

## SECOND QUARTER REPORT 2006

### Highlights

- Treatment of patients in the phase II diabetic ulcers trial (Archangelsk and St. Petersburg, Russia) has been completed and results from the trial are expected in the third quarter.
- 11 of 15 patients have been included in the clinical phase I/II trial (Memorial Sloan-Kettering Cancer Center, New York) with SBG in combination with a monoclonal cancer antibody. Patients have been treated at all dose levels with no dose limiting toxicities related to SBG.
- Agreement with second pharmacy chain in Norway (Vitusapotek) for launch of consumer health products.
- Results from animal studies show that SBG protects against influenza.
- Key figures second quarter 2006:
  - Non-pharmaceuticals: Sales income of NOK 18.2 million (NOK 17.0 million Q2-05) and operating profit (EBITDA) of NOK 3.8 million (NOK 3.8 million in Q2-05).
  - R&D: Gross R&D expenses of NOK 7.2 million (NOK 6.6 million in Q2-2005).
  - After tax loss of NOK 2.1 million (NOK 3.0 million in Q2-05).
- Key figures January – June 2006:
  - Non-pharmaceuticals: Sales income of NOK 36.6 million (NOK 33.2 million Q2-05) and operating profit (EBITDA) of NOK 6.9 million (NOK 6.5 million in Q2-05).
  - R&D: Gross R&D expenses of NOK 14.7 million (NOK 13.9 million in Q2-2005).
  - After tax loss of NOK 6.2 million (NOK 6.4 million in Q2-05).

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### Pharmaceutical development

#### Treatment of diabetic ulcers

Patient treatment has been completed in the clinical phase II trial with SBG ongoing at hospitals in Archangelsk and St. Petersburg, Russia. This double-blinded placebo-controlled trial is studying the therapeutic benefit of SBG in patients with diabetic foot ulcers. Based on the results Biotec Pharmacon will seek advice from regulatory authorities as to how the company should continue its clinical development program within this therapeutic indication.

The company's pharmaceutical business strategy is to complete phase II clinical trials before seeking commercial partners for late-stage clinical development and marketing. The company will however in this case consider to increase value in the project by conducting additional studies before committing to a commercial partner.

The UK health authorities have now approved the planned clinical trial on diabetic ulcers at Nottingham City Hospital Trust. Biotec Pharmacon has however decided to wait for the soon to be reported Russian data before initiating additional clinical studies.

## **Immunotherapy of cancer**

Eleven (11) patients (of 15) have now been included in the phase I/II clinical trial ongoing at Memorial Sloan-Kettering Cancer Center in New York. In this trial, oral administration of SBG from Biotec Pharmacon is tested in combination with an injected monoclonal antibody (3F8) in patients suffering from the cancer form *neuroblastoma*. Patients have been registered at all dose levels (10, 20, 40 and 80 mg/kg). No dose limiting toxicities relating to SBG have been observed. Four patients remain to be included at the highest dose level of 80 mg/kg. It is expected that patient inclusion will be completed within approximately 3 months.

Preparations for the phase I/II clinical trials with SBG in combination with Herceptin (monoclonal antibody against breast cancer) and Rituxan (monoclonal antibody against non-Hodgkin's lymphoma) are progressing according to plan. Patient inclusion is expected to commence towards the end of 2006 at Ullevaal University Hospital and Rikshospitalet-Radiumhospitalet.

## **Oral mucositis results being analyzed**

The Clinical Research Organization (CRO) contracted by Biotec Pharmacon is still analysing the blinded results from the oral mucositis trial. It is expected that the study code will be broken within the next few weeks.

The number of new patients annually with head and neck cancer in the EU and USA are estimated at 140.000. Virtually all of these patients suffer from mucositis, a painful condition affecting the patient's ability to maintain nutrition. There is currently no effective therapy to treat this complicated condition. The company has identified possible partners for the oral mucositis project and will commence discussions with these pending the conclusions of the first exploratory study.

## **Animal studies on influenza**

Biotec Pharmacon has recently performed new animal studies at the Norwegian Institute of Public Health to measure the effect of SBG on the prevention of influenza. The results from the studies show that when SBG is administered as a nasal spray, the immune

system is strengthened in such a way that the animals are significantly better protected against the influenza virus. Based on these results, Biotec Pharmacon will in cooperation with the Norwegian Institute of Public Health, perform new studies in order to optimise the effect of SBG. The company will thereafter decide on the commercial strategy for use of SBG for the prevention of influenza.

## **Non-pharmaceuticals**

Sales of non-pharmaceutical products were NOK 18.2 million in the 2<sup>nd</sup> quarter (NOK 17.0 million in Q2-05). Sales of consumer health products amounted to NOK 8.1 million (NOK 8.9 million in Q2-05), sales of animal health products amounted to NOK 6.9 million (NOK 5.3 million in Q2-05) and sales of biochemicals amounted to NOK 2.9 million (NOK 2.8 million in Q2-05). For the period January to June, non-pharmaceutical sales revenues were NOK 36.6 million compared to NOK 33.2 million in the same period last year.

EBITDA in the 2<sup>nd</sup> quarter of 2006 for the non-pharmaceutical business segment was NOK 3.8 million (NOK 3.8 million in Q2-05). Gross margin was 81% in the 2<sup>nd</sup> quarter 2006 (83.5% in Q2-05).

Biotec Pharmacon's subsidiary Immunocorp AS has increased distribution of ImmutoI<sup>®</sup> and Immuderm<sup>®</sup> in Norway. Vitusapotek will from September launch the products in all of its 125 pharmacies in Norway. The products are currently sold in 122 Allianceapotek and through the web.

## **Financials**

### **Second quarter**

Sales revenues in the second quarter of 2006 amounted to NOK 18.2 million compared to NOK 17.0 million in the same period last year. Group operating loss was NOK 3.4 million compared to NOK 3.7 million loss in the 2<sup>nd</sup> quarter of 2005. Research and pharmaceutical development expenses were NOK 7.2 million and NOK 6.6 million in the 2<sup>nd</sup> quarter of 2006 and 2005 respectively. Net loss was NOK 2.1 million compared to a net loss of NOK 3.0 million in the second quarter of 2005.

Expenses incurred in connection with the Biothera-case amounted to NOK 2.4 million in the second quarter. Biotec Pharmacon has at the same time recognized income of NOK 2.1 million in relation to settlement of another dispute.

### January - June

Sales revenues in the first half of 2006 amounted to NOK 36.6 million compared to NOK 33.2 million in the same period last year. Group operating loss was NOK 9.5 million compared to NOK 8.4 million loss in the first half of 2005. Research and pharmaceutical development expenses were NOK 14.7 million and NOK 13.9 million in the first half of 2006 and 2005 respectively. Net loss was NOK 6.2 million compared to a net loss of NOK 6.4 million in the first half of 2005.

### Balance sheet and shareholder matters

Cash equivalents per 30 June 2006 were NOK 77.6 million. The negative cash flow in the 2<sup>nd</sup> quarter was 6.6 million. Of this amount, NOK 3 million was related to the purchase of 400.000 shares in Biotec Pharmacon described in the first quarter report. Total equity amounted to NOK 118.4 million or 92% of total assets per 30 June 2006.

The total number of outstanding shares in Biotec Pharmacon is 21.489.010 with a par value of NOK 1 per share. Biotec Pharmacon owns 832.000 own shares. The total number of options granted to employees per 30 June 2006 was 320.000.

The 20 largest shareholders per 7 August 2006 are as follows (excluding own shares):

Paro AS	17.84%
Four Seasons Private Equity AS	10.25%
Ludwig Mack AS	8.92%
Odin Norge	8.77%
Hartvig Wennberg AS	4.00%
Nordea Bank Denmark AS	3.78%
Gunnar Rørstad	3.75%
Jan Raa	2.83%
NorgesInvestor Proto AS	2.33%
Knut Eirik Andersen	2.13%
B Skaugen AS	1.86%
MP Pensjon	1.63%
Anchor Secondary 2 Holding AS	1.23%

VPF Avanse Norden	1.09%
Arne Handeland	0.94%
Hilde Raa	0.85%
Holberg Norden Verdi	0.72%
Telespar A/L	0.70%
DnB NOR Norden (III)	0.69%
Cat Invest I	0.69%

### Future developments

In the short term, Biotec Pharmacon will receive data from three clinical trials (oral mucositis, diabetic ulcers and immunotherapy of cancer).

The data from the oral mucositis trial is expected from the CRO within the next few weeks. Biotec Pharmacon will proceed with finding a suitable commercial partner for the project provided that the data supports further clinical development. Possible partners have been identified.

Results from the diabetic ulcers trial in Russia are expected in the third quarter and will be reported as soon as statistical analysis has been conducted. The company will present the data from the trial to health authorities in order to confirm the further clinical development plan for the project. The board of directors will moreover decide if Biotec Pharmacon should continue to build value in the project by conducting additional clinical studies itself, or whether the company should speed up the process of finding a commercial partner at this stage.

Based on the current rate of inclusion of patients at Memorial Sloan-Kettering Cancer Center, it is expected that the ongoing immunotherapy of cancer trial will continue for another 6 months. Within this time frame the company also plans to start inclusion of patients in two clinical trials in Norway covering SBG in combination with Herceptin and Rituxan. The objective of all these studies is to evaluate safety of SBG in combination with monoclonal cancer antibodies, as well as to provide indication of therapeutic benefit.

08 August 2006

The Board of Directors  
of Biotec Pharmacon ASA

## Biotec Pharmacon ASA Group - Second quarter accounts 2006

### INCOME STATEMENT

Amounts in NOK 1.000

	2Q 2006	2Q 2005	Jan. - June 2006	Jan. - June 2005	Year 2005
Sales revenues	18 199	17 036	36 592	33 190	70 041
Cost of goods sold	-3 461	-3 124	-6 691	-6 916	-14 581
Personell expenses	-7 168	-6 867	-16 497	-14 825	-32 780
Depreciation and amortisation expenses	-888	-1 610	-1 778	-3 214	-4 992
Other income	2 736	1 018	3 901	2 140	5 061
Other expenses	-12 774	-10 110	-25 012	-18 789	-38 754
Operating profit	-3 355	-3 658	-9 484	-8 415	-16 004
Financial income, net	540	-58	1 091	89	559
Profit before tax	-2 814	-3 716	-8 393	-8 326	-15 445
Tax	-722	-740	-2 223	-1 936	-3 635
Profit after tax for the period	-2 093	-2 976	-6 170	-6 390	-11 810
Basic EPS (profit for the period)	-0,10	-0,17	-0,30	-0,36	-0,65
Diluted EPS (profit for the period)	-0,10	-0,17	-0,30	-0,36	-0,65

### BALANCE SHEET

Amounts in NOK 1.000

	30/06/2006	30/06/2005	31/12/2005
<b>Non-current assets</b>			
Machinery and equipment	14 274	15 909	15 827
Intangible assets	15 814	9 605	13 675
Loan to employees and pension funds	521	571	554
<b>Total non-current assets</b>	30 608	26 084	30 056
<b>Current assets</b>			
Inventories	5 938	4 377	4 750
Trade receivables and other receivables	14 448	10 952	10 904
Cash and cash equivalents	77 609	12 284	94 884
<b>Total current assets</b>	97 995	27 614	110 537
<b>Total assets</b>	128 603	53 698	140 593
<b>Equity</b>			
Share capital	20 657	17 535	21 057
Other equity	97 752	28 541	106 701
<b>Total equity</b>	118 409	46 076	127 758
<b>Current liabilities</b>			
Trade-, short term-, and other payables	10 194	7 621	12 835
<b>Total current liabilities</b>	10 194	7 621	12 835
<b>Total equity and liabilities</b>	128 603	53 698	140 593

## CHANGES IN EQUITY

<i>Amounts in NOK 1.000</i>	<b>2Q 2006</b>	<b>2Q 2005</b>	<b>Jan. - June 2006</b>	<b>Jan. - June 2005</b>	<b>Year 2005</b>
As of beginning of period	123 479	48 593	127 758	51 253	51 253
Net profit for the period	-2 093	-2 976	-6 170	-6 390	-11 810
Pension Funds, 1. January 2005	0	0	0	512	512
Purchase own shares	-3 048	0	-3 048	0	-3 048
Public Share Issue, net	0	0	0	0	87 742
Tax benefit related to share issue	0	0	0	0	2 337
Employee share options	288	0	333	0	87
Translation differences	-218	459	-464	702	684
As of end of period	118 409	46 076	118 409	46 076	127 758

## SUMMARY CASH FLOW ANALYSIS

<i>Amounts in NOK 1.000</i>	<b>2Q 2006</b>	<b>2Q 2005</b>	<b>Jan. - June 2006</b>	<b>Jan. - June 2005</b>	<b>Year 2005</b>
Cash flow from operating activities	-3 463	-3 813	-13 573	-8 043	-8 468
Cash flow from investing activities	-124	-443	-190	-416	-2 037
Cash flow from financing activities	-3 048	0	-3 048	0	84 694
<b>Cash flow in the reporting period</b>	<b>-6 635</b>	<b>-4 256</b>	<b>-16 811</b>	<b>-8 460</b>	<b>74 189</b>
Currency conversion difference	-218	413	-464	603	554
Cash and cash equivalents at the beginning of period	84 462	16 126	94 884	20 141	20 141
<b>Cash and cash equivalents at end of period</b>	<b>77 609</b>	<b>12 284</b>	<b>77 609</b>	<b>12 284</b>	<b>94 884</b>

### Notes to the interim accounts for Q2 2006

#### Note 1 - Basis of preparation of financial statements

These financial statements are the unaudited interim consolidated financial statements (hereafter "the Interim Financial Statements") of Biotec Pharmacon ASA and its subsidiaries (hereafter "the Group") for the period ended 30 June 2006. The Interim Financial Statements are prepared in accordance with the International Accounting Standard 34 (IAS 34). These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2005 (hereafter "the Annual Financial Statements"), as they provide an update of previously reported information.

The accounting policies used in the Interim Financial Statements are consistent with those used in the Annual Financial Statements. The presentation of the Interim Financial Statements is consistent with the Annual Financial Statements. Where necessary, the comparatives have been reclassified or extended from the previously reported Interim Financial Statements to take into account any presentational changes made in the Annual Financial Statements or in these Interim Financial Statements.

The Group does not experience significant seasonal or cyclical variations in total sales during the financial year. Income tax expense or benefit is recognized based upon the best estimate of the weighted average income tax rate expected for the full financial year.

**Note 2 - Analysis of operating revenue and -expenses, segment information**

Amounts in NOK 1.000

	2Q 2006	2Q 2005	Jan. - June 2006	Jan. - June 2005	Year 2005
<i>Sales revenue:</i>					
Non-pharmaceuticals	18 199	17 036	36 592	33 190	70 041
Research & pharmaceutical development	0	0	0	0	0
Group operating revenue	18 199	17 036	36 592	33 190	70 041
<i>Operating expenses:</i>					
Non-pharmaceuticals	-14 170	-13 257	-29 453	-26 806	-55 971
Research & pharmaceutical development	-6 855	-6 186	-13 977	-13 067	-27 646
Non-allocated items	-2 377	-659	-4 770	-659	-2 497
Group operating expenses before depreciation	-23 403	-20 102	-48 200	-40 532	-86 114
<i>Other income:</i>					
Non-pharmaceuticals	-215	-7	-261	75	555
Research & pharmaceutical development	870	1 025	2 080	2 065	4 506
Non-allocated items	2 082		2 082		0
Group other income	2 736	1 018	3 901	2 140	5 061
<i>Operating profit (EBITDA):</i>					
Non-pharmaceuticals	3 814	3 772	6 879	6 459	14 625
Research & pharmaceutical development	-5 985	-5 161	-11 897	-11 001	-23 140
Non-allocated	-296	-659	-2 689	-659	-2 497
Group operating profit before depreciation	-2 467	-2 048	-7 707	-5 201	-11 012
<i>Depreciation:</i>					
Non-pharmaceuticals	-543	-1 178	-1 087	-2 350	-3 560
Research & pharmaceutical development	-345	-432	-691	-864	-1 432
Group depreciation	-888	-1 610	-1 778	-3 214	-4 992
<i>Operating profit (EBIT):</i>					
Non-pharmaceuticals	3 271	2 594	5 792	4 109	11 066
Research & pharmaceutical development	-6 330	-5 593	-12 588	-11 865	-24 572
Non-allocated	-296	-659	-2 689	-659	-2 497
Group operating profit	-3 355	-3 658	-9 484	-8 415	-16 004

8 August 2006

Biotec Pharmacon ASA