



## YEAR-END REPORT 2004

- Strong sales in Europe and a recovery in Japan in the fourth quarter all but compensated for a continuing weakness in the Americas. Total sales in the final quarter 2004 amounted to SEK 158.6 million (160.8). For the full-year 2004, sales were SEK 495.8 million (515.5), a decline of 4%. Excluding currency effects, full-year sales increased by 4%.
- Operating income for the fourth quarter amounted to SEK 14.3 million (54.7) after non-recurring costs of SEK 32 million related to the successfully implemented turnaround program, defined in the Strategic Business Review. After total non-recurring costs of SEK 90 million, an operating loss of SEK 5.1 million (+29.5) was recorded for the full-year 2004.
- Biacore is rapidly expanding its unique product portfolio for protein interaction analysis. The strategic roll-out of the array technology was initiated in late 2004, following a deal with AIST, a major Japanese research institute focused on proteomics. In early February 2005, the new Biacore<sup>®</sup>T100 was launched at the Association of Biomolecular Resource Facilities (ABRF).
- The progress that Biacore has made in the final months of 2004 combined with an anticipated return to profitability in 2005 has allowed the Board to propose an unchanged dividend of SEK 3.00 per share for 2004.
- In 2005, Biacore anticipates achieving an increase in sales and returning to historic levels of profitability with variations between the quarters being exaggerated by the launch of Biacore<sup>®</sup>T100 in the first quarter.

	January - December			October - December		
	2004	2003	Change	2004	2003	Change
Sales, SEK million	<b>495.8</b>	515.5	-4%	<b>158.6</b>	160.8	-1%
Operating income (loss), SEK million	<b>-5.1</b>	29.5		<b>14.3</b>	54.7	-74%
Operating margin, %	<b>-1</b>	6		<b>9</b>	34	
Income (loss) after financial items, SEK million	<b>-0.1</b>	41.4		<b>16.5</b>	57.0	-71%
Net income (loss), SEK million	<b>-4.1</b>	44.3		<b>20.6</b>	55.4	-63%
Diluted earnings (loss) per share, SEK	<b>-0.42</b>	4.53		<b>2.11</b>	5.67	-63%

**Erik Walldén, President and CEO of Biacore**, commenting on the results said: "I am very encouraged by the strong performance that we achieved in the second half of 2004, following a decline of both sales and earnings in the first six months. The speed of the turnaround highlights the Company's strengths, based on its world-leading position in the field of protein interaction analysis. The good sales growth in Europe and Japan combined with the introduction of Biacore<sup>®</sup>T100, gives me confidence that we will achieve increased revenues in 2005. This sales growth in conjunction to the actions that we have taken over the last several months to reduce costs should enable us to return quickly to historic levels of profitability."

## OPERATIONAL REVIEW

*Amounts stated in this report pertain to the Biacore Group, unless indicated otherwise. Figures in parentheses refer to the corresponding period in 2003.*

### Sales

Biacore's fourth quarter demonstrated the resilience of the Company's business. Sales in the final three months of 2004 fell by just 1% to SEK 158.6 million (160.8) with higher revenues in Europe and Japan being offset by lower sales in the U.S. and adverse currency effects. For the full-year 2004, sales fell by 4% to SEK 495.8 million (515.5) despite increased revenues in Europe. This strong performance in Europe was offset by lower sales in the U.S. and Asia-Pacific as well as adverse currency movements. Excluding currency effects, sales in 2004 increased by 4%.

Biacore's European business continued to do well in the final quarter of 2004 with sales increasing 18% to SEK 50.9 million (43.2). During the course of 2004, European sales have increased by 36% to SEK 185.2 million (136.5) due to improved sales processes and a more positive funding environment for both academic and industrial customers. Each of these major customer groups contributed to the growth of Biacore's European business in 2004.

In the U.S., Biacore's sales in the fourth quarter fell by 24% to SEK 52.5 million (69.4), mainly due to the weakness of the U.S. dollar and poor sales productivity. In 2004, Biacore's sales in the Americas fell by 19% to SEK 186.2 million (228.6) due to adverse currency effects, the academic funding environment being weaker than had been anticipated and deficiencies in the Company's sales organization which are now being addressed. Sales declines were seen from both pharmaceutical and academic customers. However, the biotech sector had a better year due to the improved funding environment. Excluding currency effects, the decline was 4%.

In Japan, the fourth quarter saw the first clear signs that the market was recovering from the difficulties of the last twelve months, caused by changes to the funding of the country's academic research. As a result, Biacore's sales in the final three months of the year in the Asia-Pacific increased by 15% to SEK 55.2 million (48.2). However, over the course of 2004, sales in the Asia-Pacific region fell by 17% to SEK 124.4 million (150.4) with a strong performance in the remainder of the region failing to offset the difficulties in Japan in the earlier part of the year.

Consumables and service accounted for 32% of total sales.

Sales were divided geographically as follows:

SEK million	January - December			October - December		
	2004	2003	Change	2004	2003	Change
Americas	<b>186.2</b>	228.6	-19%	<b>52.5</b>	69.4	-24%
Europe	<b>185.2</b>	136.5	36%	<b>50.9</b>	43.2	18%
Asia-Pacific	<b>124.4</b>	150.4	-17%	<b>55.2</b>	48.2	15%

### Income

The gross margin for the full-year 2004 was 76% (82). The margin was affected by restructuring costs of SEK 5.2 million.

Total costs for marketing, administration and research and development increased by 22% in the fourth quarter to SEK 102.6 million (84.3). This increase was largely due to non-recurring items from the organizational changes resulting from the Strategic Business Review.

For the full-year 2004, marketing expenses increased by 9% to SEK 180.0 million (165.4). Of this amount, non-recurring items related to the Review accounted for SEK 14.6 million. Affected by non-recurring costs of SEK 19.5 million, administration costs increased by 9% to SEK 77.7 million (71.1). R&D costs as reported in the income statement increased by 48% to SEK 116.5 million

(78.6). In 2004, R&D costs included SEK 44.5 million in write-down of the book value of the array technology and SEK 3.0 million in amortization of capitalized R&D expenses. Also in 2004, SEK 56.8 million, largely related to the development of the new array system, was capitalized. Thus, total R&D spending in 2004 increased to SEK 125.8 million (122.9).

In the fourth quarter of 2004, Biacore achieved an operating profit of SEK 14.3 million (54.7) despite restructuring costs of SEK 32 million relating to the organizational changes following the Strategic Business Review. For the full-year 2004, Biacore incurred an operating loss of SEK 5.1 million (+29.5), entirely due to restructuring costs. These included the SEK 44.5 million write-down of the balance sheet value of capitalized R&D relating to the new array technology, SEK 32 million of costs to cover organizational changes and SEK 13 million in severance costs relating to senior management changes. In 2003, operating income included costs of SEK 58.5 million for the discontinuation of the Procel™ product line.

Currency differences during 2004 amounted to SEK -4.1 million (-14.7) in 'Other income and expenses'.

As a result of the geographical distribution of earnings, a tax gain of SEK 4.1 million is reported in the fourth quarter 2004.

Biacore achieved a net profit of SEK 20.6 million (55.4) in the fourth quarter, leading to diluted earnings per share of SEK 2.11 (5.67). For 2004 as a whole, Biacore made a net loss of SEK 4.1 million compared with a net profit of SEK 44.3 million in 2003. The loss per share in 2004 was SEK 0.42 (+4.53).

### **Investing activities**

During 2004, capital expenditures totaled SEK 10.6 million (16.4).

### **Personnel**

In July 2004, Mr Erik Walldén assumed the new position of President and CEO of Biacore.

At the end of December 2004, Biacore had 327 (346) employees of which 58 had been given notice.

## **NEW ARRAY TECHNOLOGY COMMERCIALIZED**

In October 2004, Biacore announced the signing of the first commercial deal for its new SPR (Surface Plasmon Resonance) array technology with The Biological Information Research Center (BIRC) of The National Institute of Advanced Industrial Science and Technology (AIST), a leading Japanese Life Science Research Center specialized in proteomics. The deal with BIRC-AIST signalled the start of the staged commercialization of this exciting technology which will be managed by a specialist product development team within Biacore that includes key R&D and business development personnel.

Biacore's new array technology is a significant advance as it aims to improve the speed with which detailed protein interaction information can be generated. The initial commercial contract with BIRC-AIST is the first of a number of deals with major pharmaceutical companies and world-leading life science research institutes that Biacore expects to sign during the course of 2005. This first set of commercial agreements is designed to optimize further the range of applications that the technology can be used for, particularly in the field of interaction proteomics.

## **BIACORE®T100 LAUNCHED – NEW HIGH-END SYSTEM FOR ACADEMIA AND INDUSTRY**

Early February 2005 saw Biacore launch its most advanced mainstream system to-date, Biacore®T100, at the Association of Biomolecular Resource Facilities' (ABRF) meeting in Savannah, Georgia, USA. The launch of this system is a very positive development as Biacore®T100 will enable the Company to strengthen its business with both academic and industrial customers based on the system's flexibility to meet a broad range of protein interaction analysis applications. The new system will be used across the life science research spectrum from basic research through drug discovery and development to manufacturing and quality control. Biacore®T100 will complement the new array system that was introduced towards the end of 2004, considerably strengthening Biacore's high-end product offering.

The new Biacore®T100 is designed to provide researchers with the highest quality real-time information possible about how a protein interacts with other proteins, or low molecular weight compounds such as potential drug candidates. This unique information strongly supports confident, well-informed decision-making, for example when elucidating disease pathways, defining therapeutic targets, selecting drug candidates with the greatest chance of success or contributing to decisions on the safety of protein therapeutics in terms of the immune responses they generate. Important applications such as antibody characterization can be completed in days rather than weeks.

Over time, Biacore®T100 is expected to become one of Biacore's best-selling systems. The launch of Biacore®T100 has resulted in the re-positioning of Biacore®3000 for use in the field of proteomics. This is due to the system's specialist interface which allows it to be easily used in combination with a mass spectrometer, thereby allowing the identification of proteins of interest. As a result of this re-positioning, Biacore expects to increase the combined market potential of Biacore®T100 and Biacore®3000.

## **NOMINATIONS COMMITTEE**

The Annual General Meeting has decided to establish a nominations committee with the task to propose to the Annual General Meeting:

1. The number of Board members to be elected.
2. Board members for election.
3. Remuneration to the members of the Board.

Until the Annual General Meeting 2005, the nominations committee consists of the following: Lars-Göran Andrén, chairman of the board; Inger Brattne, Pfizer; Stefan Roos, Handelsbanken Fonder and Thomas Ehlin, Nordeas fonder.

## **ACCOUNTING PRINCIPLES**

In 2004, Statement No. 29 (RR29) Employee Benefits from the Swedish Financial Accounting Standards Council, which includes a new method for calculating provisions for pensions, became effective. As of January 1, 2004, this standard reduced shareholders' equity by SEK 5.6 million. Net income for 2004 was only marginally affected by the new standard.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

As from January 1, 2005, the consolidated accounts of Biacore will be prepared in accordance with IFRS. The tables below summarize the preliminary effects of the adoption of IFRS on earnings for the year ended December 31, 2004 and the changes in shareholders' equity relating to shareholders of the parent company.

Effects in the income statement	2004 according to Swedish GAAP	Effect of IFRS implementation	2004 according to IFRS
Operating income (SEK million)	-5.1	5.7	0.6
Operating margin	-1.0%	1.1%	0.1%
Net income (SEK million)	-4.1	3.8	-0.3
Earnings per share (SEK)	-0.42	0.39	-0.03

Consolidated shareholders' equity, SEK million	2003	2004
Equity according to balance sheet as per December 31, 2003	630.2	
Change in accounting principles <sup>1</sup>	-5.6	
Equity according to Swedish GAAP adjusted for RR 29	624.6	584.8
<i>Effect of implementation of IFRS</i>		
Goodwill	-6.9	-4.3
Financial instruments, hedge of social security costs	-7.0	-6.7
Forward exchange contracts	1.2	3.9
Property, plant and equipment	0.6	1.0
Other	0.2	-0.1
Shareholders' equity according to IFRS	612.7	578.6

<sup>1</sup> Adoption of RR29 / IAS 19 Employee Benefits.

Goodwill in Biacore relates to the establishment of the Japanese marketing and sales organization in 1997. Under IFRS, these costs should have been accounted for as purchases of certain rights and services.

The financial instruments acquired to hedge against social security expenses on stock options do not qualify for hedge accounting under IFRS. Therefore, they are reported at fair value. Under Swedish GAAP, the acquisition costs are amortized according to the straight-line method over their useful lives.

The forward exchange contracts that Biacore uses to hedge against currency risk in sales do not qualify for hedge accounting under IFRS. Therefore, they are reported at market value.

Under IFRS, Biacore shall apply depreciation of components for its property, plant and equipment. Thus, buildings are depreciated according to the useful life of the different components. Under Swedish GAAP, the cost of buildings was depreciated using the straight-line method over the useful life of each building.

Further disclosure on the reconciliation from Swedish GAAP to IFRS will be presented in the annual reports for 2004 and 2005.

## QUARTERLY SALES VARIATIONS

Biacore's total sales during the period 2002-2004 were split between quarters as follows:

Quarter 1	21%	Quarter 3	24%
Quarter 2	25%	Quarter 4	30%

## DIVIDEND

The Board has decided to recommend to the Annual General Meeting an unchanged dividend payment for the financial year 2004 of SEK 3.00 per share.

## OUTLOOK FOR THE FULL-YEAR 2005

In 2005, Biacore anticipates achieving an increase in sales and returning to historic levels of profitability with variations between the quarters being exaggerated by the launch of Biacore®T100 in the first quarter.

The Annual General Meeting will be held on Thursday, April 28, 2005 at 4.30 p.m. in Uppsala.

Uppsala, Sweden, February 17, 2005  
 BIACORE INTERNATIONAL AB (publ)  
 The Board of Directors

## REVIEW REPORT

We have carried out a review of this year-end report in accordance with the recommendation issued by FAR (the Institute for the Accountancy Profession in Sweden). A review is significantly limited in comparison with an audit.

Nothing has come to our attention which would cause us to believe that the year-end report does not meet the requirements of the Annual Accounts Act.

Stockholm, February 17, 2005

PricewaterhouseCoopers AB

Sten Håkansson  
 Authorized Public Accountant

## FINANCIAL INFORMATION

Biacore's Annual Report will be distributed to the shareholders in mid April. The Annual Report will also be available from that time on Biacore's website. During 2005, Biacore plans to release its interim reports as follows:

January – March	Thursday, April 28
January – June	Tuesday, July 19
January – September	Thursday, October 20

*Biacore is a global supplier of analytical systems that improve the productivity of research and development in the life science and pharmaceutical markets. The company's instruments generate unique data on protein interactions, an area of increasing focus in these markets. The data give insights into protein functionality, the role of proteins in normal and diseased states, and the influence of potential drug candidates.*

*Use of Biacore products is well-documented in key areas such as antibody characterization, proteomics, lead optimization and bio-therapeutic development and production. Customers include world renown life science research centers, all of the leading global pharmaceutical companies and a large number of companies in the emerging biotechnology sector.*

*Biacore is successfully expanding into the food analysis market, providing key manufacturers with ready-to-use solutions for the determination of food quality and safety.*

*The company offers a range of products to meet specific customer needs. All instruments utilize Surface Plasmon Resonance (SPR) technology as the basis for detection and monitoring of protein interactions.*

*Biacore has its own direct sales capability in the world's key markets, United States, Europe, Japan, Australia and a distribution network in Asia-Pacific. The company was created in 1984, is based in Uppsala, Sweden, and is listed on the Stockholm Stock Exchange [www.stockholmsborsen.se](http://www.stockholmsborsen.se) (SSE:BCOR).*

*This report contains certain forward-looking statements which, by their nature, involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. Accordingly, investors and shareholders are urged not to place undue reliance on these statements.*

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(SSE: BCOR; Reuters: BCOR.N)

SEK million	January-December			October-December		
	2004	2003	Change	2004	2003	Change
<b>Sales</b>	<b>495.8</b>	<b>515.5</b>	-4%	<b>158.6</b>	<b>160.8</b>	-1%
Cost of sales	-119.1	-94.0	27%	-37.2	-22.5	65%
Marketing	-180.0	-165.4	9%	-54.4	-45.2	20%
Administration	-77.7	-71.1	9%	-24.8	-17.2	44%
Research and development	-116.5	-78.6	48%	-23.4	-21.9	7%
Other income and expenses	-3.6	-14.4		-3.5	-4.5	
Amortization of goodwill	-4.0	-4.0		-1.0	-1.0	
Discontinuation of Procel™	-	-58.5		-	6.2	
<b>Operating income (loss)</b>	<b>-5.1</b>	<b>29.5</b>	-117%	<b>14.3</b>	<b>54.7</b>	-74%
Financial items, net	5.0	11.9		2.2	2.3	
<b>Income (loss) after financial items</b>	<b>-0.1</b>	<b>41.4</b>	-100%	<b>16.5</b>	<b>57.0</b>	-71%
Income taxes	-3.9	2.9		4.1	-1.5	
Minority interest	-0.1	-		-	-0.1	
<b>Net income (loss)</b>	<b>-4.1</b>	<b>44.3</b>		<b>20.6</b>	<b>55.4</b>	
Basic earnings (loss) per share, SEK	-0.42	4.55		2.11	5.69	
Diluted earnings (loss) per share, SEK	-0.42	4.53		2.11	5.67	
No. of shares, average, diluted, thousands	9,750	9,787		9,750	9,767	
Net income (loss)	-4.1	44.3		20.6	55.4	
Stock options issued	-	1.1		-	0.6	
Change in accounting principles, RR29 Employee Benefits	-5.6	-		-0.8	-	
Dividend	-29.3	-29.3		-	-	
Currency translation differences	-6.4	-20.6		-6.7	-1.4	
Change in shareholders' equity	-45.4	-4.5		13.1	54.6	

## Quarterly Income Statements

SEK million	Oct.-Dec. 2004	July-Sept. 2004	April-June 2004	Jan.-Mar. 2004	Oct.-Dec. 2003	July-Sept. 2003	April-June 2003	Jan.-Mar. 2003
	2004	2004	2004	2004	2003	2003	2003	2003
<b>Sales</b>	<b>158.6</b>	<b>134.6</b>	<b>107.3</b>	<b>95.3</b>	<b>160.8</b>	<b>105.7</b>	<b>142.5</b>	<b>106.5</b>
Cost of sales	-37.2	-29.0	-28.6	-24.3	-22.5	-18.4	-28.8	-24.3
Marketing	-54.4	-42.8	-44.9	-37.9	-45.2	-38.5	-43.1	-38.6
Administration	-24.8	-24.6	-15.4	-12.9	-17.2	-19.7	-18.8	-15.4
Research and development	-23.4	-57.0	-17.1	-19.0	-21.9	-18.9	-19.3	-18.5
Other income and expenses	-3.5	-	-1.7	1.6	-4.5	-2.1	-3.2	-4.6
Amortization of goodwill	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Discontinuation of Procel™	-	-	-	-	6.2	-64.7	-	-
<b>Operating income (loss)</b>	<b>14.3</b>	<b>-19.8</b>	<b>-1.4</b>	<b>1.8</b>	<b>54.7</b>	<b>-57.6</b>	<b>28.3</b>	<b>4.1</b>
Financial items, net	2.2	0.6	0.7	1.5	2.3	1.5	3.2	4.9
<b>Income (loss) after financial items</b>	<b>16.5</b>	<b>-19.2</b>	<b>-0.7</b>	<b>3.3</b>	<b>57.0</b>	<b>-56.1</b>	<b>31.5</b>	<b>9.0</b>
Income taxes	4.1	-5.7	-1.5	-0.8	-1.5	10.6	-4.6	-1.6
Minority interest	-	-0.2	-	0.1	-0.1	-	-	0.1
<b>Net income (loss)</b>	<b>20.6</b>	<b>-25.1</b>	<b>-2.2</b>	<b>2.6</b>	<b>55.4</b>	<b>-45.5</b>	<b>26.9</b>	<b>7.5</b>
Basic earnings (loss) per share, SEK	2.11	-2.57	-0.23	0.27	5.69	-4.67	2.76	0.77
Diluted earnings (loss) per share, SEK	2.11	-2.57	-0.23	0.27	5.67	-4.67	2.75	0.77
No. of shares, average, diluted, thousands	9,750	9,750	9,750	9,772	9,767	9,750	9,773	9,770

## Sales by region

SEK million	Jan.-Dec. 2004	Jan.-Dec. 2003	Oct.-Dec. 2004	July-Sept. 2004	April-June 2004	Jan.-Mar. 2004	Oct.-Dec. 2003	July-Sept. 2003	April-June 2003	Jan.-Mar. 2003
	2004	2003	2004	2004	2004	2004	2003	2003	2003	2003
Americas	186.2	228.6	52.5	45.7	40.0	48.0	69.4	52.8	65.2	41.2
Europe	185.2	136.5	50.9	52.3	47.7	34.3	43.2	22.6	39.8	30.9
Asia-Pacific	124.4	150.4	55.2	36.6	19.6	13.0	48.2	30.3	37.5	34.4
	<b>495.8</b>	<b>515.5</b>	<b>158.6</b>	<b>134.6</b>	<b>107.3</b>	<b>95.3</b>	<b>160.8</b>	<b>105.7</b>	<b>142.5</b>	<b>106.5</b>



SEK million	December 31	
	2004	2003
Intangible assets	71.7	70.0
Property, plant and equipment	104.6	111.9
Long-term investments	0.5	1.0
Other long-term assets	21.8	23.8
Other current assets	240.8	260.2
Liquid funds	363.9	352.5
<b>Total assets</b>	<b>803.3</b>	<b>819.4</b>
Shareholders' equity	584.8	630.2
Minority interest	0.8	0.8
Provisions	85.2	80.6
Liabilities	132.5	107.8
<b>Total shareholders' equity and liabilities</b>	<b>803.3</b>	<b>819.4</b>

### Financial structure

Operating capital	270.5	306.0
Long-term investments	0.5	1.0
Net interest-bearing assets	314.4	312.3
Net payable and deferred income tax asset	0.2	11.7
Minority interest	-0.8	-0.8
<b>Shareholders' equity</b>	<b>584.8</b>	<b>630.2</b>

### Biacore Consolidated Statements of Cash Flows

SEK million	January-December	
	2004	2003
Net income	-4.1	44.3
Less: Depreciation and amortization	36.8	31.8
Less: Write-downs, reversal of write-downs, gains and losses	35.6	44.7
Change in working capital	47.1	-19.2
Other	-7.6	-14.9
<b>Cash flows from operating activities</b>	<b>107.8</b>	<b>86.7</b>
Purchase of intangible assets	-56.9	-50.1
Purchase of property, plant and equipment	-10.6	-16.4
Sales of property, plant and equipment	1.3	-
Sales of long-term investments	-	11.0
<b>Cash flows from investing activities</b>	<b>-66.2</b>	<b>-55.5</b>
Repayment of loan	-0.9	-1.0
Dividend	-29.3	-29.3
<b>Cash flows from financing activities</b>	<b>-30.2</b>	<b>-30.3</b>
<b>Net change in liquid funds</b>	<b>11.4</b>	<b>0.9</b>

### Key figures

Operating margin	-1.0%	5.7%
Return on operating capital	-1.8%	9.3%
Return on equity	-0.7%	7.0%
Equity ratio	73%	77%
Shareholders' equity per share, diluted, SEK	59.98	64.34
No. of shares, thousands	9,750	9,750
No. of shares, end of period, diluted, thousands	9,750	9,794
No. of shares, average, diluted, thousands	9,750	9,787