



Biolipox Interim Report, January - June 2006

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- Earnings after tax for the first six months amounted to SEK -33.5 million (loss: 53.3). For the second quarter earnings after tax amounted to SEK -16.7 million (loss: 28.9).
- Earnings per share for the first six months was SEK -47.35 (loss: 66.33). For the second quarter earnings per share was SEK -23.69 (loss: 35.56).
- Cash flow for the first six months was positive and amounted to SEK 3.6 million (89.5). For the second quarter cash flow was negative and amounted to SEK -13.4 million (negative: 23.7).
- Drug development projects advance according to plan
- Biolipox strengthens the R&D organization

Forthcoming financial information

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Biolipox's interim report 1 January – 30 June, 2006 is presented on the following pages.

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

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Drug development projects advance according to plan

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

The project, that is being developed in collaboration with Boehringer Ingelheim GmbH, Germany, aims at developing a new, effective medicine for inhibiting pain, inflammation and fever, with fewer side effects than existing drugs. It is based on the discovery of a specific enzyme, PGE₂ synthase (mPGES), which is involved in the production of prostaglandin E₂, an endogenous substance that is central to various inflammatory processes. Several series of molecules are developed in parallel to obtain the optimal properties for a drug. A patent portfolio with potential drug candidates has been built.

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

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

Sales of non steroidal anti-inflammatory drugs in 2004 amounted to more than USD 16.6 billion (Source: SG Cowen & Co, Therapeutic Category Outlook, October 2005).

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

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

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

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

Asthma is a chronic inflammatory disease that affects 6 to 8 percent of the adult population and about 10 percent of the children in the western world. It causes chest symptoms such as shortness of breath, coughing and wheezing. As a result of a contraction of the respiratory muscles and increased mucus production, an acute episode of shortness of breath is experienced. In the more severe cases, such episodes are medical emergencies.

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

The market for asthma and COPD drugs amounted to USD 14.4 billion in 2004 (Source: SG Cowen & Co, Therapeutic Category Outlook, October 2005).

NLA Nasal Spray - Rapid onset of effect for treatment of allergic and non-allergic rhinitis

In a phase II study, a nasal spray for treatment of allergic and non-allergic rhinitis has shown rapid onset of effect. With a rapid onset of effect, therapy can be initiated on-demand. Local nasal therapy also reduces the risk of systemic side effects such as sedation.

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

Sales of drugs for treatment of rhinitis amounted to USD 6.6 billion in 2004 (Source: SG Cowen & Co, Therapeutic Category Outlook, October 2005).

Biolipox strengthens the R&D organization

Biolipox strengthened its R&D organization during the first six months of 2006 with six new employees, whereof two with a PhD. The company now has 45 employees, of whom 40 people work in the R&D organization.

Revenues and costs January – June 2006

Revenues and costs

Revenues

Revenues for the period amounted to SEK 22.0 million (0), of which SEK 11.0 million (0) the second quarter. The income comprises research funding related to Biolipox' selective PGE₂ inhibitor project with Boehringer Ingelheim.

Research and development

Research and development costs for the first six months 2006 increased by 10 percent to SEK 44.2 million (40.0). For the second quarter they increased to SEK 22.6 million (20.6), corresponding to a 10 percent increase. Increased costs are mainly due to strengthening of the internal research and development organisation.

Of the total R&D costs during the period, SEK 12.3 million (14.3) are related to contract research and costs for external pharmaceutical and pre-clinical development.

Administration

For the first six months, administrative expenses increased by 28 percent to SEK 15.5 million (12.1). During the second quarter, administrative expenses increased by 40 percent to SEK 8.4 million (6.0). The increase is principally due to business development costs and costs for the company's stock option plans, which according to IFRS are charged against earnings (this is further explained under Accounting principles).

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

Personnel

During the first six months personnel costs amounted to SEK 29.0 million (26.0), an 11 percent increase. The number of employees at the end of the period was 45 (42) while the average number of employees amounted to 41 (39). The cost increase is, besides the increase in number of employees, mainly due to recruiting costs and costs for the company's incentive program.

Other

Other operating income amounted during the period to SEK 1.1 million (0.6), mainly comprising invoiced compensation for counselling provided to other companies, exchange gains arising on accounts receivable and accounts payable in foreign currency, and grants from the EU regarding the EICOSANOX project. The increase in other operating income is primarily due to increased positive exchange differences. Other operating costs amounted to SEK 0.6 million (0.2) consisting of exchange losses arising on accounts receivable and

accounts payable in foreign currency. The net of exchange gains and exchange losses amounted to SEK -0.2 million (loss: 0.2).

Depreciation

Depreciation in an amount of SEK 1.5 million (1.0) was charged against earnings. Depreciation relates to tangible fixed assets, mainly instruments, computers and equipment.

Net financial income

The Group's net financial income amounted to SEK 3.6 million (negative: 1.6). The net financial income comprises interest income from bank balances and short-term investments, and exchange gains and losses on forward exchange agreements.

Earnings

Net loss for the period amounted to SEK 33.5 million (loss: 53.3). The improved result is mainly due to the fact that the company's net revenue has increased from SEK 0 to 22.0 million while the company's combined costs for R&D and administration has increased by SEK 7.6 million.

Investments and cash-flow

The cash flow for the first six months of 2006 was positive and amounted to SEK 3.6 million (positive: 89.5). The cash-flow for the second quarter was negative at an amount of SEK 13.4 million (negative: 23.7).

Cash-flow from operating activities was positive at an amount of SEK 5.9 million (negative: 44.5) for the period and negative at an amount of SEK 13.1 million (negative: 23.6) for the second quarter. During the period a substantial decrease in working capital, SEK 34.1 million, had a positive effect and the company's loss had a negative effect on cash flow. The decrease in working capital is mainly due to a withheld preliminary tax being refunded from foreign tax authorities.

Investing activities pertaining to capital investments in machinery and equipment, mainly research instruments for the company's laboratories and to some extent computers and office equipment, used cash of SEK 6.6 million (0.4) during the first six months.

Financing activities provided cash of SEK 4.3 million during the first six months, from new financial leasing agreements. During the corresponding period previous year, financing activities provided cash of SEK 134.4 million due to proceeds from a new share issue.

The group's liquid funds on 30 June 2006, including bank balances and short term investments, amounted to SEK 190.8 million (120.1).

Personnel

At 30 June 2006 Biolipox had 45 employees, of whom 39 were employed full-time and 6 employees were employed part-time. Out of those 45 employees, 40 employees were engaged in the company's research and development and 5 employees were engaged in accounts and finance, business development and management.

Business segments

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

Contingent assets and liabilities

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

Post-statement events

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

Accounting principles

As from the fiscal year 2006 Biolipox applies International Financial Reporting Standards (IFRS). This report has been prepared in accordance with IAS 34 Interim Reports. The transition to IFRS accounting has resulted in the following changes:

- Share-based incentive programs are being expensed (IFRS 2)
Present stock option plans give the right to purchase shares. Their value at grant date is determined using Black & Scholes valuation technique, it is distributed over the vesting period and accounted for as personnel costs. The corresponding amount is simultaneously accounted for as an increase of equity. Provisions for social costs related to the stock option plans are based on the fair value of the options at the end of the reporting period.
- Forward exchange agreements are accounted for at fair value (IAS 39)
According to IAS 39, the company's hedging does not qualify for hedge accounting, meaning that from 1 January 2006, unrealized gains and losses from hedging are recognized as financial items on the income sheet.

Comparative figures relating to previous accounting periods have been restated according to the new accounting principles.

All other accounting principles, valuation principles and calculation methods remain unchanged compared with those applied when compiling the annual report for the 2005 fiscal year.

Consolidated income statement

Amount in SEK millions	Jan-Jun 2006	Jan-Jun 2005	Apr-Jun 2006	Apr-Jun 2005	Jan-Dec 2005
Net revenue	22,0	-	11,0	-	147,0
Administrative costs	-15,5	-12,1	-8,4	-6,0	-28,6
Research and development costs	-44,2	-40,0	-22,6	-20,6	-82,7
Other operating revenues	1,1	0,6	0,4	0,2	1,8
Other operating costs	-0,6	-0,2	-0,5	-0,1	-2,0
Operating profit/loss	-37,2	-51,7	-20,1	-26,5	35,4
Profit from net financial items					
Interest income and similar items	5,0	1,3	4,3	0,5	2,1
Interest expense and similar items	-1,4	-2,9	-0,8	-2,9	-2,8
Profit/loss after net financial items	-33,5	-53,3	-16,7	-28,9	34,7
Tax on earnings for the period	-	-	-	-	-
Net profit/loss for the period	-33,5	-53,3	-16,7	-28,9	34,7
Earnings per share, SEK ^{1, 3}	-47,35	-66,33	-23,69	-35,56	7,80
Earnings per share after full dilution, SEK ^{2, 3}	-47,35	-66,33	-23,69	-35,56	3,65
Number of shares at end of period	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000
Average number of shares outstanding	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000
Number of ordinary shares and potential ordinary shares at end of period	13 164 135	12 764 135	13 164 135	12 764 135	12 764 135
Average number of ordinary shares and potential ordinary shares	9 768 436	9 247 845	9 768 436	9 247 845	9 493 186

¹ Earnings per share are based on the average number of ordinary shares outstanding during the period. In calculating the earnings per share for the period, the dividend to which the preferential shares are entitled was taken into consideration, which reduced the period's earnings by SEK 13.8 million (reduction: 13.0). As per 30 June 2006, 8,047,306 (8,047,306) preferential shares were entitled to a cumulative dividend of SEK 67.7 million (40.1).

² Conversion of potential ordinary shares to ordinary shares can, according to IAS 33.43 only give rise to a dilution effect in cases where a conversion causes a decrease in earnings per share. For this reason, no dilution effect occurred during the first six months 2005 or 2006.

³ Comparative figures regarding earnings per share have been restated on account of the transition to IFRS accounting.

Key figures

	30 Jun 2006	30 Jun 2005	31 Dec 2005
Number of employees at end of period	45	42	39
Number of employees, average	41	39	39
Equity/assets ratio, %	80,3%	83,1%	83,8%
Net cash/equity ratio, %	110,5%	111,2%	93,6%
Shareholders' equity per share, SEK	170,22	108,02	199,97
Shareholders' equity per share after full dilution, SEK ⁴	12,93	8,46	15,67
Cash flow per share, SEK	3,60	89,50	0,16
Cash flow per share after full dilution, SEK ⁴⁾	0,37	9,68	0,02

⁴ Shareholders' equity per share after full dilution has been calculated under assumption that all potential ordinary shares have been converted into ordinary shares. No consideration has been taken in regards to change of shareholders' equity at conversion of warrants to ordinary shares.

Consolidated balance sheet

Amount in SEK millions	30 Jun 2006	30 Jun 2005	31 Dec 2005
<i>Fixed assets</i>			
Tangible fixed assets	9.9	4.3	4.8
<i>Total fixed assets</i>	9.9	4.3	4.8
<i>Current assets</i>			
Accounts receivable	2.4	-	41.8
Other receivables	3.4	2.8	2.8
Deferred costs and accrued income	5.5	2.8	2.2
Liquid assets and short-term investments	190.8	120.1	187.2
<i>Total current assets</i>	202.1	125.6	234.0
Total assets	212.0	129.9	238.8
Shareholders' equity	170.2	108.0	200.0
Long-term liabilities	2.8	0.0	0.0
<i>Current liabilities</i>			
Accounts payable, trade	7.6	5.6	9.7
Other short-term liabilities	2.3	1.2	3.0
Accrued costs and deferred income	29.1	15.1	26.1
<i>Total current liabilities</i>	38.9	21.9	38.8
Total shareholders' equity and liabilities	212.0	129.9	238.8

Shareholders' equity

	Share Capital	Other paid-up capital	Retained earnings	Total equity
31 December 2004	0.9	374.5	-215.6	159.8
Effects of adoption of IFRS		3.6	-4.8	-1.3
01 January 2005	0.9	378.1	-220.4	158.6
Net income for the period			-53.3	-53.3
Stock option plans		2.8		2.8
30 June 2005	0.9	380.8	-273.7	108.0
Reduction of premium reserve		-215.6	215.6	0.0
Net income for the period			88.0	88.0
Stock option plans		4.0		4.0
31 December 2005	0.9	169.2	29.9	200.0
Loss for the period			-33.5	-33.5
Stock option plans		3.7		3.7
30 June 2006	0.9	172.9	-3.6	170.2

Consolidated cash-flow statement

Amount in SEK millions	Jan-Jun 2006	Jan-Jun 2005	Apr-Jun 2006	Apr-Jun 2005	Jan-Dec 2005
Cash flow from operating activities ¹	5.9	-44.5	-13.1	-23.6	24.2
Cash flow from investing activities	-6.6	-0.4	-4.6	-0.2	-2.0
Cash flow from financing activities	4.3	134.4	4.3	0.1	134.4
Cash flow for the period	3.6	89.5	-13.4	-23.7	156.6
Liquid funds, opening balance	187.2	30.6	204.2	143.8	30.6
Liquid funds, closing balance	190.8	120.1	190.8	120.1	187.2

¹ Of which, changes in working capital

	34.1	5.1	1.0	3.5	-19.3
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Additional information to the cash-flow statement

Amount in SEK millions	Jan-Jun 2006	Jan-Jun 2005	Apr-Jun 2006	Apr-Jun 2005	Jan-Dec 2005
Interest paid and received					
Interest received and other financial income	2.2	1.3	1.4	0.5	2.1
Interest paid and other financial expense	-1.1	0.0	-0.6	0.0	0.0
Depreciation and write-down of assets	1.5	1.0	0.8	0.5	2.0

Effects from implementing IFRS

The group's transition to accounting according to IFRS is reported according to IFRS 1 First-time Adoption of International Reporting Standards, which prescribes that also the comparative year shall be restated and presented according to IFRS. Financial information relating to fiscal years before 2005 is not reported.

On reviewing all accounting principles it was established that the standards IFRS 2 Share-based Payment and IAS 39 Financial Instruments: Recognition and Measurement involved changes for Biolipox. No further standards have been identified as applicable or involving any effect on the group's financial position and performance.

Adjustment of consolidated income statement related to adoption of IFRS

Amount in SEK millions	Note	Jan - Jun 2005			Jan - Dec 2005		
		Swedish GAAP	Effects of IFRS	IFRS	Swedish GAAP	Effects of IFRS	IFRS
Net revenue		-		-	147,0		147,0
Administrative costs	1	-9,7	-2,4	-12,1	-22,2	-6,4	-28,6
Research and development costs	2	-38,8	-1,3	-40,0	-80,1	-2,6	-82,7
Other operating revenues		0,6		0,6	1,8		1,8
Other operating costs		-0,2		-0,2	-2,0		-2,0
Operating profit/loss		-48,0	-3,7	-51,7	44,4	-9,0	35,4
<u>Result from net financial items</u>	3						
Interest income and similar items		1,3		1,3	2,1		2,1
Interest expense and similar items		0,0	-2,9	-2,9	0,0	-2,8	-2,8
Profit/loss after net financial items		-46,7	-6,6	-53,3	46,5	-11,8	34,7
Tax on earnings for the period		-		-	-		-
Net profit/loss for the period		-46,7	-6,6	-53,3	46,5	-11,8	34,7

	<u>Jan - Jun 2005</u>	<u>Jan - Dec 2005</u>
<u>Note 1 Administrative costs</u>		
Stock option plans, according to IFRS 2	-2,4	-6,4
<u>Note 2 Research and development costs</u>		
Stock option plans, according to IFRS 2	-1,3	-2,6
<u>Note 3 Profit from net financial items</u>		
Unrealized exchange rate difference from forward exchange agreements according to IAS 39	-2,9	-2,8

Adjustment of consolidated balance sheets related to adoption of IFRS

Amount in SEK millions	Note	01 January 2005			30 June 2005			31 December 2005		
		Swedish GAAP	Effects of IFRS	IFRS	Swedish GAAP	Effects of IFRS	IFRS	Swedish GAAP	Effects of IFRS	IFRS
<i>Fixed assets</i>										
Tangible fixed assets		4.9		4.9	4.3		4.3	4.8		4.8
<i>Total fixed assets</i>		4.9		4.9	4.3		4.3	4.8		4.8
<i>Current assets</i>										
Accounts receivable		-		-	-		-	41.8		41.8
Other receivables		2.8		2.8	2.8		2.8	2.8		2.8
Deferred costs and accrued income		0.9		0.9	2.8		2.8	2.2		2.2
Receivables for subscribed but as yet unpaid share capital		135.4		135.4	-		-	-		-
Liquid assets and short-term investments		30.6		30.6	120.1		120.1	187.2		187.2
<i>Total current assets</i>		169.8		169.8	125.6		125.6	234.0		234.0
Total assets		174.7		174.7	129.9		129.9	238.8		238.8
Shareholders' equity	4	159.8	-1.3	158.5	113.1	-5.1	108.0	206.3	-6.3	200.0
Long-term liabilities		-		-	-		-	-		-
<i>Current liabilities</i>										
Accounts payable, trade		5.4		5.4	5.6		5.6	9.7		9.7
Other short-term liabilities		1.4		1.4	1.2		1.2	3.0		3.0
Accrued costs and deferred income	5	8.1	1.3	9.4	10.1	5.1	15.1	19.8	6.3	26.1
<i>Total current liabilities</i>		14.9		16.2	16.9		21.9	32.5		38.8
Total shareholders' equity and liabilities		174.7		174.7	129.9		129.9	238.8		238.8

	<u>01 January 2005</u>	<u>30 June 2005</u>	<u>31 December 2005</u>
<u>Note 4 Shareholder's Equity</u>			
Stock option plans, according to IFRS 2	-1.3	-2.2	-3.5
Unrealized exchange rate difference from forward exchange agreements according to IAS 39	-	-2.9	-2.8
	<u>-1.3</u>	<u>-5.1</u>	<u>-6.3</u>
<u>Note 5 Accrued costs and deferred income</u>			
Stock option plans, according to IFRS 2	1.3	2.2	3.5
Unrealized exchange rate difference from forward exchange agreements according to IAS 39	-	2.9	2.8
	<u>1.3</u>	<u>5.1</u>	<u>6.3</u>

Adjustment of consolidated cash-flow statements relating to adoption of IFRS

Regarding the consolidated cash-flow statements, provisions for personnel costs relating to stock option plans and accrued exchange gains and losses on forward exchange agreements have affected changes in working capital. Cash-flow from operating activities before working capital changes have been affected by the corresponding amount. The transition to accounting according to IFRS has not implied any further changes in the consolidated cash-flow statements.

This report has not been audited by the company's auditors.

Stockholm, 30 August 2006

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