled MSEK 18.8, and income after net financial items was MSEK 4.7. Net financial items included a nonrecurring revenue which consists of an MSEK 10.2 gain on the sale of subscription warrants.

President's Statement

development of Skandigen's wholly and part-owned biotechnology companies was predominantly positive during the 1996 financial year. through the part-owned company SIBIA Neurosciences' initial public offering and listing on NASDAQ in May Skandigen partly reached an important goal, namely to create liquidity in its biotechnology assets. The subsidiary Fermentech Medical's product for cataract surgery was launched throughout Europe, and the part-owned American company BioStar established distributorships for its diagnostic tests in Europe and other areas.

All of above three companies, which represent the key holdings in Skandigen's biotechnology portfolio, also conducted significant R&D projects during the year. These projects developed well both for SIBIA and BioStar. In late 1996, Fermentech Medical commenced clinical trials for treatment of osteoarthritis, an age-related chronic joint disease. Preliminary results from the clinical trials indicated a need for reformulation of the product. The trials were therefore put on hold pending further preclinical work, which has now been started.

In 1996 the distributor Ciba Vision launched Ophthalin™, which is used in cataract surgery, throughout Europe. Ciba Vision has captured good market shares in the U.K. and Germany, where the product was launched in 1995. Market penetration is increasing in the other European countries where the product was launched more recently. Fermentech Medical's sales, which also comprise the Group's sales, totaled MSEK 18.8 in 1996. This was somewhat lower than expected due to delayed registration in countries outside Europe. Ciba Vision has now acquired registration in a number of South American countries, among others. Fermentech Medical's sales are expected to increase in 1997 through the delivery of launch stock to the new countries. Sales will, however, remain in a build-up phase as a result of successive launches and the considerable time needed to establish a new product in different markets.

The market for viscoelastic products for cataract surgery is competitive and is decreasing in value throughout

Europe, where growth in the number of operations is lower than the rate of price decreases. In order to meet the price pressure and become more cost-effective, Fermentech Medical is rationalizing its production. Market analysts anticipate some growth for the viscoelastics product segment in the rest of the world, where the markets have not reached the same maturity as Europe, Japan and the U.S. The advantage of having a strong global distributor, which Fermentech Medical has in Ciba Vision, is increasingly evident in the current market situation.

Quotation of SIBIA's stock in May provided a market valuation of the stockholding and consequently also opportunities to realise the holding when the conditions are deemed favorable. SIBIA was supplied with a considerable capital infusion in connection with the initial public offering and has a solid financial position. SIBIA's focus is on research and development of novel therapeutics for disorders of the central nervous system. The company seeks collaborations with established pharmaceutical companies for the more extensive clinical trials and

commercialization. Accordingly, for many years SIBIA has had collaborations with Bristol-Myers Squibb, Eli Lilly and Novartis. This strategy enables SIBIA to maximize the potential of its technology platforms by increasing the number of compounds which can be studied in clinical trials simultaneously. This reduces the risks and increases SIBIA's prospects for near-term revenue opportunities.

SIBIA reported during the year preclinical results for a new series of compounds which may have application in a broad range of dementias, including Alzheimer's disease. In 1997 SIBIA commenced Phase I clinical trials of the patented compound SIB-1508Y which is developed for the treatment of Parkinson's disease. In accordance with the business strategy a licensing agreement was signed with Japanese Meiji Seika Kaisha for the development and commercialization of SIB-1508Y in certain Asian countries. SIBIA thus received a substantial licensing fee and opportunities for milestone payments, as well as royalties on future product sales.

The part-owned company BioStar's sales of rapid diagnostic tests was previously concentrated to the U.S. home market. BioStar established distributorships in a number of European and Pacific Rim countries during the past year, and is now represented in 13 countries besides the U.S. BioStar's proprietary technology allows production of rapid tests with superior sensitivity, which is a competitive advantage. In 1997 the Australian company Biota announced their choice of BioStar for development of a point-of-care test for influenza.

In 1996 BioStar developed various techniques which further increase the company's opportunities to use its patented Optical ImmunoAssay (OIA®) technology in a variety of testing formats and a large number of areas. In order to exploit this technical progress, BioStar hopes to raise additional funding later in 1997. BioStar is in discussions with a number of potential partners for development of new applications, which could contribute to funding beyond possible infusions from current investors or other parties.

The annual and quarterly reports focus on the three major biotechnology holdings in Skandigen's portfolio. The smaller companies also developed well in 1996, and on the whole 1997 looks like it will be an interesting year.

Stockholm, March 1997

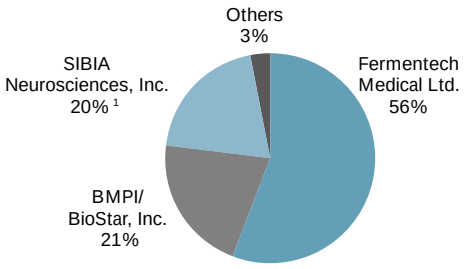
Anki Forsberg
President

Group Overview

The Skandigen Group consists of the Parent Company Skandigen AB and the subsidiaries Fermentech Medical Ltd., BMPI Liquidating Trust and the smaller companies Gramma Diagnostik AB and TRION AB. The Parent Company has a minority stake in five biotechnology companies. The biotechnology assets in the Parent Company balance sheet amount to MSEK 247.1 and comprise stockholdings, loans and convertible debentures.

The three largest holdings are Fermentech Medical Ltd., BMPI/BioStar, Inc. and SIBIA Neurosciences, Inc. The diagram below shows the Parent Company's total biotechnology assets by company.

PARENT COMPANY'S BIOTECHNOLOGY ASSETS, MSEK 247.1, BY COMPANY



SUMMARY OF KEY HOLDINGS

Company	*Holding/ investment*	*Operations*	*Application*	*Phase*
Fermentech Medical Ltd.	97%/MSEK 139	Production of hyaluronan	Eye surgery Eye drops Osteoarthritis	Commercial Clinical Preclinical
BMPI Liquidating Trust	58%/MSEK 36.8	Holding company	Owns 20% of BioStar, Inc.	
BioStar, Inc.	4% direct/MSEK 15.3 and 12% through BMPI. Total holding, 16%.	Diagnostics	Group A Streptococcus Group B Streptococcus Chlamydia Influenza, etc.	Commercial Commercial Commercial Development
SIBIA Neurosciences, Inc.	11%/MSEK 47.8	Drug discovery. See page 12 for partners.	Parkinson's Alzheimer's Dementia Epilepsy, etc.	Clinical Preclinical Lead identified Lead identified

See page 27 for a table of all holdings.

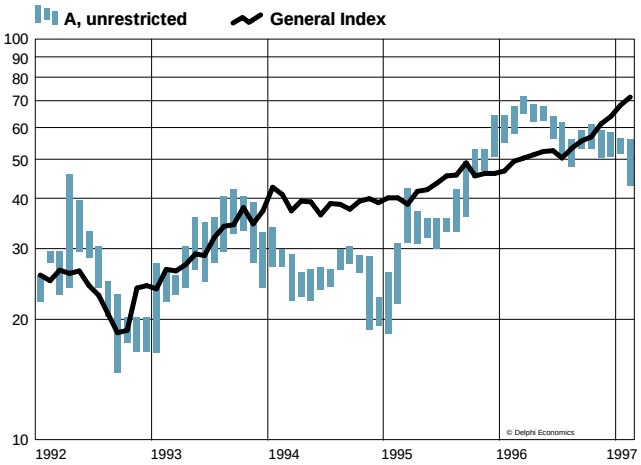
[1] The market value on March 27, 1997, was MSEK 67.3.

LARGEST STOCKHOLDERS, FEBRUARY 1997

Owner	*Number of shares*	*Percent of share capital and votes*
Skandia	409,600	4.4
Wasa	403,500	4.4
SPP	372,000	4.0
Handelsbankens Reavinstfond	324,600	3.5
Johan Claesson (and family)	151,410	1.6
Gunilla Andersson Bergerud	150,000	1.6
Carl Langenskiöld (and family)	150,000	1.6
Svenska Handelsbanken S.A. as trustee	145,000	1.6
Investment AB Bure	130,000	1.4
Bank in Liechtenstein AG as trustee	111,880	1.2
Others	6,903,186	74.7
Total	9,251,176	100.0

According to information from VPC on February 28, 1997.

SHARE PRICE TREND, SEK



SHARE DISTRIBUTION

Number of shares	*Number of stockholders*	*Total number of shares*	*%*
1–1,000	6,083	1,575,227	17.0
1,001–2,000	521	830,024	9.0
2,001–5,000	272	920,731	10.0
5,001–10,000	83	670,351	7.3
10,001–20,000	39	642,532	6.9
20,001–50,000	23	785,361	8.5
50,001–100,000	10	624,140	6.7
100,001–	13	3,202,810	34.6
Total	7,044	9,251,176	100.0

According to information from VPC on December 31, 1996.

SHARE CAPITAL

The share capital amounts to MSEK 231.3, divided among 9,251,176 series A shares. In 1993 a debenture loan was issued with 500,000 detachable subscription warrants. Subscription may take place during the period January 1, 1998–June 30, 1998, at a subscription price of SEK 25. If all the outstanding warrants are exercised, the total number of outstanding shares in Skandigen will amount to 9,751,176 and stockholders' equity will increase by MSEK 12.5. This corresponds to a 5.1 percent dilution of both the outstanding number of shares and voting rights.

Fermentech Medical Ltd.

Fermentech Medical is a biopharmaceutical company specializing in the development and manufacture of products based on hyaluronan. The company produces hyaluronan synthetically through a proprietary fermentation process and operates from a facility located at Heriot Watt University Research Park in Edinburgh. The manufacturing process is certified by the U.K. Medicines Control Agency and the company has ISO 9001/EN 46001 registration.

Hyaluronan is a naturally occuring biopolymer whose properties include the ability to cushion and lubricate tissues. Hyaluronan plays an important physiological role, particularly in areas where protection is needed from a variety of physical stresses placed on the body. It is present in nearly all connective tissue matrices of vertebrate organisms and is the most characteristic component of synovial fluid.

Hyaluronan was demonstrated in the 1980's to have commercial medical utility as a viscoelastic solution in cataract surgery. More recent new applications include among others the use of hyaluronan for treatment of dry eyes and osteoarthritis, a chronic joint condition. Hyaluronan has also shown to be benefical in reducing the incidence of postsurgical adhesions.

Fermentech Medical's first product Ophthalin™, a high molecular weight hyaluronan for ophthalmic surgery, was launched by the distributor Ciba Vision in mid-1995. Fermentech Medical's aim is to develop other hyaluronan based products for which there is evidence of clinical effectiveness.

OPHTHALMICS

Hyaluronan based products (produced either by bacterial fermentation or extracted from rooster combs) are currently used routinely in cataract procedures in Europe, Japan and the U.S. The product is used to protect cells and to maintain the shape of the anterior chamber of the eye during cataract surgery.

Fermentech Medical's viscoelastic product, Ophthalin, is marketed by Ciba Vision, with whom Fermentech Medical has a long-term distribution agreement. Ciba Vision has exclusive rights to market Ophthalin on a worldwide basis, with the exception of the United States. Fermentech Medical manufactures and supplies the product to Ciba Vision for a share of net Ophthalin sales. Ciba Vision is one of the leading global ophthalmic companies with total sales amounting to 1.2 billion Swiss francs in 1996.

SALES IN EUROPE

Fermentech Medical's sales of Ophthalin amounted to MSEK 18.8 in 1996. The sales are attributable to sales of the product in Europe, where it was launched throughout during the year. Sales growth has been strong in the U.K. and Germany where the product has been on the market since 1995. Increasing market penetration is now being seen in other European countries which have had later product launch.

Several new viscoelastics have been launched during the past two years following the reclassification of such products to medical device status in early 1995. The major competitors include Pharmacia & Upjohn, Alcon, Allergan, Biotechnology General and Chiron Vision. The market is competitive, with decreasing average retail prices, which has caused market analysts to lower their estimates for the European market size to approximately MSEK 500.

Fermentech Medical is currently undertaking some rationalisation and is making some capital investments in the manufacturing process to offset the effect of decreasing prices.

REGISTRATION IN OTHER COUNTRIES

Ciba Vision has the responsibility for registering Ophthalin outside Europe. In most of these countries, registration is as a pharmaceutical rather than a medical device. The registration process is generally much longer for pharmaceuticals. Registration has been acquired in a number of

countries including Australia, China and other Far East and South American countries. Product launch outside Europe has commenced in 1997. Ciba Vision has a strong presence spanning every continent. The market outside Europe, the U.S. and Japan, is still dominated by less expensive and less efficacious methyl cellulose products. The market value estimate for this area amounts to around MSEK 125 and is believed to offer growth potential for viscoelastic products like Ophthalin.

DRY EYE APPLICATIONS

Dry eye is a common condition caused by factors such as natural ageing, as well as systemic diseases like Sjögren's syndrome. Dry eye is a chronic condition and products are used by a patient for a long period of time.

Earlier pilot studies undertaken by Fermentech Medical showed that hyaluronan was more effective in relieving the effects of dry eye than comparable treatment with saline solution. Based on these results, additional Phase II studies have been made through 1996. The studies are continuing, and subject to satisfactory results, it is expected that Phase III trials will be conducted in 1997. Dry eye products are classified as pharmaceuticals in the EU and the registration process is much longer than for medical devices.

OSTEOARTHRITIS

Osteoarthritis is a chronic joint condition often associated with age-related changes as well as mechanical stress. Intra-articular injection of hyaluronan has shown to be beneficial in treatment of osteoarthritis and some hyaluronan products are on the market for this indication.

Fermentech Medical commenced clinical studies for this application in late 1996 but early results in 1997 indicated a need to reformulate the product. The clinical studies are currently on hold pending further development work which is currently being undertaken.

FINANCIAL RESULTS

Fermentech Medical's research and development costs amounted to MSEK 7.2 in 1996, which corresponds to 38 percent of the net sales of MSEK 18.8. The high level of development costs is expected to continue in 1997 especially if the eye drops move into Phase III clinical studies. The company's development costs have so far been covered by loans from the Parent Company Skandigen. Fermentech Medical may be dependent on capital infusions from Skandigen for some time.

FERMENTECH MEDICAL LTD.	1996	1995	1994
Sales, MSEK	**18.8**	16.3	0.4
Result, MSEK	**–1.8**	–5.3	–18.0
Stockholders' equity, (Dec. 31), MSEK	**–67.4**	–58.2	–60.0
Average number of employees	**25**	26	30
Skandigen's share of stockholders' equity, MSEK	**–65.3**	–56.5	–58.2
Book value, MSEK	**58.8**	58.8	58.8
Receivables, MSEK	**80.2**	80.2	65.2
Total investment, MSEK	**139.0**	139.0	124.0

Stockholders:	
Skandigen AB	**97 %**
Technical Equipment Procurement Services, Ltd.	**1%**
Britel Fund Ltd. & Poss Fund Ltd.	**1%**
Others	**1%**

Managing Director: Barry White

Board of Directors: Derek C. Ellwood (Chairman), Anki Forsberg, Mathias Uhlén, Krister Wallin, Barry White (Managing Director).

BMPI Liquidating Trust

In 1992 BioStar Medical Products Inc., in which Skandigen had a 68 percent stake, transferred its entire operations to an American venture capital consortium through a non-cash issue. The consortium formed a new company which adopted the name BioStar, Inc. In connection with the transaction, the old BioStar was re-formed into a trust called BMPI Liquidating Trust (BMPI). As payment for BioStar's net assets, BMPI received shares in the newly formed BioStar Inc., a conditional convertible debenture with a nominal value of USD 8 million in the new company, and a minor sum in cash. Provided that the new BioStar's value amounts to a certain sum in the future, for example through a new issue in connection with market listing or the sale of the entire company, the convertible debenture in BioStar can either be repaid at not more than USD 8 million or converted to a maximum 1.6 million shares. BMPI's stake in BioStar, Inc. amounts to 20 percent based on the number of outstanding shares in BioStar. Skandigen has a 58 percent stake in BMPI, whereby Skandigen's total interest in BioStar – indirect and direct – amounts to 16 percent.

BMPI LIQUIDATING TRUST	1996	1995	1994
Book net worth, MSEK	**9.1**	8.9	10.0
Skandigen's share of book net worth, MSEK	**5.3**	5.2	5.8
Book value, MSEK	**36.8**	36.8	36.8
Receivables, MSEK	**–**	**–**	1.5
Total investment, MSEK	**36.8**	36.8	38.3

Beneficiaries:	
Skandigen AB	**58%**
Old Biostar's other owners	**42%**

Trustees: Colorado Venture Management Inc., Marvin H. Caruthers, Krister Wallin.

Gramma Diagnostik AB

Gramma Diagnostik develops tests for diagnosis of bacterial infections based on antibody response (so-called Elisa tests). Euro-Diagnostica AB, a company in the Ferring Group, has acquired the sales rights to Gramma's three products, tests for diagnosis of whooping cough, Mycoplasma pneumoniae and Helicobacter pylori. Gramma produces the reagents contained by the tests for a fee and receives royalties on Euro-Diagnostica's sales of the tests.

GRAMMA DIAGNOSTIK AB	1996	1995	1994
Sales, MSEK	**0.09**	0.20	0.06
Result before allocations, MSEK	**–0.30**	–0.30	–0.40
Stockholders' equity (Dec. 31), MSEK	**0.05**	0.05	0.05
Average number of employees	**1**	1	1
Total investment, MSEK	**0.05**	0.05	0.05

Stockholders:	
Skandigen AB	**92%**
Marta Granström, President	**8%**

The Group also includes the wholly owned subsidiary TRION AB, which administers the patents and patent applications resulting from TRION's earlier research. TRION conducts no other operations.

BioNative AB

BioNative has developed a large-scale process for production of natural alpha interferon from human leukocytes. The company is leading in this technology and has built up considerable processing technology and biochemical expertise, particularly in large-scale processing of plasma and leukocytes, protein purification technology and biochemical analysis. Interferons are a group of naturally occurring proteins which were discovered through their antiviral effects. Interferon preparations are increasingly used in treatment of certain tumors and viral diseases.

A NATURAL INTERFERON

In late 1994, BioNative obtained pharmaceutical registration in Sweden for its Interferon Alfanative®, for the treatment of patients with hairy cell leukaemia and chronic myeloid leukaemia who have developed neutralizing antibodies against genetically engineered interferons. This occurrence of neutralizing antibodies leads to loss of clinical effect. It has been demonstrated that therapeutic effect can be restored by changing to a natural leukocyte interferon. BioNative's interferon, which consists of a natural mixture of different interferon subtypes, does not stimulate the formation of antibodies.

INTERNATIONALIZATION

In 1996 BioNative established a joint venture company together with the Italian pharmaceutical company Alfa Wasserman, whose interferon preparation has an estimated 17 percent share of the Italian market. BioNative's sales are dominated by deliveries of crude interferon to Alfa Wasserman. Reforms in Italy aimed at reducing pharmaceutical costs have caused sales of Interferon to fall dramatically in the past few years. It will not be possible to offset the resulting decrease in BioNative's sales of crude interferon until sales of a registered product commence in the international market. The goal of the joint venture company is to register and market the product worldwide, to seek broader indications for the product and to collaborate in production technology.

FINANCIAL RESULTS

The BioNative Group's sales amounted to MSEK 44.1 in 1996 and the result before allocations was MSEK 2.5. Despite rationalization, production capacity exceeded demand during the year. Further adaptation of production resources for crude interferon have been carried out.

THE BIONATIVE GROUP	1996	1995	1994
Sales, MSEK	**44.1**	33.1	59.4
Result before allocations, MSEK	**2.5**	–2.8	6.6
Stockholders' equity (Dec. 31), MSEK	**21.7**	19.9	22.9
Average number of employees	**48**	52	55
Skandigen's share of stockholders' equity, MSEK	**5.2**	4.8	5.5
Book value, MSEK	**4.7**	4.7	4.7
Receivables, MSEK	**–**	–	–
Total investment, MSEK	**4.7**	4.7	4.7

Stockholders:	
The company's employees	**58%**
Skandigen AB	**24%**
Pharmacia & Upjohn	**9%**
Hilleshög AB	**9%**

Managing Director: Bo Lemar

Board of Directors: Hugo Thelin (Chairman)), Håkan Borg, Anki Forsberg, Bo Lemar (Managing Director), Erik Lundgren, Per-Erik Persson, Berndt Sjöberg, Örjan Strannegård (Deputy).

BioStar, Inc.

BioStar is a privately held company based in Boulder, Colorado developing thin film detection technology which has applicability in a number of product areas.

Currently, this technology is being used in human diagnostics tests developed, manufactured and sold by BioStar. Skandigen has a total consolidated ownership in BioStar of 16 percent based on the number of shares outstanding in BioStar.

OPTICAL IMMUNOASSAYS

BioStar has developed a thin film detection platform technology which it calls Optical ImmunoAssay (OIA®) technology. The patented OIA technology is based upon the ability of the human eye or instrumentation to detect small changes of thickness on various surfaces. For its current diagnostics tests, patient specimens are placed on the reflective surface of a coated silicon wafer, and if antigens from the infectious organisms are present, the antigens bind to the surface of the wafer and change thickness. This thickness change is seen by the human eye as a change in surface color. The technology has demonstrated superior sensitivity to other rapid testing methods and has, in multiple clinical studies, demonstrated sensitivities equal to or superior to routine microbiologic culture. BioStar is further developing the OIA technology to create new opportunities for the company, both in its current point-of-care business and in other areas.

The company has developed techniques which allow it to use OIA on a wide variety of surfaces, such as glass, paper, metals and plastic, which increases the flexibility of the tests to meet different testing sites and situations. Additionally, the nature of samples (blood, urine, etc., for human testing and fluids, solids or air for other testing) which can be tested allows the company flexibility in designing testing formats. The company has demonstrated in a laboratory setting that it can detect samples at the molecular level.

COMMERCIAL OPERATIONS

BioStar currently markets three in vitro diagnostic products based upon its OIA technology: Strep A OIA®, Strep B OIA®, Chlamydia OIA®. BioStar's proprietary technology allows these tests to be performed near-patient, rapidly with accuracy equivalent or superior to standard culture methods. The ability to rapidly and accurately detect the presence of an infectious agent (bacterial or viral) provides physicians with valuable information that may influence treatment decisions and can improve not only the quality but also the cost-effectiveness of treatment.

STREP A TEST

BioStars first test (launched in 1993) was for detection of Group A Streptococcus. The bacteria causes the painful throat and fever of strep throat and is a major cause for pediatric visits. Rapid, high sensitivity detection by point-of-care tests can reduce the indiscriminate use of antibiotics that increase the risk of creating antibiotic resistant bacteria. In the United States alone, over 40 million tests for Group A Strep are administered each year. Of that number, over 27 million rapid antigen tests are performed, creating a USD 80 million market. BioStar has an estimated market share in the U.S. of 14 percent in total dollar sales. The market leader is Abbott. BioStar has filed with the U.S. Food and Drug Administration (FDA) for marketing clearance of an improved version of its current Strep A test which will be faster and easier to use than the current version. This new version, Strep A OIA® MAX, is currently available for sale outside the U.S.

STREP B TEST

The leading cause of death in newborns is a bacterial infection (Group B Streptococcus or GBS) transmitted during labor. It is present in the birth canal in over 20 percent of all expectant mothers. Because current rapid tests were not sensitive enough, and the culture method of screening the bacteria takes one to two days to complete,

there has been no timely, effective method of testing GBS in the crucial hours before delivery. BioStar introduced its point-of-care test in 1994 with significantly increased sensitivity and specificity over other rapid test for GBS.

CHLAMYDIA TEST

Chlamydia trachomatis infection is the most common sexually transmitted disease in the United States. The incidence of Chlamydia is growing dramatically with approximately four million cases annually in the U.S. The most common test for Chlamydia in the U.S. is an instrumented probe-based test usually performed in a central laboratory. Rapid, physician's office-based tests for Chlamydia represent a smaller part of the total testing market. Heightened sales efforts by manufacturers with new rapid tests are expected to increase the use of point-of-care tests. Early in 1996, BioStar's introduced its Chlamydia OIA test that offers highly sensitive and specific results in minutes, without instrumentation. BioStar has also received a grant from the National Institutes of Health (NIH) to develop a Chlamydia test which utilizes a urine sample.

PRODUCT DEVELOPMENT

BioStar has signed a letter of intent with Biota Holdings of Melbourne, Australia, to develop a point-of-care test for influenza. The parties have jointly developed a prototype of the test based on BioStar's OIA technology with reagents supplied by Biota. The test is being developed with the goal of having a diagnostic available for evaluation of samples from Phase III clinical trials of Biota's influenza therapeutic product candidate, zanamivir or GG167, planned by Glaxo Wellcome for later this year.

BioStar will seek regulatory approval for the test in the United States upon successful completion of the development work. The letter of intent grants BioStar marketing rights in the U.S. against sharing profits with Biota. Biota retains all marketing rights outside the U.S. and will pay BioStar a royalty on those sales. BioStar will manufacture the diagnostic.

FINANCIAL RESULTS

BioStar's net sales increased with 22 percent to USD 11.1 million in 1996. BioStar's main product, Strep A OIA, still generates the majority of the sales for the company. Development costs for new product and technology contributed to the loss of USD 3.8 million for the year. During 1996 BioStar established distributorships in Western Europe and the Pacific Rim. In the U.S., BioStar sells directly through its dedicated sales force – which is flextime. The U.S. hospital market is served through the distributor, International Murex.

BioStar hopes to raise additional funding during 1997 to support a significant expansion of its product development and partnership activities, as well as to support its existing commercial operations. Some funding is expected from corporate partners and some funding may come from existing investors or other sources.

BIOSTAR, INC.	1996	1995	1994
Sales, MSEK	**74.6**	64.0	30.0
Net result, MSEK	**–25.6**	–34.2	–54.5
Stockholders' equity (Dec. 31), MSEK	**–25.9**	–0.1	36.2
Number of employees	**168**	172	135
Skandigen's share of stockholders' equity, MSEK	**–1.2**	–	1.4
Book value, MSEK	**10.4**	10.4	8.9
Receivables, MSEK	**4.9**	–	–
Total investment, MSEK	**15.3**	10.4	8.9

The 1996 figures are based on preliminary unaudited year-end accounts.

President: Teresa W. Ayers

Board of Directors: Alexander E. Barkas, Teresa W. Ayers (President), Marvin H. Caruthers, John G. Hill, Keith Kerman, Wendell G. Van Auken.

SIBIA Neurosciences, Inc.

SIBIA Neurosciences, Inc. is engaged in the discovery and development of novel, small molecule therapeutics for disorders of the central nervous system (CNS) based on the company's unique approach to characterizing the molecular processes involved in such disorders. SIBIA is focusing its efforts on developing compounds for the treatment of Parkinson's disease, Alzheimer's disease, stroke, head trauma, epilepsy, chronic pain, schizophrenia and other disorders. These targeted indications represent large markets with critical unmet medical needs. While many CNS pharmaceuticals have emerged from the research labs over the years, the vast majority have been ineffective or cause unacceptable side effects.

Drug candidates are conventionally tested in animal models of selected diseases to indicate relevant biological activity. Animal models are, however, poor mimics of many human CNS disorders. SIBIA's approach reverses this process – first identifying the human molecular targets that mediate the disease processes in question, then screening for compounds which affect the molecular targets. With its focus on specific molecular targets, SIBIA believes its technology will permit the identification and design of more selective drugs, ensuring action at the desired site with low doses and minimal side effects.

INITIAL PUBLIC OFFERING

SIBIA completed in May 1996 a 2.1 million share initial public offering at USD 11 per share which, together with a private placement to Novartis (formerly CIBA-GEIGY), raised net proceeds of approximately USD 25.8 million for SIBIA. The stock is quoted on NASDAQ National Market under the symbol SIBI. The stock price has varied between USD 7.50 and 9.25 during the first quarter 1997. Skandigen owns 11 percent of SIBIA based on the number of outstanding shares in SIBIA.

KEY STRATEGIC ALLIANCES

In pursuing the development of potential therapeutic products for the targeted indications, SIBIA's strategy is to discover and initially develop drug candidates based on its proprietary technologies, and collaborate with major pharmaceutical and biotechnology companies for the advanced development and commercialization of those compounds. SIBIA has corporate collaborations with Eli Lilly and Company, Novartis, Bristol-Myers Squibb Company and since early 1997 also with Meiji Seika Kaisha Ltd. Through these alliances SIBIA gains access to considerable development, regulatory and marketing expertise and resources that should enable the company to advance multiple drug candidates simultaneously. The collaborations also enable SIBIA to reduce its infrastructure needs, cash requirements and risk. SIBIA plans to establish additional strategic alliances for compounds currently under development by SIBIA, including SIB-1508Y for the treatment of Parkinson's disease. The company is currently in discussions with potential licensing partners for the development and commercialization of SIB-1508Y in the U.S. and Europe.

DRUG DISCOVERY PLATFORMS

SIBIA's drug discovery platforms are based on two primary technologies in which the company has established a leading scientific and proprietary position – human receptor/ion channel subtype technology and human protease technology. SIBIA holds 13 issued U.S. patents as well as four allowed patents and 55 pending U.S. patent applications relating to these technologies.

Receptor/Ion channel subtype technology

SIBIA's technology permits the targeted identification of compounds that are selective for specific receptor/ion channel subtypes in the human brain. These receptor subtypes modulate communication between nerve cells and play a key role in a variety of neurological disorders. SIBIA has discovered a new series of compounds, SIB-1553A, that in various animal models reversed short- and long-term memory deficits. The results of this study suggest that SIB-1553A may have application in a broad range of dementias, including Alzheimer's disease.

SIB-1508Y is one of several new subtype specific class-

es of compounds discovered by SIBIA. SIBIA has been issued a U.S. patent on a series of compounds including SIB-1508Y as well as their use for treating Parkinson's disease. The company has selected SIB-1508Y as a compound for the treatment of Parkinson's disease based on its receptor selectivity and behavioral profile. In contrast to current therapies which treat only motor dysfunction, SIBIA believes that SIB-1508Y may be effective for the treatment of motor, affective and cognitive dysfunctions of Parkinson's disease. In early 1997 SIBIA has commenced a Phase I clinical trial of SIB-1508Y in the U.S. SIBIA signed early 1997 also a licensing agreement with Meiji Seika Kaisha Ltd. for the development and commercialization of SIB-1508Y. The territory covered by the agreement includes Japan, China and certain other Asian countries.

Human protease technology

SIBIA's human protease technology is directed at the discovery and development of therapeutic compounds for Alzheimer's and other neurodegenerative diseases. The company's technology focuses on compounds that control the degradative proteases, or enzymes, which generate amyloid-protein (Aß). Aß is the neurotoxic fragment of the amyloid precursor protein (APP) and is generally understood to be the major molecular key to Alzheimer's disease. SIBIA has identified several series of small compounds that modulate processing of APP. These proprietary compounds are currently being studied in vivo. SIBIA entered in 1995 into a four-year collaboration agreement with Bristol-Myers Squibb to discover and develop new compounds for treatment of Alzheimer's disease.

RESEARCH COLLABORATIONS

SIBIA continues to expand its portfolio of molecular targets through internal research, collaborations and licensing. SIBIA has entered into a research collaboration with Cognetix to study conopeptides. Conopeptides or analogs based on them could have potential as therapeutics for nervous system disorders. SIBIA has also signed a technology cross-licensing agreement with Aurora Biosciences relating to high-throughput screening techniques for use in automated drug discovery.

FINANCIAL RESULTS

SIBIA reported for the fiscal year ended December 31, 1996, revenues of USD 8.5 million and a net loss of USD 5.6 million.

SIBIA NEUROSCIENCES, INC.	1996	1995	1994
Revenues, MSEK	**56.8**	74.4	37.4
Net result, MSEK	**–37.3**	20.8	–0.2
Stockholders' equity (Dec. 31), MSEK	**251.2**	100.8	38.4
Average number of employees	**97**	84	83
Total investment, MSEK	**47.8**	47.8	47.8

President: William T. Comer

Board of Directors: William R. Miller (Chairman), William T. Comer (President), Francis H.C. Crick, Stanley T. Crooke, Gunnar Ekdahl, Frederick B. Rentschler, James D. Watson.

InRo Biomedtek AB

InRo Biomedtek AB manufactures and markets new reagents for diagnostics and therapeutic applications.

The brain damage test developed in collaboration with Sangtec Medical AB is continuing to show rapid volume growth, and remains the only test of its kind on the world market. By this S-100 test a technique for direct detection of brain damage is now available. The test measures the blood level of a protein released by damaged brain cells following cerebral trauma and hemorrhaging, and after major thorax surgery requiring the use of a heart-lung machine. The same protein structure is also secreted by malignant melanoma and the test is of great use in detecting such tumors. InRo is active in manufacture of reagents for the test. InRo also participates in international evaluation programs for various tumor-related monoclonal antibodies and several interesting reagents are currently being studied, both as cell lines and purified antibodies.

INRO BIOMEDTEK AB	1996	1995	1994
Sales, MSEK	**0.4**	0.4	0.3
Result before allocations, MSEK	**0.1**	0	0
Stockholders' equity (Dec. 31) , MSEK	**0.7**	0.7	0.7
Average number of employees	**1**	1	2
Skandigen's share of stockholders' equity, MSEK	**0.2**	0.2	0.2
Book value, MSEK	**1.0**	1.0	1.0
Receivables, MSEK	**–**	–	–
Total investment, MSEK	**1.0**	1.0	1.0

The 1996 figures are based on preliminary unaudited year-end accounts.

Stockholders:	
Torgny Stigbrand	**67** %
Skandigen AB	**33** %

Managing Director: Torgny Stigbrand

Sepragen Corporation

Sepragen develops, manufactures and sells patented radial flow chromatography columns and systems. Primary customers for the company's products have been pharmaceutical companies. More recently Sepragen has started to use its technology to develop processes for various applications in the food industry, such as purifying proteins from dairy whey, sugar refining, and debittering citrus juice. A process for reducing certain heavy metals and toxic organic compounds in industrial waste water to non-detectable levels, has also been developed and licensed for beta testing at several large industrial facilities. Sepragen currently markets its products primarily through direct sales efforts in the United States and through distributors in Europe and Asia.

Sepragen's stock is traded on the NASDAQ SmallCap Market and Pacific Stock (Tier II). Skandigen's holding corresponds to two percent of Sepragen and may decrease to one percent should Sepragen not meet its future performance milestones and the escrowed part of the old stockholders' shares not be released.

SEPRAGEN CORPORATION	1996	1995	1994
Sales, MSEK	**8.1**	9.0	14.0
Net result, MSEK	**–23.1**	–20.7	–6.7
Stockholders' equity (Dec. 31), MSEK	**7.9**	30.8	–12.3
Average number of employees	**20**	27	20
Total investment, MSEK	**2.4**	2.4	2.4

The 1996 figures are based on preliminary unaudited year-end accounts.

President: Vinit Saxena

Summary

MSEK	1992	1993	1994	1995	**1996**
Income statement items					
Operating revenue	0.3	4.0	23.7	16.5	**18.9**
Research costs	13.8	16.2	14.1	10.0	**7.7**
Other expenses	13.6	10.9	9.3	15.9	**16.6**
Result after depreciation	–28.7	–24.9	–1.2	–10.8	**–6.8**
Net financial items	–8.7	–0.2	2.0	–0.2	**11.4**
Result after financial items	–37.4	–25.1	0.8	–11.0	**4.7**
Balance sheet items					
Liquid funds	4.6	1.5	10.6	15.6	**11.7**
Investment assets	1.5	–	–	–	**–**
Biotechnology assets	69.8	71.8	74.1	71.1	**76.3**
Other assets	11.8	13.2	10.4	12.1	**19.9**
Current liabilities	7.9	47.6	13.9	6.1	**8.6**
Long-term liabilities	34.1	18.3	–	–	**–**
Value adjustment	8.5	8.5	8.5	5.5	**5.5**
Minority interest	–	–	–	–	**–**
Stockholders' equity	37.2	12.1	72.7	87.3	**93.8**
Balance sheet total	87.7	86.5	95.1	98.9	**107.9**
SEK per share					
Adjusted stockholders' equity[1]	9	4	9	9	**10**
Ditto after full conversion	10	7	11	10	**11**
Earnings[2]	–6	–4	0.1	–1.2	**0.5**
Ditto after full conversion	–6	–4	0.2	–1.1	**0.5**
Dividend	–	–	–	–	**–**
Market price at year-end	19	27.5	20.2	63.5	**57.5**
Other					
Debt/equity ratio[3]	1.5	0.2	8.4	–	**–**
Share of risk capital[4], %	57	25	76	88	**87**
Return on capital employed[5], %	neg	neg	3	neg	**5**
Return on equity[6], %	neg	neg	2	neg	**5**
Equity ratio[7], %	57	25	76	88	**87**
Interest coverage ratio[8]	neg	neg	1.5	neg	**292**

Definitions

[1] Stockholders' equity including convertible participating loan (CPN loan 1992-1993), divided by the number of shares at each year-end.

[2] Result after net financial items (excluding minority interest), standard tax has not been taken into account due to unutilized loss carryforwards. Earnings are divided by the number of shares at each year-end.

[3] Interest-bearing debts divided by stockholders' equity.

[4] Reported stockholders' equity including CPN loan and minority interest as a percentage of closing balance sheet total.

[5] Result after net financial items plus financial expense as a percentage of average capital employed.

[6] Net profit as a percentage of average adjusted stockholders' equity including CPN loan.

[7] Adjusted stockholders' equity as a percentage of balance sheet total.

[8] Result after net financial items plus financial expense in relation to financial expense.

The following subsidiaries have been consolidated in the Group:

1992–1994 Fermentech Medical Ltd., Gramma Diagnostik AB, TUVA AB and BMPI Liquidating Trust.

1995–1996 Fermentech Medical Ltd., Gramma Diagnostik AB, TRION AB, TUVA AB and BMPI Liquidating Trust.

Report on Operations

SALES AND RESULT

The Group's 1996 sales amounted to MSEK 18.8 (16.2). The sales are attributable to the foreign subsidiary Fermentech Medical Ltd.'s sales of Ophthalin. The appreciation of the Swedish krona had a negative impact on sales of MSEK 0.8 compared with 1995. Currency effects on the result are negligible. The consolidated result after depreciation was MSEK –6.8 (–10.8). The consolidated result for the year totaled MSEK 4.7 (–11.0), which corresponds to SEK 0.48 per share (–1.15). Net financial items for both the Parent Company and the Group include a non-recurring revenue comprising a gain on the sale of subscription warrants of MSEK 10.2 (0).

PARENT COMPANY

The Parent Company's result before taxes amounted to MSEK 6.5 (–5.6). The Parent Company has no tax liability for the 1996 fiscal year, as a result of loss carryforwards.

SUBSIDIARIES

Fermentech Medial Ltd.'s result for the year amounted to MSEK –1.8 (–5.3). Income for the other subsidiaries; BMPI Liquidating Trust, Gramma Diagnostik AB, TRION AB and TUVA AB totaled MSEK –0.3 (–0.3).

RESEARCH AND DEVELOPMENT

Costs for research and development charged against consolidated earnings amounted to MSEK 7.7 (10.0), of which MSEK 7.2 (9.4) was charged to Fermentech Medical's result. The corresponding costs in the Parent Company totaled MSEK 0.5 (0.6).

INVESTMENTS

The Group's investments in fixed assets totaled MSEK 6.5 (0.6), of which MSEK 5.0 is attributable to convertible notes in the part-owned company BioStar, Inc.

BIOTECHNOLOGY ASSETS

The company's investments in biotechnology assets in the form of shares and receivables, after deduction for provisions to the value adjustment reserve, amount to MSEK 70.8 (65.6). The corresponding figure for the Parent Company is MSEK 225.8 (220.9). The value of these assets depends on opportunities for strategic cooperation with industrial partners or other financing of product development. The Board of Directors' opinion is that the value of these assets continues to justify the values stated in the balance sheets.

LIQUIDITY AND EQUITY RATIO

The Group's cash and short-term investments (excluding unutilized credits) at the end of the fiscal year amounted to SEK 11.7 (15.6). The Group has no interest-bearing loans at the end of the period. Unutilized credits totaled MSEK 10.0. The Group's equity ratio was 87 percent (88).

UNRESTRICTED EQUITY

The Group has no unrestricted equity.

OTHER

The part-owned company SIBIA Neurosciences, Inc. completed a 2.1 million share initial public offering, which together with a private placement to Novartis raised net proceeds of USD 25.8 million. The stock is quoted on NASDAQ National Market since May. Skandigen's stake in SIBIA amounts to 11 percent following the initial public offering.

EVENTS AFTER THE END OF THE FISCAL YEAR

The subsidiary Fermentech Medical's clinical trials for treatment of osteoarthritis were put on hold in February 1997 pending further preclinical development work on the product.

EMPLOYEES

The number of employees in the Group on December 31, 1996 was 29 (29). The total payroll to the Group's employees during the fiscal year amounted to MSEK 5.7 (6.1). For further details, see Note 8.

PROPOSED DISTRIBUTION OF EARNINGS

As stated in the Consolidated Balance Sheet, the Group has no disposable funds. The Board of Directors and the President propose that the year's earnings in the Parent Company of SEK 6,529,260 be settled against the accumulated loss of SEK 125,251,752, after which the remaining loss of SEK 118,722,492 be carried forward.

Stockholm, April 2, 1997

Gunnar Ekdahl
Chairman of the Board

Marvin H. Caruthers	Johan Claesson
Bertil Hållsten	Pehr Lagerman
Mathias Uhlén	Krister Wallin

Anki Forsberg
President

Our Auditors' Report regarding this Annual Report was submitted on April 3, 1997.

Ernst & Young AB
Torbjörn Hanson
Authorized Public Accountant

Consolidated Statement of Income

Amounts in SEK 000s	Note	**1996**	1995
Operating revenue and expenses			
Sales		**18,836**	16,180
Other revenue		**114**	372
Total revenue		**18,950**	16,552
Research costs		**–7,710**	–10,009
Other expenses		**–16,565**	–15,895
Operating result before depreciation		**–5,325**	–9,352
Depreciation			
Machinery and equipment		**–1,432**	–1,435
Operating result after depreciation		**–6,757**	–10,787
Financial income and expense			
Interest income		**1,230**	673
Dividend income		**–**	238
Interest expense		**–16**	–1,100
Result from the sale of warrants		**10,200**	–
Exchange rate differences		**3**	–3
Result after financial income and expense		**4,660**	–10,979
Taxes	1	–	–
Result for the year		**4,660**	–10,979

Consolidated Balance Sheet

Assets

Amounts in SEK 000s	Note	**1996**	1995
Current assets			
Cash and bank deposits		**11,740**	15,655
Warrants	2	**–**	50
Accounts receivable		**2,126**	1,575
Prepaid expenses and accrued income		**2,232**	255
Other receivables		**1,232**	231
Inventories		**8,068**	4,427
Total current assets		**25,398**	22,193
Fixed assets			
Shares and participations	3	**71,296**	71,151
Receivables			
Other companies	4	**4,982**	–
Machinery and equipment	5	**6,191**	5,579
Total fixed assets		**82,469**	76,730
Total assets		**107,867**	98,923

Liabilities and Stockholders' Equity

Amounts in SEK 000s	Note	**1996**	1995
Current liabilities			
Accounts payable		**2,071**	1,342
Accrued expenses and prepaid income		**6,254**	4,627
Other liabilities		**237**	153
Total current liabilities		**8,562**	6,122
Long-term debt			
Other liabilities		**–**	7
Total long-term liabilities		**–**	7
Reserve for adjustment of the value of biotechnology assets		**5,523**	5,523
Minority interest		**4**	4
Stockholders' equity	6		
Restricted equity			
Share capital 9,251,176 shares par value SEK 25	7	**231,279**	231,279
Statutory reserves		**128,655**	119,583
Accumulated loss			
Loss carried forward		**–270,816**	–252,616
Result for the year		**4,660**	–10,979
Total stockholders' equity		**93,778**	87,267
Total liabilities and stockholders' equity		**107,867**	98,923
Assets pledged			
Shares		**58,808**	58,808

Contingent liabilities

Income guarantee on behalf of the not wholly owned subsidiaries Fermentech Medical Ltd. och Gramma Diagnostik AB

Consolidated Statement of Changes in Financial Position

Amounts in SEK 000s	**1996**	1995
Working capital provided from operations		
Operating revenue	**18,950**	16,552
Operating expenses	**–24,275**	–25,903
Financial items	**11,417**	–192
	6,092	–9,543
Change in working capital		
Change in inventories	**–3,641**	–3,912
Change in current receivabless	**–3,479**	292
Change in current non-interest bearing liabilities	**2,440**	931
	–4,680	–2,689
Total working capital provided	**1,412**	–12,232
Investments in fixed assets		
Investments in shares, machinery and equipment	**–6,516**	– 653
Sale of shares, machinery and equipment	**–**	341
	–6,516	–312
Financing		
New issue	**–**	27,513
Change in current interest-bearing liabilities	**–**	–8,655
Change in long-term liabilities	**–7**	–
	–7	18,858
Translation differences	**1,196**	–1,271
Change in liquid funds	**–3,915**	5,043

Parent Company Statement of Income

Amounts in SEK 000s	Note	1996	1995
Operating revenue and expenses			
Other revenue		**56**	50
Total revenue		**56**	50
Research costs		**–548**	–558
Other expenses		**–3,814**	–4,544
Operating result before depreciation		**–4,306**	–5,052
Depreciation			
Machinery and equipment		**–28**	–16
Operating result after depreciation		**–4,334**	–5,068
Financial income and expense			
Interest income		**972**	617
Dividend income		**–**	238
Interest expense		**–**	–1,093
Result from the sale of warrants		**10,200**	–
Exchange rate differences		**2**	–3
Result after financial income and expense		**6,840**	–5,309
Allocations			
Group contribution paid		**–311**	–313
Result before taxes		**6,529**	–5,622
Taxes	1	**–**	–
Result for the year		**6,529**	–5,622

Parent Company Balance Sheet

Assets

Amounts in SEK 000s	Note	1996	1995
Current assets			
Cash and bank deposits		**8,648**	7,320
Warrants	2	**–**	50
Prepaid expenses and accrued income		**473**	80
Other receivables		**171**	212
Total current assets		**9,292**	7,662
Fixed assets			
Shares and participations	3		
Subsidiaries		**95,726**	95,726
Other companies		**66,267**	66,267
Receivables			
Subsidiaries		**80,134**	80,195
Other companies	4	**4,982**	–
Machinery and equipment	5	**29**	53
Total fixed assets		**247,138**	242,241
Total assets		**256,430**	249,903

Liabilities and Stockholders' Equity

Amounts in SEK 000s	Note	1996	1995
Current liabilities			
Accounts payable		**129**	266
Accrued expenses		**1,374**	1,201
Other liabilities		**22**	60
Total current liabilities		**1,525**	1,527
Reserve for adjustment of the value of biotechnology assets		**21,323**	21,323
Stockholders' equity			
Restricted equity			
Share capital 9,251,176 shares par value SEK 25	7	**231,279**	231,279
Statutory reserve		**121,025**	121,025
Accumulated loss			
Loss carried forward		**–125,251**	–119,629
Result for the year		**6,529**	–5,622
Total stockholders' equity		**233,582**	227,053
Total liabilities and stockholders' equity		**256,430**	249,903
Assets pledged			
Shares		**58,808**	58,808

Contingent liabilities

Income guarantees on behalf of subsidiaries Fermentech Medical Ltd. and Gramma Diagnostik AB

Parent Company Statement of Changes in Financial Position

Amounts in SEK 000s	**1996**	1995
Working capital provided from operations		
Operating revenue	**56**	50
Operating expenses	**–4,673**	–5,415
Financial items	**11,174**	–241
	6,557	–5,606
Change in working capital		
Change in current receivables	**–302**	2,003
Change in current non-interest bearing liabilities	**–2**	–361
	–304	1,642
Total capital provided from operations	**6,253**	–3,964
Investments in fixed assets		
Investments in shares, machinery and equipment	**–4,986**	–1,592
Sale of shares, machinery and equipment	**–**	337
	–4,986	–1,255
Financing		
New issue	**–**	27,513
Change in current interest-bearing liabilities	**–**	–8,700
Change in long-term receivables	**61**	–15,072
	61	3,741
Change in liquid funds	**1,328**	–1,478

Accounting Principles

ACCOUNTING AND VALUATION PRINCIPLES

Consolidated Accounting
The consolidated financial statements have been prepared in accordance with the purchase method (The Swedish Financial Accounting Standards Council's recommendation no. 1) and include the Parent Company and companies in which voting rights exceeded 50 percent at year-end.

Fifty-eight percent of all income/expenses and assets/liabilities reported in BMPI Liquidating Trust are taken up in the consolidated financial statements, corresponding to Skandigen's share.

The financial statements of Skandigen's foreign subsidiaries have been translated in accordance with the current method. The statements of income have been translated at the average exchange rate during the year. Balance sheet items have been translated at the rate prevailing at year-end. Translation differences have been booked over equity. Shares in associated companies are reported according to the acquisition cost. There is no significant difference compared with the equity method.

Valuation of Biotechnology Assets
Investments in biotechnology assets are reported at the acquisition cost. Write-downs are made only if, following individual valuations, a lasting decline in value is feared.

Allocations to a general reserve for adjustment of value have been made as a precaution.

Receivables and Liabilities in Foreign Currencies
Receivables and liabilities in foreign currencies have been valued at the year-end exchange rate. The Parent Company's long-term receivables from subsidiaries of an investment nature are stated at the historic rate.

Depreciation
Depreciation is based on the cost of the assets and their estimated economic lives. Economic lives of machinery and equipment vary between 3 and 10 years.

Valuation of Inventories
Inventories are valued at the lower of cost or market value. A requisite reduction has been made for obsolescence.

Notes

NOTES

Note 1 – Tax

The Parent Company's unutilized loss carryforward totaled approximately MSEK 152 on December 31, 1996 (Dec 31, 1995: approx. MSEK 159). The subsidiary Fermentech Medical Ltd's. unutilized loss carryforward totaled approximately MSEK 145 on December 31, 1996.

Note 2 – Warrants

Warrants, current assets, SEK 000s

SEK 000s	1996	1995
Parent Company holding:		
200,000 Skandigen warrants 1993/1998	–	50
	–	50

Note 3 – Shares and Participations, Fixed Assets

(SEK 000s or thousands of the currency indicated)

December 31, 1996	Number	%		Par value	Book value
Swedish subsidiaries:					
Gramma Diagnostik AB	460	92		46	50
Trion Forsknings- och Utvecklings AB (TRION)	5,000	100		50	50
TUVA AB	500	100		50	50
Foreign subsidiaries:					
Fermentech Medical Ltd.	6,714,635	97	GBP	6,715	58,808
BMPI Liquidating Trust	30,794,364	58	USD	–	36,768
Book value in Parent Company					95,726
Other Swedish companies:					
BioNative AB	4,760	24		476	4,750
InRo Biomedtek AB	200	33		20	1,001
Other foreign companies:					
Biopool International Ltd.	25,000	–	USD	–	0
BioStar, Inc.	780,159	4	USD	–	10,362
Sepragen Corporation	91,911	2	USD	–	2,356
SIBIA Inc.	986,696	11	USD	1	47,798
Book value in Parent Company					66,267
BioStar, Inc.	3,557,143		USD	–	5,029
BioStar, Inc. conditional convertible debenture, par value USD 8,000,000					0
Book value in Group					71,296

Regarding the above companies, please refer to pages 6–14.

Note 4 – Receivables, other companies

SEK 000s	1996	1995
Convertible debenture, BioStar, Inc.	4,982	–
	4,982	–

Note 5 – Machinery and Equipment

	Parent Company		Group	
SEK 000s	1996	1995	1996	1995
Acquisition cost	737	733	26,129	22,184
Accumulated planned depreciation	–708	–680	–19,938	–16,605
Planned residual value	29	53	6,191	5,579

Note 6 – Consolidated Stockholders' Equity

SEK 000s	Share capital	Restricted reserves	Accumulated loss
January 1, 1996	231,279	119,583	–263,595
Translation difference		9,072	–7,221
December 31, 1996	231,279	128,655	–270,816

Note 7 – Development of Share Capital

Year	Issues	Increase in share capital, MSEK	Total share capital, MSEK	Number of shares issued
1983	Formation	40.0	40.0	400,000
1983	Directed new issue	50.0	90.0	500,000
1984	Directed new issue	4.3	94.3	43,000
1984	Public issue	40.0	134.3	400,000
1990	Reduction in share capital	–100.7	33.6	–
1991	New issue to stockholders- and holders of convertible debentures	70.0	103.6	2,801,994
1992	Directed new issue	7.5	111.1	300,000
1992	Conversion of CPNs	20.0	131.1	800,000
1993	Conversion of CPNs	3.0	134.1	120,000
1994	New issue to stockholders and holders of convertible debentures	58.0	192.1	2,321,196
1994	Conversion of CPNs	9.5	201.6	380,000
1995	New issue to stockholders and holders of convertible debentures and warrants	29.7	231.3	1,184,986
				9,251,176

Note 8 – Board of Directors and Personnel

	Board of Directors and President		Other employees		Average no. of employees	
SEK 000s	1996	1995	1996	1995	1996	1995
Parent Company	841	847	–	–	1	1
Subsidiary						
– Sweden	141	143	–	–	1	1
– U.K.	689	788	4,064	4,347	25	26
Group total	1,671	1,778	4,064	4,347	27	28

At year-end, 29 (29) people were employed by the Group, 14 (13) men and 15 (16) women.

Remuneration to the Board of Directors and the President:

The Board of Directors
Chairman; the director's fee amounts to SEK 75,000 for the current year. Consultancy fees of SEK 120,000 (12,000) have been paid to a company affiliated to the Chairman. Other, external directors: Directors' fees for the current year amount to a total of SEK 300,000. Consultancy fees have been paid to a company affiliated to Krister Wallin.

President
Salary to the President totaled SEK 526,000 (526,000) in 1996. Pension terms correspond to the ITP plan (supplementary pension for salaried employees). In the event of termination of employment by the Company, the President is entitled to a notice period of 3 years.

Auditors' Report

Auditor's Report for Skandigen Aktiebolag for the 1996 fiscal year.

We have examined the Annual Report, the consolidated financial statements, the accounts and the administration by the Board of Directors and the President. Our examination was carried out in accordance with generally accepted auditing standards.

Parent Company
The Annual Report has been prepared in accordance with the Swedish Companies Act.

We recommend

that the Statement of Income and the Balance Sheet be adopted,
that the loss be treated in accordance with the recommendation in the Report on Operations, and
that the Board of Directors and the President be discharged from liability for the fiscal year.

Group
The consolidated financial statements have been prepared in accordance with the Swedish Companies Act.

We recommend that the Consolidated Statement of Income and the Consolidated Balance Sheet be adopted.

Stockholm, April 3, 1997

Ernst & Young AB
Torbjörn Hanson
Authorized Public Accountant

Biotechnology Holdings

	Holding/ investment	*Operations*	*Application*	*Phase*
Subsidiary				
Fermentech Medical Ltd.	97%/MSEK 139.0	Production of hyaluronan	Eye surgery Eye drops Osteoarthritis	Commercial Clinical Preclinical
BMPI Liquidating Trust	58%/MSEK 36.8	Holding company	Owns 20% of BioStar, Inc.	
Gramma Diagnostik AB	92%/MSEK 0.05	Diagnostics	Whooping cough Pneumonia Helicobacter pylori	Commercial Commercial Commercial
TRION AB	100%/MSEK 0.05	Patent administration	Peptides	
Total subsidiaries	MSEK 175.9			
Other Swedish companies				
BioNative AB	24%/MSEK 4.7	Production of interferon	Viral and tumor diseases	Commercial
InRo Biomedtek AB	33%/MSEK 1.0	Reagents/diagnostics	Brain damage and malignant melanoma	Commercial
Total Swedish companies	MSEK 5.7			
Other foreign companies				
BioStar, Inc.	4% direct/MSEK 15.3 and 12% through BMPI. Total holding, 16%.	Diagnostics	Group A Streptococcus Group B Streptococcus Chlamydia Influenza etc.	Commercial Commercial Commercial Development
SIBIA Neurosciences, Inc.	11%/MSEK 47.8	Drug discovery See page 12 for partners.	Parkinson's Alzheimer's Dementia Epilepsy, etc.	Clinical Preclinical Lead identified Lead identified
Sepragen Corp.	2%/MSEK 2.4	Separation/purification	Chromatography Protein purification	Commercial
Total foreign companies	65.5 MSEK			
Total biotechnology holdings	247.1 MSEK			

Board of Directors, Management and Auditors

BOARD OF DIRECTORS

GUNNAR EKDAHL
Born 1943. M.B.A.
Chairman since 1995.
Director since 1995.
Director of AB Anders Löfberg (Chairman), G. & L. Beijer AB (Chairman), Evidentia Fastigheter AB, Hagströmer & Qviberg AB, Ljungberg-Gruppen AB, Malmö Aviation AB, SIBIA Neurosciences, Inc. and Svedala Industri AB, among others.
Stockholding: 5,000 shares.

MARVIN H. CARUTHERS
Born 1940. Ph.D.
Director since 1989.
Professor, Department of Chemistry and Biochemistry University of Colorado, Boulder, USA.
Director of BioStar, Inc. among others.
Member of the U.S. National Academy of Sciences and the American Academy of Arts and Sciences.
Stockholding: 0

JOHAN CLAESSON
Born 1951. M.B.A.
Director since 1995.
President of CA Bygg och Fastigheter AB.
Director of Evidentia Fastigheter AB, Folkebolagen AB, and SydOstpress AB.
Stockholding: with family 151,410 shares.

ANKI FORSBERG
Born 1957. LL.B.
Director since 1996.
President of Skandigen AB.
Director of Atle AB, SBL Vaccin AB, among others.
Stockholding: 3,500 shares and 100,000 warrants for B shares in Skandigen AB.

BERTIL HÅLLSTEN
Born 1932. Dr. Econ.
Director since 1996.
Director of Conpharm AB, KaroBio AB and AB Meda, among others.
Stockholding: 0

PEHR LAGERMAN
Born 1941. M.Pol.Sc.
Director since 1995.
Director of Active AB, Matteus AB and Proventus AB, among others.
Stockholding: 2,000 shares.

MATHIAS UHLÉN
Born 1954. Dr. Eng.
Director since 1992.
Professor of microbiology at KTH.
Director of Pharmacia Biotech AB and Teknikhöjden AB. Member of the Royal Swedish Academy of Sciences, the Swedish Royal Academy of Engineering Sciences and the Technical Research Council.
Stockholding: 0

KRISTER WALLIN
Born 1943. M.B.A.
Director since 1992.
Director of Consilium AB and Spendrups Bryggeri AB, among others.
Stockholding: 1,000 shares.

MANAGEMENT

ANKI FORSBERG
President
See above.

AUDITORS

Auditor
TORBJÖRN HANSON
Authorized Public Accountant
Ernst & Young AB

Deputy
OLOF CEDERBERG
Authorized Public Accountant
Ernst & Young AB

At the Annual General Meeting on May 6, 1996, a nomination committee was formed comprising Carl Langenskiöld, Lars Eric Petersson, Henrik Wiman and Gunnar Ekdahl.

Description of clinical phases and dictionary

DESCRIPTION OF CLINICAL PHASES

Preclinical phase	Development of a compound prior to testing on humans.
Clinical phases:	
Phase I	Trials of a compound on healthy volunteers.
Phase II	Initial trials on patients with the disorder the compound is designed to treat.
Phase III	Studies on a large number of patients.

DICTIONARY

Antibody	Immunoagent produced by antigens, for example in allergic reactions.
Biopolymer	A naturally occurring compound having large molecules which themselves are made up of simple repeating molecules.
In vitro	Tests conducted in test tubes or similar.
In vivo	Tests within a living body (such as an animal).
Lead	A compound with interesting properties which can be used as a basis for further development.
Moleular weight	The sum of the weights of the atoms which form a molecule.
Point-of-care test	A diagnostic test used in direct connection with treatment.
Protease	An enzyme which can break proteins.
Protein	Consists of amino acids joined into peptides, which build proteins. Proteins are of major importance, among other things for cell structure and function.
Receptor	A structure on or within a cell to with which a drug can bind. Receptors are divided into different families. Each member of a family is called a subtype. Certain receptors function as ion channels, which are regulated by ligands and/or extremely small voltage changes.
Screening	Evaluation of a large number of compounds in different testing systems.
Viscoelastic	A solution or gel which is able to exhibit the properties of a fluid and a solid, depending on the nature of the forces acting upon it.

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SKANDIGEN