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 5, 1998, 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 Thursday, April 30, 1998, by writing to the following address: Skandigen AB, Norrlandsgatan 15, SE-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 24, 1998. 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 1997 fiscal year.

Financial Information 1998

May 5 – Interim Report Jan.–March
August 24 – Interim Report Jan.–June
November 2 – Interim Report Jan.–September

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

Contents

Important Events 1997/1998

Skandigen AB, subsidiaries and part-owned companies

FERMENTECH MEDICAL LTD.

The subsidiary Fermentech Medical's sales of Ophthalin™, which is used in cataract surgery, increased by 122 percent to MSEK 41.8 in 1997. The distributor Ciba Vision launched Ophthalin in a number of countries outside Europe.

BIOSTAR, INC.

The part-owned company BioStar signed a collaboration agreement with Japanese Asahi Chemical Industry Co., Ltd. during the year to develop a new instrumented diagnostics system. At the end of the year BioStar signed a merger agreement with Cortech, Inc., a biopharmaceutical company quoted on Nasdaq in the U.S.

SIBIA NEUROSCIENCES, INC.

During the year the part-owned company SIBIA completed Phase I clinical trials of SIB-1508Y for treatment of Parkinson's disease. Phase II trials have commenced in 1998. SIBIA signed a license agreement with Japanese Meiji Seika Kaisha, Ltd. for development and commercialization of the compound in Japan and certain other Asian countries.

THE GROUP

The Group's sales totaled MSEK 41.8 (18.8), and result after net financial items was MSEK –2.4 (4.7). In the preceding year net financial items included a nonrecurring revenue of MSEK 10.2.

President's Statement

Fermentech Medical's sales of Ophthalin, which also constitute the Group's sales, amounted to MSEK 41.8 during the year, which was according to plan. The distributor Ciba Vision has attained solid market shares with Ophthalin in the major European countries, where sales of the product have been underway for a couple of years. Sales are still in a build-up phase in a number of countries outside Europe, where the degree of market penetration will be of importance for the Group's future sales trend. Ophthalin has gradually established a prominent position in Ciba Vision's product range.

Competition in the market for viscoelastics like Ophthalin, which are used in eye surgery, has led to falling retail prices. Fermentech Medical has lowered its manufacturing costs by rationalizing production. The company has invested MSEK 9.7 in equipment for filling and packaging of syringes. The facility, which went on-stream in September, can also be used for other products, such as filling and packaging of the product for intra-articular injection for treatment of osteoarthritis. Fermentech Medical now has a more complete and rational production process which will enable future extension of the product range.

Aside from increasing productivity, one of the year's goals was to intensify research and development work on hyaluronan-based products. The R&D department has been allocated resources to broaden its expertise. The aim is to supplement internal exploratory research through various collaboration agreements with external partners to a greater extent than before, as a means for broadening and deepening the research activities. The Group's research and development costs are expected to increase in 1998 also as a consequence of extended clinical trials.

In late 1997 Skandigen's part-owned company BioStar, Inc, signed a merger agreement with the publicly quoted American biopharmaceutical company Cortech, Inc. Cortech is proposed to acquire BioStar through a non-cash issue, after which the combined company would be quoted on Nasdaq. The merger agreement is contingent upon approval from the stockholders of both companies. BioStar and Cortech plan to hold their General Meetings in the second quarter, when the Securities and Exchange Commission has examined the prospectus and declared it effective.

In 1997 BioStar evaluated a number of alternatives to ensure future financing for continued growth and create liquidity in its stock. A merger with Cortech provides BioStar with substantially greater resources, including cash and a publicly traded security, to fund internal development work and pursue strategic transactions, including acquisitions and partnerships. Cortech's research within the area of inflammatory diseases has gradually been downsized and the combined company's primary business focus will be diagnostics based on BioStar's proprietary technology.

BioStar's OIA® technology constitutes a good platform for product development both internally and with external partners. The agreements signed by BioStar during the year indicate increased acceptance of this technology. BioStar has signed an important agreement with the Japanese company Asahi Chemical Industry Co., Ltd. to develop a new instrumented system based on OIA. The National Institute of Health has contributed with addi-

tional funding to develop new OIA tests. During 1998, BioStar began clinical trials of a new rapid test for detection of influenza. The test was developed in collaboration with Biota Holdings Limited, Australia.

BioStar represents one of the U.S. minority holdings in Skandigen's biotechnology portfolio. Skandigen's goal is to generate liquidity in these holdings, which was partly accomplished in 1996 through market listing of the part-owned SIBIA Neurosciences. Upon a merger of BioStar and Cortech, the liquidity goal will have been achieved in the two largest minority holdings, corresponding to approximately 40 percent of Skandigen's total biotechnology portfolio.

The part-owned company SIBIA Neurosciences completed Phase I trials of its proprietary drug candidate for treatment of Parkinson's disease. Phase II trials have commenced in 1998. In accordance with its partnership strategy, SIBIA entered in 1997 an agreement with Japanese Meiji for development and commercialization of the compound in certain Asian countries. SIBIA's technology and research have led to several license agreements and strategic collaborations.

In the future Skandigen's operations will have a more distinct focus on the operating company Fermentech Medical. The minority interests in the U.S. biotechnology companies will have the character of financial assets when liquidity has been achieved. The liquidity reserve represented by these assets provides scope for increased research investments in Fermentech Medical, and in a longer perspective expansion of the core business based on hyaluronan.

Stockholm in March, 1998

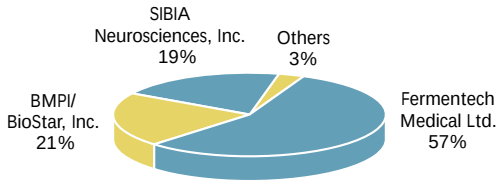
Anki Forsberg
President

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 BioNative AB and four other biotechnology companies. The companies' operations include research and development of new pharmaceuticals and diagnostics. The biotechnology assets in the Parent Company balance sheet amount to MSEK 260 and comprise stockholdings, loans and convertible debentures.

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

PARENT COMPANY'S BIOTECHNOLOGY ASSETS, MSEK 260 BY COMPANY



SUMMARY OF KEY HOLDINGS

Company	*Holding/ investment*	*Operations*	*Applications*	*Phase*
Fermentech Medical Ltd.	97%/MSEK 148.9	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 18.2 and 12% through BMPI. Total holding,16%.	Diagnostics	Group A Streptococcus Group B Streptococcus Chlamydia Influenza	Commercial Commercial Commercial Clinical
SIBIA Neurosciences, Inc.	10%/MSEK 47.8	Drug discovery	Parkinson's Alzheimer's Epilepsy	Clinical Preclinical Preclinical

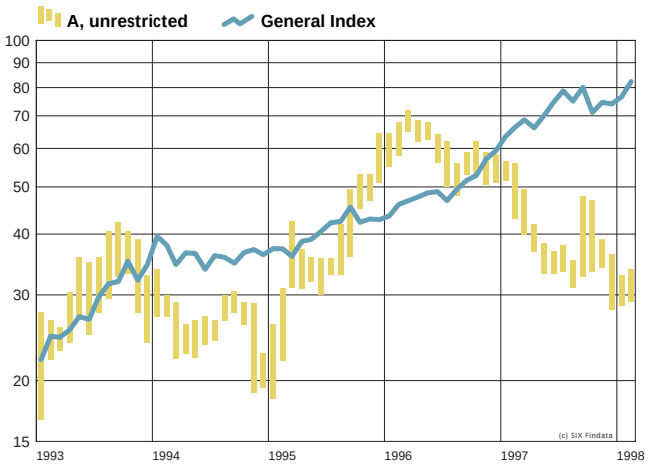
See page 31 for a table of all holdings.

LARGEST STOCKHOLDERS, FEBRUARY 1998

Owner	*Number of shares*	*Percent of share capital and votes*
Wasa	403,500	4.3
Bank in Liechtenstein as trustee	397,850	4.3
SPP	359,400	3.9
Johan Claesson with family & company	285,230	3.1
Skandia	254,200	2.7
BNP Switzerland Ltd	221,900	2.4
Trygg Hansa	145,500	1.6
Estate of Carl Langenskiöld	109,400	1.2
Ulla Dahlberg	109,400	1.2
The Swedish Royal Academy of Science	100,000	1.1
Others	6,864,796	74.2
Total	9,251,176	100.0

Source: VPC, February 28, 1998.

SHARE PRICE TREND, SEK



SHARE DISTRIBUTION

Number of shares	*Number of stockholders*	*Total number of shares*	*%*
1–1,000	6,711	2,180,809	23.6
1,001–2,000	635	1,065,162	11.5
2,001–5,000	368	1,247,072	13.5
5,001–10,000	113	901,223	9.7
10,001–20,000	45	667,833	7.2
20,001–50,000	21	764,692	8.3
50,001–100,000	7	465,835	5.0
100,001–	8	1,958,550	21.2
Total	7,908	9,251,176	100.0

Source: VPC, December 31, 1997.

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 shares outstanding 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 number of shares outstanding and voting rights.

Hyaluronan – clinical functions and uses

Hyaluronan is a high molecular weight polysaccharide first identified by Karl Meyer in 1934. It occurs naturally in all vertebrates and is an important constituent of connective tissue.

The physiological role of hyaluronan is related to its molecular structure which allows it to act in many ways including as an energy cushion, as a lubricant for tissues and as a sponge for water.

Although hyaluronan was first used for injection into the joints of race horses in the early 1970s, it was its use as a surgical tool in ophthalmic surgery in the early 1980s which established the clinical importance of the molecule. Since then, many other potential applications have been suggested, some of which have been developed to become common clinical practice.

The physiological roles suggested for hyaluronan are many and varied. Probably because of its most widespread use as an ophthalmic viscoelastic, where its function is that of an mechanical energy absorber and to maintain anterior chamber space for the surgeon, the established view has been to consider hyaluronan as a more or less inert biological polymer. In this role, it is the physical properties of the molecule and in particular its viscoelastic properties (a function of molecular weight and concentration) which determine its clinical usefulness. However, much scientific research over the last 10 years or so, has established that hyaluronan has many other interesting physicochemical and biological properties which extend far beyond the concept of its presence merely as an inert biological polymer.

In addition to the use of hyaluronan in intraocular surgery, other applications utilising the physical properties of the molecule include use as a lubricant in intra-articular injection for treatment of osteoarthritis and for prevention of post-surgical adhesions. It is also finding use for filling tissue space in plastic and restorative surgery. It is now quite common in Europe, the U.S. and Japan to find hyaluronan being used in these indications and there are several products marketed widely. Such products vary in hyaluronan molecular weight and concentration and also in the degree of chemical modification made to the molecule in aiming to prolong residence time *in vivo*.

Quoted hyaluronan companies include Biomatrix Inc. with applications in viscosupplementation for osteoarthritis, viscoaugmentation of dermal tissue, ophthalmics and skin care; Genzyme Corp. (adhesions); Anika Therapeutics Inc. (viscosupplementation and ophthalmics); Lifecore Biomedical Inc. (ophthalmics); Hyal Pharmaceutical Corp. (topical drug delivery to skin and mucosa) and Fidia SpA (viscosupplementation and ophthalmics). Ophthalmic viscoelastics are also provided by several pharmaceutical and ophthalmic companies.

Hyaluronan, being a naturally occurring polysaccharide, has attractions for use as a carrier for other drugs and substances and a number of companies are known to be developing this application area. In this role, the unique physicochemical properties of hyaluronan can be used either to entrap or, alternatively, to chemically bind the substance of interest. Subsequent release of the substance would be achieved as a consequence of natural degradation of the hyaluronan *in vivo*.

The ability of hyaluronan to absorb large quantities of water contributes to traumatic conditions such as Acute Respiratory Distress Syndrome. It is known that in such conditions, as well as in graft rejection, there is an elevated production of hyaluronan. Such elevated hyaluronan levels are also known to occur in association with many inflammatory diseases includ-

ing joint diseases. An understanding of the interaction between the formation of hyaluronan and its degradation *in vivo* is the focus of research in an attempt to be able to regulate such conditions.

Although hyaluronan mostly exists unbound, either in synovial fluid, in the vitreous humour and in the connective tissue generally, it is known that hyaluronan binds to a number of proteins found on the surfaces of cells. In this role hyaluronan is believed to act in several different ways. For example, it may act as a signalling molecule to trigger a specific cellular response or it may act as a binding site for other cells. Two receptors for hyaluronan are well characterised. The RHAMM receptor (receptor for hyaluronan mediated motility) is known to be involved in cell proliferation and in cell migration. The function of the CD44 receptor is believed to vary with different cells and is known to bind with cells of the immune system.

Hyaluronan is also known to bind with other macromolecules found in the connective tissue and this binding is thought to be important in the structural stability of the extracellular matrix. In particular, hyaluronan binding to proteoglycans such as aggrican, versican and brevican are the subject of much current research.

The role of hyaluronan may be important in understanding aspects of tumour growth. It is known, for example, that in many tumours there is a very high concentration of hyaluronan, well above what can be found in healthy tissue. Understanding of such effects may lead to applications of hyaluronan in cancer treatments.

In humans, the half life of hyaluronan in tissues is reported to be of the order of a few days, whilst in the circulation, the half life is reported to be only a few minutes. Since hyaluronan is cleared from the circulation mostly through the liver, patients with impaired liver function may be expected to have higher concentrations of hyaluronan in their serum. Monitoring of serum hyaluronan concentration may therefore provide a way of monitoring progression of certain liver diseases. In a similar way, serum hyaluronan concentration may provide a clinical marker for patients suffering from septic shock, which is associated with increase in circulating hyaluronan level.

Hyaluronan may also be implicated in healing of wounds. The role of hyaluronan in fibroblast proliferation and migration may provide evidence of clinical relevance.

It can be concluded that hyaluronan continues to have significant clinical relevance. Whilst its use in intraocular surgery and intra-articular injection represent the major clinical usage currently, understanding of its other physiological roles may lead to wider areas of application.

Fermentech Medical Ltd.

Fermentech Medical develops and manufactures hyaluronan products.

Fermentech Medical Ltd. is a biopharmaceutical company specializing in the development and manufacture of products based on hyaluronan. The company has manufacturing premises located at the 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 biological polymer which occurs naturally throughout the body as an important constituent of connective tissue. Since the 1980's, the most common medical use for hyaluronan has been as a surgical aid in cataract surgery. Its use in this indication depends on the viscoelastic properties of the molecule, which helps to protect the delicate cells in the eye during the operation. More recently, hyaluronan has been injected into joints of patients who suffer from osteoarthritis with good effects. It is also finding use as a biological implant in recontouring of human connective tissue and for prevention of tissue adhesions, which often occur after surgical operations.

HYALURONAN MANUFACTURE

Fermentech Medical's hyaluronan is produced by a patented bacterial fermentation process. Throughout 1997, the company completed a rationalization of its manufacturing process to scale up and optimize hyaluronan production. Part of this rationalization included investments in plant and equipment to fill and package syringes. As a result of this, Fermentech Medical is now able to manufacture Ophthalin, an ophthalmic viscoelastic, completely in-house. This capability gives the company a lower manufacturing cost for Ophthalin.

The manufacturing plant including the syringe filling and packaging has been designed to allow for complete manufacture also of other hyaluronan products.

OPHTHALMICS

Fermentech Medical manufactures and supplies Ophthalin to Ciba Vision, a Novartis company. Fermentech receives a share of Ophthalin net sales. Under a long-term distribution agreement between the companies, Ciba Vision has exclusive worldwide rights to Ophthalin excluding the U.S.

Through the partnership with Ciba Vision, a higher viscosity product, Ophthalin Plus, was launched in Europe in late 1997. This product provides the surgeon with a greater degree of control in more difficult cataract procedures.

There was a significant increase in Ophthalin sales to Ciba Vision in 1997. The increase is mainly attributable to increased market penetration in the European countries where the product was launched in 1996 and growth in sales outside the EU.

Ophthalin is now registered in 20 countries outside Europe, most of these have required a pharmaceutical registration. Launch has now taken place in 14 of these countries with further launches scheduled through 1998 as further registrations are acquired.

The market for ophthalmic viscoelastics continues to be very competitive with new products entering. Because of this, retail prices in many countries have decreased through 1997. However, rationalization of the manufacturing process with in-house syringe filling and packaging enables Fermentech Medical to maintain a lower manufacturing cost. This will help to offset the effect of lower retail prices. The major competitors include Pharmacia & Upjohn, Alcon, Allergan, Biotechnology General and Chiron Vision.

Market analysts estimate a continued growth rate for cataract procedures of about 5 percent in Europe and 7 percent in the rest of the world, because of aging populations and earlier surgical intervention. The size of the European market is estimated at approximately MSEK 500. The market outside Europe, the U.S. and Japan is estimated at approximately MSEK 125.

OSTEOARTHRITIS

Osteoarthritis is an age-related chronic disease of weight-bearing joints. Injection of hyaluronan into joints to compensate for changes in the lubricating properties of the synovial fluid has been shown to have a beneficial effect. This technique of hyaluronan injection into the joint, known as viscosupplementation, is gaining acceptance as a treatment, with several products now available to clinicians in Europe. Fermentech Medical's product for this indication is in preclinical studies.

Hyaluronan products for viscosupple-

mentation are classed as medical devices in the EU, which will allow for faster registration of Fermentech Medical's product on completion of the development program. Simultaneous product launch throughout all EU countries can follow registration. Fermentech Medical intends to distribute the product through a distribution partner.

DRY EYE APPLICATION

Dry eye syndrome is a common condition caused by natural aging and systemic diseases. Current therapy is for the patient to administer artificial tear products, which are made from substances such as methyl cellulose and other polymers. None of these products are very effective in severe cases.

Following earlier successful pilot clinical studies with a hyaluronan formulation, Fermentech Medical has continued with its development work for this indication. A Phase II clinical study has been completed and a Phase III study is planned to begin in 1998. Hyaluronan-based products for dry eye treatment are classified as pharmaceuticals in the EU.

EXPLORATORY RESEARCH

Fermentech Medical added internal resources for research and development as part of a strategy to build up the company's capability in this area. This strategy includes exploratory research investigations on the use of hyaluronan. A number of projects are now underway in several external research laboratories throughout Europe with possible applications for wound healing, implants and adhesion prevention.

FINANCIAL RESULTS

Fermentech Medical's net sales for 1997 increased to MSEK 41.8 from MSEK 18.8 in 1996. The increase measured in fixed currency rates was 92 percent. The profit for 1997 amounted to MSEK 1.9 (1996: loss of MSEK 1.8). The total cost of sales increased in 1997 due to a significant increase in units sold. The cost of sales per unit decreased following rationalization of the manufacturing process. Research and development costs amounted to MSEK 8.5 in 1997, corresponding to 20 percent of sales. The R&D costs are expected to increase in 1998 as the clinical trials progress. The company's development costs have been covered by loans from the Parent Company.

Fermentech Medical Ltd.	**1997**	1996	1995
Sales, MSEK	**41.8**	18.8	16.3
Net result, MSEK	**1.9**	–1.8	–5.3
Stockholders' equity (Dec. 31.), MSEK	**–74.2**	–67.4	–58.2
Average number of employees	**27**	25	26
Skandigen's share of stockholders' equity, MSEK	**–72.0**	–65.3	–56.5
Book value, MSEK	**58.8**	58.8	58.8
Receivables, MSEK	**90.1**	80.2	80.2
Total investment, MSEK	**148.9**	139.0	139.0

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

President: Barry White

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

BMPI Liquidating Trust

BMPI is a holding company which manages the participation in BioStar, Inc.

BMPI's holding in BioStar at year-end 1997 amounted to 20 percent based on the number of shares outstanding in BioStar. Since Skandigen owns 58 percent of BMPI, Skandigen indirectly owns 12 percent of BioStar in addition to the directly owned holding of 4 percent.

In addition, BMPI has a conditional convertible debenture with a nominal value of USD 8 million. In the event of a merger between BioStar and Cortech, Inc. (see page 12), BMPI would receive compensation in the form of 160,000 shares in BioStar conditional upon annulment of the convertible debenture. In accordance with the rules, BMPI will be liquidated post the merger, probably towards the end of the year, after which the shares in BioStar will be distributed to the beneficiaries of BMPI.

BMPI Liquidating Trust	**1997**	1996	1995
Book net worth, MSEK	**12.6**	9.1	8.9
Skandigen's share of book net worth, MSEK	**7.3**	5.3	5.2
Book value, MSEK	**36.8**	36.8	36.8
Receivables, MSEK	**–**	–	–
Total investment, MSEK	**36.8**	36.8	36.8

Beneficiaries:

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

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

Gramma Diagnostik AB

Gramma develops tests for diagnosis of bacterial infections.

Gramma has developed so-called Elisa tests for diagnosis of whooping cough, Mycoplasma pneumonaie and Helicobacter pylori. All of the tests have been licensed to Euro-Diagnostica AB, a company in the Ferring Group. 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	**1997**	1996	1995
Sales, MSEK	**0.20**	0.09	0.20
Result before allocations, MSEK	**–0.10**	–0.30	–0.30
Stockholders' equity (Dec. 31), MSEK	**0.10**	0.05	0.05
Average number of employees	**1**	1	1
Total investment, MSEK	**0.09**	0.05	0.05

Stockholders:

Skandigen AB	**92%**
Marta Granström	**8%**

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

BioNative AB

BioNative manufactures and markets natural interferon alpha.

Interferons are naturally occurring proteins with antiviral effects. Many cells produce interferon when they are infected with virus. Interferon binds to receptors on other cells and stimulates production of proteins which inhibit virus proliferation. The interferons are normally divided into different classes – alpha, beta, gamma and omega. Interferon has proven to have an effect not only on viral infections, but also on certain types of cancer and multiple sclerosis.

INTERFERON ALFANATIVE®

BioNative has developed a large-scale production process for natural interferon alpha from human leukocytes. BioNative's preparation contains a natural mixture of different interferon alpha subtypes, which do not stimulate the formation of neutralizing antibodies. Neutralizing antibodies can arise in treatment with genetically engineered interferon alpha, which 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 preparation, Interferon Alfanative, is registered in Sweden for treatment of patients with hairy cell leukemia and chronic myelocytic leukemia who have developed a resistance to treatment with genetically engineered interferon alpha.

INTERNATIONAL REGISTRATION OF INTERFERON ALFANATIVE

BioNative's sales are dominated by deliveries of raw interferon to the Italian company Alfa Wasserman, with which BioNative collaborates among other things in production technology. BioNative has increased the documentation for Interferon Alfanative in order to obtain international registrations based on the registration in Sweden. In addition, during the year BioNative has entered a number of agreements with European distributors, among others. A more extensive program of clinical trials will be initiated, partly in cooperation with business partners, in order to obtain broader indications for the product.

FINANCIAL RESULTS

The BioNative Group's sales amounted to MSEK 39.8 in 1997 and the net result was MSEK –0.3. Production of interferon has been concentrated to the facility in Umeå as a part of the cost adjustments being undertaken while awaiting international registration and marketing of Interferon Alfanative.

The BioNative Group	**1997**	1996	1995
Sales, MSEK	**39.8**	44.1	33.1
Net result, MSEK	**–0.3**	2.5	–3.2
Stockholders' equity (Dec. 31), MSEK	**21.3**	21.7	19.9
Average number of employees	**40**	48	52
Skandigen's share of stockholders' equity, MSEK	**5.1**	5.2	4.8
Book value, MSEK	**4.7**	4.7	4.7
Receivables, MSEK	**–**	–	–
Total investment, MSEK	**4.7**	4.7	4.7

Stockholders:	
Management	**58%**
Skandigen AB	**24%**
Pharmacia & Upjohn	**9%**
Hilleshög AB	**9%**

President: Bo Lemar

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

BioStar, Inc.

BioStar develops, manufactures and markets point-of-care diagnostic tests.

BioStar's products employ its proprietary Optical ImmunoAssay (OIA®) technology, a thin film, platform technology developed for the rapid detection of a variety of medical conditions. BioStar currently sells immunodiagnostic tests for group A streptococcus (GAS), the cause of strep throat, group B streptococcus (GBS), the leading cause of neonatal septicemia; and chlamydia, a leading cause of female infertility.

MERGER WITH CORTECH, INC.

In December 1997, BioStar signed a merger agreement with Cortech, Inc., a Denver-based biopharmaceutical company quoted on Nasdaq (symbol CRTQ). The merger agreement is contingent upon, among other things, approval from the stockholders of both companies. Upon a consummation of the proposed merger, BioStar would become a wholly owned subsidiary of Cortech and the BioStar stockholders would receive shares of Cortech common stock in exchange for their BioStar shares. The former holders of BioStar would hold approximately 60 percent of Cortech's total issued and outstanding shares. The closing of the merger is anticipated to occur in the second quarter of 1998 and final determination of ownership levels will be made immediately prior to closing. As of December 31, 1997, Skandigen had a total consolidated ownership in BioStar of 16 percent based on shares outstanding.

OIA TECHNOLOGY

BioStar's current products use the ability of the human eye to detect changes in thickness on the mirror-like surface of a silicon chip, which are seen as a change in surface color. Patient specimens are placed on the reflective surface of a chip coated with appropriate reagents. If targeted organisms are present in the specimen, even at low levels, the surface of the chip changes thickness in minutes. Targets can be detected in a wide variety of samples, including throat and nasal swabs, urine and whole blood. OIA diagnostic tests are significantly more sensitive than other current immunoassay-based diagnostic tests. As a result, clinicians are provided with a diagnostic in minutes, allowing them to determine a diagnosis and immediately begin proper therapy. This helps reduce the risk of complications and increases treatment effectiveness.

CURRENT PRODUCTS

BioStar's GAS, GBS and chlamydia tests are sold by BioStar's dedicated marketing and sales organization, which targets the U.S. outpatient markets, including physician offices, clinics and student and public health centers. The tests are also sold through BioStar's domestic and international distributor network, which targets hospital and reference laboratory accounts in major markets worldwide.

Group A Streptococcus is the most frequent bacterial cause of pharyngitis in children and adolescents. The disease is sensitive to antibiotic therapy. Rapid and accurate diagnosis of GAS is essential for several reasons. Among others things, it helps caregivers to avoid the unnecessary use of antibiotics if the disease is not present. In 1997, the U.S. market for GAS tests was estimated to be USD 100 million, of which the segment BioStar's OIA-tests target is estimated to account for USD 70 million. There is also a market for simpler tests which is estimated at USD 16 million. BioStar recently introduced an inlicensed GAS test in this category. By the end of 1997, BioStar estimates that it had achieved a 10.5 percent dollar market share of the U.S. market for rapid GAS tests. The market leader is Abbott Laboratories. The worldwide market for GAS is estimated by BioStar to be USD 120 million.

MAJOR PRODUCTS AND TECHNOLOGY IN DEVELOPMENT

New rapid test for the detection of influenza

BioStar is collaborating with the Australian company Biota Holdings Limited (Biota) on the development of the first rapid, point-of-care immunodiagnostic test for the simultaneous detection of both influenza A and B. Other influenza diagnostic methods, such as enzyme immunoassay or viral culture, detect only influenza A or take hours or days to provide results. BioStar estimates that more than 350 million cases of influenza occur worldwide each year. BioStar began clinical trials of the influenza OIA test in the U.S. in January 1998. If the trials are successful, BioStar anticipates filing for FDA clearance in the second quarter of 1998. BioStar will be the exclusive distributor of the test in the U.S. and has worldwide manufacturing rights. BioStar and Biota intend that the diagnostic

test will be available for sale initially in international markets when Biota's influenza therapeutic product candidate Zanamivir, or GG167, for which Glaxo Wellcome plc holds the exclusive distribution rights, is launched.

Instrumented system

BioStar and Asahi Chemical Industry Co., Ltd. (Asahi), one of Japan's largest chemical manufacturers and a worldwide leader in thin film technologies, have entered into a multi-year contract to develop an instrumented system to enable caregivers to run multiple assays on patient specimens at the same time. This is particularly important with medical conditions that may be caused by a variety of infectious agents, each of which requires a specific therapeutic intervention. The point-of-care instrument is being designed to be both qualitative and quantitative, opening up additional testing opportunities using the same system.

NATIONAL INSTITUTES OF HEALTH

BioStar is collaborating with National Institutes of Health (NIH) on two major programs in the field of sexually-transmitted diseases. The initial program is focused on developing the first highly sensitive, rapid OIA test to diagnose chlamydia in males using a urine specimen. The second NIH program is focused on the development of a rapid, point-of-care OIA test for gonorrhea.

FINANCIAL RESULTS 1997

BioStar's total revenues for 1997 increased 28 percent to USD 15.9 million from USD 12.4 million in 1996. The increase in revenues is primarily due to an increase in contract revenues from three new research contracts. Sales of rapid diagnostics tests decreased 7 percent to USD 10.8 million in 1997 from USD 11.6 million in 1996. Sales of tests for GAS represented over 83 percent of BioStar's total product sales in 1997. Most of the sales occurred during the first and the fourth quarters, concurrent with the time of the year in which respiratory infections are prevalent. Two of the new products under development (pneumonia and influenza) are also directed at respiratory infections. Sales are consequently expected to continue to be concentrated in the first and fourth quarters of each fiscal year.

BioStar, Inc.	**1997**	1996	1995
Revenues, MSEK	**124.8**	74.6	64.0
Net result, MSEK	**–15.2**	–25.6	–34.2
Stockholders' equity (Dec. 31), MSEK	**–44.2**	–25.9	–0.1
Number of employees	**177**	168	172
Skandigen's share of stockholders' equity, MSEK	**–2.0**	–1.2	–
Book value, MSEK	**10.4**	10.4	10.4
Receivables, MSEK	**7.9**	4.9	–
Total investment, MSEK	**18.2**	15.3	10.4

President: Teresa W. Ayers

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

SIBIA Neurosciences, Inc.

SIBIA is engaged in nervous system drug discovery.

SIBIA (Nasdaq: SIBI) is engaged in the discovery and development of novel small molecule therapeutics for the treatment of neurodegenerative, neuropsychiatric and neurological disorders. SIBIA's drug discovery targets include Parkinson's disease, Alzheimer's disease, ADHD, chronic pain, epilepsy, stroke/brain ischemia, schizophrenia, depression, eating disorders, neuroprotection/apoptosis, and migraine, many of which have large patient populations and represent critical unmet medical needs.

SIBIA'S DRUG DISCOVERY PLATFORMS

The human nervous system is a complex network of interconnected neurons that are responsible for coordination of virtually all bodily functions. Receptors and ion channels and the messengers that modulate them are key components in the communication between neurons. Such communication is fundamental to many neurological functions, including movement, sensory perception, learning and memory. One of the most important messengers in the nervous system is calcium ions. SIBIA has identified the control of calcium levels within neurons as a key strategy for potential therapeutic intervention in many nervous system disorders. Calcium ions enter neurons through ion channels, specifically nicotinic acetylcholine receptors, excitatory amino acid receptors and voltage-gated calcium channels. SIBIA was a pioneer in the discovery and functional expression of cloned genes encoding important human subtypes in these three receptor/ion channel classes. This has enabled SIBIA to characterize a large number of previously unrecognized receptor/ion channel subtypes and establish them as targets for drug discovery. SIBIA has further incorporated these molecular targets into functional cell-based assays for drug screening.

The majority of SIBIA's research is in the above area. SIBIA is also engaged in the development of a new therapeutic for treatment of Alzheimer's disease in collaboration with Bristol-Myers Squibb. Observations from both the mutations in the genes which lead to early onset Alzheimer's and a number of so-called animal models indicate that the disease is initiated by the build-up of beta-amyloid deposits in certain parts of the brain. SIBIA is seeking to develop a compound that inhibits the enzyme which cause the formation of beta-amyloid in Alzheimer's patients.

CORPORATE PARTNERS

SIBIA is applying its drug discovery technologies to discover and develop potential drug candidates independently and in collaboration with established pharmaceutical companies. The Company currently expects that late stage clinical development and commercialization of independently discovered compounds will be accomplished in conjunction with corporate partners. SIBIA has established several corporate collaborations, which include Novartis AG, Bristol-Myers Squibb Company and Meiji Seika Kaisha, Ltd. (Meiji). SIBIA's technology has been licensed and sublicensed to leading pharmaceutical and biotechnology companies. Since 1992, SIBIA has received over USD 57 million in equity, license fees, research support and milestone payments from corporate partners.

DRUGS UNDER DEVELOPMENT

The first compound to enter clinical trials from SIBIA's drug discovery program was SIB-1508Y, currently in development for Parkinson's disease. In contrast to current therapies, which treat only motor dysfunction, SIB-1508Y is being developed for the treatment of motor, affective and cognitive dysfunctions of Parkinson's disease.

During 1997, SIBIA completed Phase I clinical trials of the compound, with the results demonstrating that the drug is well-tolerated and rapidly absorbed in the body following oral administration. Phase II studies were commenced in early 1998. In 1997 SIBIA signed a collaboration agreement with Meiji for the development and commercialization of SIB-1508Y in Japan and certain other Asian countries and plans to establish additional corporate collaborations for advanced clinical trials and commercialization of SIB-1508Y in other areas of the world.

SIBIA has selected another nicotinic acetylcholine receptor subtype-selective compound, SIB-1553A, as a development candidate for the treatment of Alzheimer's disease. SIBIA plans to identify a collaborative partner for SIB-1553A and initiate Phase I clinical trials in the second half of 1998. The most advanced compounds developed in conjunction with SIBIA's corporate partners are in preclinical development and are expected to yield further clinical candidates.

FINANCIAL RESULTS

SIBIA's revenues for 1997 increased to USD 11.2 million from USD 8.5 million in 1996. The increase is primarily due to one-time license fees related to SIBIA's agreement with Meiji. The net loss for the year was USD 7.6 million (1996: USD 5.6 million). Expenses were higher in 1997 as a consequence of, among other things, expanded R&D programs, clinical trials, legal fees related to various patent and litigation matters and costs associated with a proposed secondary offering. However, SIBIA withdrew the offering in February 1998 due to market conditions.

Skandigen owns 10 percent of SIBIA based on the number of shares outstanding.

SIBIA Neurosciences, Inc.	**1997**	1996	1995
Revenues, MSEK	**88.1**	56.8	74.4
Net result, MSEK	**–59.8**	–37.3	20.8
Market capitalization (Dec. 31), MSEK	**479.1**	471.7	–
Stockholders' equity (Dec. 31), MSEK	**287.8**	251.2	100.8
Average number of employees	**109**	97	84
Total investment, MSEK	**47.8**	47.8	47.8

President: William T. Comer

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

InRo Biomedtek AB

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

InRo is specialized in production of monoclonal antibodies which serve as reagents for identification and quantification of substances in the blood. The antibodies are marketed primarily to researchers and laboratories. A large proportion of InRo's revenues comprise royalties from Sangtec AB, which has licensed InRo's unique S-100 marker. With the help of S-100 the level of protein released by damaged brain cells can be measured through a blood test. The same protein structure is also secreted by malignant melanoma. Based on this marker, Sangtec has developed a diagnostic test called Sangtec®100, which is the first, and so far the only, commercial test of its kind for brain damage. Sangtec also markets the test for detection of malignant melanoma. InRo is currently evaluating the potential to develop new diagnostic tests for detection of other neurological and tumor diseases.

InRo Biomedtek AB	**1997**	1996	1995
Sales, MSEK	**0.7**	0.4	0.4
Net result before allocations, MSEK	**0.1**	0.1	0
Stockholders' equity (Dec. 31), MSEK	**0.7**	0.7	0.7
Average number of employees	**2**	2	1
Skandigen's share of stockholders' equity, MSEK	**0.3**	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 1997 figures are based on preliminary unaudited year-end accounts.

Stockholders:

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

President: Torgny Stigbrand

Sepragen Corporation

Sepragen develops, licenses and markets products and processes based on its radial flow chromatography technology.

In addition to biopharmaceutical applications, Sepragen has developed specific applications of its separations technology for the food and beverage industry. Sepragen has engaged in feasibility studies with various companies in the industry to evaluate its processes for purifying proteins from dairy whey and debittering citrus juice. Sepragen has also entered into a letter of intent to license the process to Anchor Products Ltd., a large New Zealand based diary group.

Sepragen's stock is quoted on the Nasdaq OTC (symbol SPGNA). 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 shares escrowed in connection with its public offering in 1995 not be released.

Sepragen Corporation	**1997**	1996	1995
Sales, MSEK	**12.7**	8.1	9.0
Net result, MSEK	**–12.4**	–23.1	–20.7
Stockholders' equity (Dec. 31), MSEK	**–4.3**	7.9	30.8
Average number of employees	**18**	20	27
Total investment, MSEK	**2.4**	2.4	2.4

The 1997 figures are based on preliminary unaudited year-end accounts.

President: Vinit Saxena

Five-Year Summary

MSEK	1993	1994	1995	1996	**1997**
Income statement items					
Invoiced sales	3.5	0.4	16.2	18,8	**41.8**
Research costs	16.2	14.1	10.0	7.7	**8.7**
Operating result	–24.9	–1.2	10.8	–6.7	**–3.1**
Net financial items	–0.2	2.0	–0.2	11.4	**0.7**
Result after financial items	–25.1	0.8	–11.0	4.7	**–2.4**
Balance sheet items					
Shares and participations, receivables	71.8	74.1	71.1	76.3	**79.7**
Other assets	13.2	10.4	12.1	19.9	**32.1**
Cash and bank balances	1.5	10.6	15.6	11.7	**9.7**
Stockholders' equity	12.1	72.7	87.3	93.8	**94.6**
Value adjustment	8.5	8.5	5.5	5.5	**5.5**
Long-term liabilities	18.3	–	–	–	**7.6**
Current liabilities	47.6	13.9	6.1	8.6	**13.8**
Balance sheet total	86.5	95.1	98.9	107.9	**121.5**
SEK per share					
Adjusted stockholders' equity [1]	4	9	9	10	**10**
Ditto after full conversion	7	11	10	11	**11**
Earnings[2]	–4	0.1	–1.2	0.5	**–0.3**
Ditto after full conversion	–4	0.2	–1.1	0.5	**–0.3**
Dividend	–	–	–	–	**–**
Market price at year-end	27.5	20.2	63.5	57.5	**31.0**
Other					
Debt/equity ratio [3]	0.2	8.4	–	–	**0.1**
Share of risk capital [4], %	25	76	88	87	**78**
Return on capital employed [5], %	neg	3	neg	5	**neg**
Return on equity [6], %	neg	2	neg	5	**neg**
Equity ratio [7], %	25	76	88	87	**78**
Interest coverage ratio [8]	neg	1.5	neg	292	**neg**

Definitions

1 Stockholders' equity including convertible participating loan (CPN loan 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 carry forwards. 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:

1993–1994	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.
1997	Fermentech Medical Ltd., Gramma Diagnostik AB, TRION AB and BMPI Liquidating Trust.

Administration Report

OPERATIONS

Skandigen AB invests in biotechnology. The Group consists of the Parent Company Skandigen AB and the subsidiaries Fermentech Medical Ltd. and BMPI Liquidating Trust, as well as the smaller companies Gramma Diagnostik AB and TRION AB. The Parent Company has minority interests in five biotechnology companies, whose operations include research and development of new pharmaceuticals and diagnostics.

SALES AND RESULT

The Group's 1997 sales amounted to MSEK 41.8 (18.8), an increase of 122 percent compared with 1996. Calculated at fixed exchange rates[1] the increase was 92 percent. The sales are entirely attributable to the subsidiary Fermentech Medical Ltd.'s sales of Ophthalin. The Group's annual result was MSEK –2.4 (4.7), which corresponds to SEK –0.25 per share (0.48). The preceding year net financial items for both the Parent Company and the Group included a non-recurring revenue of MSEK 10.2.

PARENT COMPANY

The Parent Company's result after financial items for 1997 was MSEK –4.1 (6.8).

SUBSIDIARIES

Fermentech Medical Ltd.'s result for the year amounted to MSEK 1.9 (–1.8). The result for the other subsidiaries; BMPI Liquidating Trust, Gramma Diagnostik AB and TRION AB, amounted to a total of MSEK –0.2 (–0.3).

RESEARCH AND DEVELOPMENT

Cost for research and development were charged against consolidated earnings in the amount of MSEK 8.7 (7.7), of which MSEK 8.5 (7.2) was charged to Fermentech Medical's result. The corresponding costs in the Parent Company totaled MSEK 0.2 (0.5).

INVESTMENTS

The Group's investments in fixed assets totaled MSEK 12.8 (6.5), of which MSEK 9.7 (1.5) was attributable to production equipment in Fermentech Medical Ltd. and MSEK 2.9 (5.0) to convertible debentures in BioStar, Inc.

BIOTECHNOLOGY ASSETS

In December 1997, Skandigen's part-owned company BioStar, Inc. signed a merger agreement with Cortech, Inc., a biopharmaceutical company in Denver, U.S. Cortech is quoted on Nasdaq. The merger agreement is contingent, among other things, on approval from the stockholders of both companies. The closing of the merger is anticipated to occur in the second quarter of 1998 and final determination of ownership levels will be made immediately prior to closing. As of December 31, 1997, Skandigen had a total consolidated ownership in BioStar of 16 percent based on shares outstanding. As Cortech is proposed to acquire BioStar through a non-cash issue, the combined company will be quoted on Nasdaq and BioStar will thus be assigned a market value.

The Group's biotechnology assets in the form of shares and receivables, after deduction for provision to the value adjustment reserve, amount to MSEK 74.2 (70.8). The value of these assets depends on opportunities for strategic collaboration with industrial partners or other financing of product development.

LIQUIDITY AND EQUITY RATIO

The Group's cash and short-term investments (excluding an unutilized credit facility of MSEK 10) at the end of the fiscal year amounted to MSEK 9.7 (11.7). The Group's interest-bearing liabilities at the end of the period totaled MSEK 11.4 (0). The Group's equity ratio was 78 percent (87).

UNRESTRICTED EQUITY

The Group has no unrestricted equity.

FUTURE DEVELOPMENT

In the event of a merger between BioStar, Inc. and Cortech, Inc., the holding in this company, like the holding in SIBIA Neurosciences, Inc., will be publicly quoted in

[1] The trend in fixed exchange rates is calculated using the exchange rates which applied in the corresponding period of the preceding year.

the U.S. and will have the character of financial assets. Operations will be further focused on the subsidiary Fermentech Medical Ltd.

In 1998 the Group's sales will continue to be entirely attributable to Fermentech Medical's sales of Ophthalin. The product was launched by the distributor throughout Europe in 1996. Sales are currently in a build-up phase in a number of countries outside Europe, where the degree of market penetration will be of importance for the sales trend for Fermentech Medical. The Group's research and development costs are expected to increase in 1998 as the clinical trials progress.

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 accumulated loss in the Parent Company of SEK 123,014,536 be carried forward.

Stockholm, April 2, 1998

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, 1998

Ernst & Young AB
Torbjörn Hanson
Authorized Public Accountant

Consolidated Statement of Income

Amounts in SEK 000s	Note	1997	1996
Invoiced sales		**41,818**	18,836
Change in inventories		**–1,657**	2,915
Other revenue		**279**	114
		40,440	21,865
Operating expenses	1		
Raw materials and consumables		**–16,874**	–8,801
Other external expenses	2	**–15,004**	–11,724
Personnel costs	3	**–8,467**	–6,665
Depreciation of tangible fixed assets	4	**–3,187**	–1,432
Operating result		**–3,092**	–6,757
Result from financial investments			
Result from the sale of warrants		**–**	10,200
Interest income		**1,071**	1,230
Interest expense		**–429**	–16
Exchange rate differences		**–3**	3
Result after financial items		**–2,453**	4,660
Taxes	5	**–**	–
Result for the year		**–2,453**	4,660

Consolidated Balance Sheet

Assets

Amounts in SEK 000s	Note	1997	1996
Fixed assets			
Tangible fixed assets			
Machinery and equipment	4	**13,461**	6,191
Financial fixed assets	6		
Shares and participations in other companies	7	**71,806**	71,296
Receivables from other companies	8	**7,890**	4,982
Total fixed assets		**93,157**	82,469
Current assets			
Inventories			
Raw materials and consumables		**2,257**	165
Work in progress		**3,290**	6,226
Finished goods		**1,697**	1,677
		7,244	8,068
Current receivables			
Accounts receivable		**6,991**	2,126
Other receivables		**1,465**	1,232
Prepaid expenses and accrued income		**2,978**	2,232
		11,434	5,590
Cash and bank balances		**9,708**	11,740
Total current assets		**28,386**	25,398
Total assets		**121,543**	107,867

Stockholders' equity and liabilities

Amounts in SEK 000s	Note	1997	1996
Stockholders' equity	9		
Restricted equity			
Share capital 9,251,176 shares par value SEK 25	10	**231,279**	231,279
Restricted reserves		**139,530**	128,655
Accumulated loss			
Loss carried forward		**–273,715**	–270,816
Result for the year		**–2,453**	4,660
Total stockholders' equity		**94,641**	93,778
Provisions			
Provision for adjustment of the value of biotechnology assets		**5,523**	5,523
Minority interest		**8**	4
Long-term liabilities			
Liabilities to credit institutions	11	**7,584**	–
Current liabilities			
Liabilities to credit institutions	11	**3,792**	–
Accounts payable		**3,913**	2,071
Other liabilities		**324**	237
Accrued expenses and prepaid income	12	**5,758**	6,254
Total current liabilities		**13,787**	8,562
Total stockholders' equity and liabilities		**121,543**	107,867
Assets pledged	11	**58,808**	58,808
Contingent liabilities	11		

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

Consolidated Funds Statement

Amounts in SEK 000s	**1997**	1996
Funds provided from operations		
Operating revenue	**40,440**	18,950
Operating expenses	**–40,345**	–24,275
Financial items	**639**	11,417
	734	6,092
Change in working capital		
Change in inventories	**824**	–3,641
Change in current receivables	**–5,844**	–3,479
Change in current liabilities	**5,225**	2,440
	205	–4,680
Total funds provided	**939**	1,412
Investments in fixed assets		
Investments in machinery and equipment	**–9,824**	–1,534
Investments in convertible debentures	**–2,908**	–4,982
	–12,732	–6,516
Financing		
Change in long-term liabilities	**7,584**	–7
Translation differences	**2,177**	1,196
Change in liquid funds	**–2,032**	–3,915

Parent Company Statement of Income

Amounts in SEK 000s	Note	1997	1996
Other revenue		**128**	56
		128	56
Operating expenses	1		
Other external expenses		**–3,754**	–3,563
Personnel costs	3	**–999**	–799
Depreciation of tangible fixed assets	4	**–45**	–28
Operating result		**–4,670**	–4,334
Result from financial investments			
Result from the sale of warrants		**–**	10,200
Interest income		**935**	972
Interest expense		**–411**	–
Exchange rate differences		**–3**	2
Result after financial items		**–4,149**	6,840
Allocations			
Group contribution rendered		**–143**	–311
Result before taxes		**–4,292**	6,529
Taxes	5	**–**	–
Result for the year		**–4,292**	6,529

Parent Company Balance Sheet

Assets

Amounts in SEK 000s	Note	**1997**	1996
Fixed assets			
Tangible fixed assets			
Machinery and equipment	4	**106**	29
Financial fixed assets	6		
Shares and participations in Group companies	7	**95,772**	95,726
Receivables from Group companies		**89,976**	80,134
Shares and participations in other companies	7	**66,267**	66,267
Receivables from other companies	8	**7,890**	4,982
Total fixed assets		**260,011**	247,138
Current assets			
Current receivables			
Other receivables		**256**	171
Prepaid expenses and accrued income		**1,362**	473
		1,618	644
Cash and bank balances		**1,965**	8,648
Total current assets		**3,583**	9,292
Total assets		**263,594**	256,430

Stockholders' equity and liabilities

Amounts in SEK 000s	Note	**1997**	1996
Stockholders' equity	9		
Restricted equity			
Share capital 9,251,176 shares par value SEK 25	10	**231,279**	231,279
Statutory reserve		**121,025**	121,025
Accumulated loss			
Loss carried forward		**–118,722**	–125,251
Result for the year		**–4,292**	6,529
Total stockholders' equity		**229,290**	233,582
Provisions			
Provisions for adjustment of the value of biotechnology assets		**21,323**	21,323
Long-term liabilities			
Liabilities to credit institutions	11	**7,584**	–
Current liabilities			
Liabilities to credit institutions	11	**3,792**	–
Accounts payable		**72**	129
Other liabilities		**41**	22
Accrued expenses and prepaid income	12	**1,492**	1,374
Total current liabilities		**5,397**	1,525
Total stockholders' equity and liabilities		**263,594**	256,430
Assets pledged	11	**58,808**	58,808
Contingent liabilities	11		

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

Parent Company Funds Statement

Amounts in SEK 000s	**1997**	1996
Funds provided from operations		
Operating revenue	**128**	56
Operating expenses	**–4,896**	–4,673
Financial items	**521**	11,174
	–4,247	6,557
Change in working capital		
Change in current receivables	**–974**	–302
Change in current liabilities	**3,872**	–2
	2,898	–304
Total funds provided	**–1,349**	6,253
Investments in fixed assets		
Investments in machinery and equipment	**–122**	–4
Investments in shares	**–46**	0
Investments in convertible debentures	**–2,908**	–4,982
	–3,076	–4,986
Financing		
Change in long-term receivables	**–9,842**	0
Change in long-term liabilities	**7,584**	61
	–2,258	61
Change in liquid funds	**–6,683**	1,328

Accounting Principles and Notes

ACCOUNTING AND VALUATION PRINCIPLES

With effect from 1997 the new EU-adapted Annual Accounts Act has been applied. For the company this has primarily entailed changes in the structure of the income statement and balance sheet. The income statements and balance sheets of comparative years have been adjusted in accordance with the new rules.

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. BMPI Liquidating Trust is reported in accordance with the proportional method, since the owners of the trust have rights and responsibilities in relation to their holdings.

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.

Provisions 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.

Research and development

Costs for research and development are charged as they arise.

Note 1 – Research and Development Costs

SEK 000s	**1997**	1996
Parent Company	**244**	548
Subsidiary	**8,500**	7,162
Total Group	**8,744**	7,710

Note 2 – Leasing contracts

Group

SEK 000s	Machinery and equipment	Buildings and premises
Fees falling due in		
1998	54	1,701
1999	54	1,701
2000	20	1,041
Falling due after 2000	–	466
The year's rental fees amounted to	54	1,540

Note 3 – Board of Directors and Personnel

Salaries and remuneration

	Board of Directors and President		Other employees		Average no. of employees	
SEK 000s	**1997**	1996	**1997**	1996	**1997**	1996
Parent Company	**903**	841	**102**	–	**1**	1
Subsidiary						
–Sweden	**141**	141	**–**	–	**1**	1
–U.K.	**694**	689	**5,881**	4,064	**27**	25
Group total	**1,738**	1,671	**5,983**	4,064	**29**	27

Of the number of employees, 12 are men and 17 are women (14 men and 13 women).

Social insurance fees and pension costs

	Group		Parent Company	
SEK 000s	**1997**	1996	**1997**	1996
Sweden				
Social insurance fees	**363**	358	**319**	294
Pension costs	**73**	63	**73**	63
U.K.				
Social insurance fees	**582**	426	**–**	–
Pension costs	**228**	166	**–**	–
Total social insurance fees and pension costs	**1,246**	1,013	**392**	357

Of the Group's pension costs, SEK 97,000 (81,000) referred to the Board of Directors and the President. The corresponding costs in the Parent Company amounted to SEK 73,000 (63,000).

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 35,000 (120,000) 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 1997. 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.

Note 4 – Tangible Fixed Assets

SEK 000s	Group	Parent Company
Opening acquisition value	29,461	737
Acquisitions during the period	9,865	123
Disposals	–216	–
Closing acquisition value	39,110	860
Opening depreciation	22,462	709
Disposals	–176	–
Depreciation during the period	3,363	45
Closing accumulated depreciation	25,649	754
Book value	13,461	106

Note 5 – Taxes

The Parent Company's unutilized loss carryforwards on December 31, 1997 amounted to approximately MSEK 147 (December 31, 1996: approximately MSEK 143). The subsidiary Fermentech Medical Ltd.'s loss carryforwards on December 31, 1997 amounted to approximately MSEK 158.

Note 6 – Financial Fixed assets

SEK 000s	Group	Parent Company
Opening acquisition value	113,464	278,622
New issues in subsidiaries	–	46
Acquisition of convertible debentures	2,908	2,908
Translation difference	510	–
Loans to subsidiaries	–	9,842
Closing accumulated acquisition value	116,882	291,418
Opening depreciation	37,186	31,513
Depreciation during the period	–	–
Closing accumulated depreciation	0	31,513
Book value	79,696	259,905

Note 7 – Shares and Participations, fixed assets

(SEK 000s or 000s of the respective currency)	Number	Share of capital and votes, %	Org. no.	Domicile	Nominal value	Book value Dec. 31, 1997
Swedish companies						
Gramma Diagnostik AB	920	92	556321-1209	Stockholm	92	96
Trion Forsknings- och Utvecklings AB (TRION)	10,000	100	556248-3189	Stockholm	100	100
Foreign companies						
Fermentech Medical Ltd.	6,714,635	97	1506975	Woking, GB	GBP 6,715	58,808
BMPI Liquidating Trust	30,794,364	58	84-6252082	Boulder, U.S.	USD –	36,768
Book value in the Parent Company						95,772
Other Swedish companies						
BioNative AB	4,760	24	556253-7877	Umeå	476	4,750
InRo Biomedtek AB	200	33	556228-0650	Umeå	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	10			USD –	47,798
Book value in Parent Company						66,267
BioStar, Inc.	3,557,143				USD –	5,539
BioStar, Inc. conditional convertible of USD 8,000,000						0
Book value in the Group						71,806

For more information on the above companies, see pages 8–16.

Note 8 – Receivables, other companies

	Group		Parent Company	
SEK 000s	**1997**	1996	**1997**	1996
Convertible notes, BioStar, Inc.	**7,890**	4,982	**7,890**	4,982

Note 9 – Share Capital

Group

SEK 000s	Share capital	Restricted reserves	Accumulated loss	Net result for the year
January 1, 1997	231,279	128,655	–270,816	4,660
Distribution of earnings			4,660	–4,660
Translation difference		10,875	–7,559	
Net result for the year				–2,453
December 31, 1997	231,279	139,530	–273,715	–2,453

Parent Company

SEK 000s	Share capital	Statutory reserve	Accumulated loss	Net result for the year
January 1, 1997	231,279	121,025	–125,251	6,529
Distribution of earnings			6,529	–6,529
Net result for the year				–4,292
December 31, 1997	231,279	121,025	–118,722	–4,292

Note 10 – 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 11 – Liabilities to credit institutions, assets pledged and contingent liabilities

Skandigen has raised a loan from a credit institution, of which SEK 3,792,000 falls due in 1998, SEK 3,792,000 in 1999 and SEK 3,792,000 in the year 2000. As collateral, all the shares in the subsidiary Fermentech Medical Ltd. have been pledged.

In addition, Skandigen has a credit facility of MSEK 10 and the subsidiary Fermentech Medical Ltd. has a credit facility of GBP 100,000. As collateral for the latter, Skandigen has signed a guarantee.

Note 12 – Accrued expenses and prepaid income

	Group		Parent Company	
SEK 000s	**1997**	1996	**1997**	1996
Concultancy fees	**1,019**	2,945	**–**	–
Sample goods	**1,733**	1,315	**–**	–
Other	**3,006**	1,994	**1,492**	1,374
Total	**5,758**	6,254	**1,492**	1,374

Auditors' Report

TO THE GENERAL MEETING OF SHAREHOLDERS IN SKANDIGEN AB (PUBL), REGISTRATION NUMBER 556235-4141

We have audited the Parent Company and the Consolidated Financial Statements, the accounts and the administration of the Board of Directors and the President of Skandigen AB (publ) for 1997. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. Those Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any Board member or the President or whether they have in some other way acted in contravention of the Swedish Companies Act, the Swedish Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

In our opinion, the Parent Company and the Consolidated Financial Statements have been prepared in accordance with the Annual Accounts Act, and, consequently we recommend

that the income statements and the balance sheets of the Parent Company and the Group be adopted, and

that the loss of the Parent Company be dealt with in accordance with the proposal in the Administration Report.

In our opinion, the Board members and the President have not committed any act or been guilty of any omission, which could give rise to any liability to the Company. We therefore recommend

that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, April 3, 1998

Ernst & Young AB
Torbjörn Hanson
Authorized Public Accountant

Biotechnology Holdings

	Holding/ investment	*Operations*	*Application*	*Phase*
Subsidiary				
Fermentech Medical Ltd.	97%/MSEK 148.9	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 0.1	Diagnostics	Whooping cough Pneumonia Helicobacter pylori	Commercial Commercial Commercial
TRION AB	100%/MSEK 0.1	Patent administration	Peptides	
Total subsidiaries	MSEK 185.9			
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 18.2 and 12% through BMPI. Total holding, 16%	Diagnostics	Group A Streptococcus Group B Streptococcus Chlamydia Influenza	Commercial Commercial Commercial Clinical
SIBIA Neurosciences, Inc.	10%/MSEK 47.8	Drug discovery	Parkinson's Alzheimer's Epilepsy	Clinical Preclinical Preclinical
Sepragen Corporation	2%/MSEK 2.4	Separation/purification	Chromatography Protein purification	Commercial
Total foreign companies	MSEK 68.4			
Total biotechnology holdings	MSEK 260.0			

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, U.S.
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, among others.
Stockholding with family and company: 285,230 shares.

ANKI FORSBERG
Born 1957. LL.B.
Director since 1996.
President of Skandigen AB.
Director of Atle 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 Amersham Pharmacia Biotech Ltd., Pharmacia Diagnostics AB and Teknikhöjden AB, among others.
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

Skandigen's nomination committee consists of Ove Rydin, Henrik Wiman and Gunnar Ekdahl.

Description of Clinical Phases and Dictionary

DESCRIPTION OF CLINICAL PHASES

Preclinical phase Development of a compound prior to testing in humans.

Clinical phases:

Phase I Trials of a compound in healthy volunteers. Primarily aimed at studying the body's metabolism of the drug and tolerance of the substance.

Phase II Initial trials in patients with the disorder the compound is designed to treat. Among other things, these trials include dosage, effect and profiling of side effects.

Phase III Studies in a large number of patients in order to statistically prove the clinical effects, etc. The results of the trials form a basis for a registration application.

DICTIONARY

Antibody Immunoagent produced by antigens, for example in allergic reactions.

Biopolymer A naturally occurring compound comprising large molecules which themselves are made up of simple repeating molecules.

In vivo Within a living organism.

Molecular 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.

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.

Separation Technology used to isolate and extract interesting substances from biological material.

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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