

## THIRD QUARTER REPORT 2006

### Highlights

- Lars Viksmoen appointed as new CEO. Dr. Viksmoen has wide experience within clinical development and international marketing and sales of pharmaceutical products from Merck & Co.
- Supplemental analysis from the phase II clinical trial further strengthens the proof of concept for use of SBG in the treatment of diabetic ulcers.
- The clinical phase I/II trial (Memorial Sloan-Kettering Cancer Center, New York) with SBG in combination with a monoclonal cancer antibody will be expanded from 15 to 24 patients. Encouraging clinical effect observed at the highest dose levels.
- Results from the oral mucositis trial demonstrated significantly less mucositis in the group treated with SBG compared to reference substance.
- Key figures third quarter 2006:
  - *Non-pharmaceuticals: Sales income of NOK 17.0 million (NOK 20.1 million Q3-05) and operating loss (EBITDA) of NOK 0.6 million (operating profit of NOK 6.1 million in Q3-05).*
  - *R&D: Gross R&D expenses of NOK 9.0 million (NOK 6.8 million in Q3-2005).*
  - *After tax loss of NOK 8.4 million (NOK 0.8 million in Q3-05). The loss in the third quarter includes a high proportion of expenses incurred in connection with the US patent dispute.*
- Key figures January – September 2006:
  - *Non-pharmaceuticals: Sales income of NOK 53.5 million (NOK 53.3 million Q3-05) and operating profit (EBITDA) of NOK 6.3 million (NOK 12.6 million in Q3-05).*
  - *R&D: Gross R&D expenses of NOK 23.6 million (NOK 20.7 million in Q3-2005).*
  - *After tax loss of NOK 14.5 million (NOK 7.2 million in Q3-05).*

---

### Pharmaceutical development

#### Treatment of diabetic ulcers

Biotec Pharmacon has completed a double-blinded clinical phase II trial with SBG in patients with diabetic foot ulcers. The trial covered 60 patients enrolled at two centers in Russia. The main objective of the study was to evaluate the effect of SBG on wound healing measured as time to healing and the proportion of patients that achieved complete healing within 12 weeks. In the group of patients that

received treatment with SBG, the median time to healing was 36 days compared to 60 days in the group of patients that received treatment with reference substance (p-value of 0.14). The proportion of the wounds that achieved complete healing within 12 weeks was 52% in the SBG-group compared to 32% in the reference group (p-value of 0.14). Although not statistically significant at week 12, the SBG results from the study compare favourably with results obtained from other clinical studies with the best available bioactive compounds on the market for the treatment of diabetic foot and leg ulcers.

Additional analysis has demonstrated significant differences ( $p < 0.05$ ) in favour of SBG at week eight, further strengthening the proof of concept for the use of SBG in diabetic ulcers.

Biotec Pharmacon is fully committed to the clinical development program, proceeding as planned with a phase II (b) study to be performed at several specialized wound care centers in the UK with Nottingham City Hospital as the main center. In parallel with this the company will work with regulatory agencies to refine the developmental route towards regulatory submission/marketing authorization.

### **Immunotherapy of cancer**

All 15 patients have 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 an advanced form of *neuroblastoma*. Patients have been treated at different dose levels (10, 20, 40 and 80 mg/kg). No dose limiting toxicities relating to SBG have been observed.

Of three patients that have been treated at the highest dose level, one has obtained very good partial remission of his/her metastatic neuroblastoma. This response in one patient is considered very encouraging by the investigators at Sloan-Kettering and has not been observed in earlier studies with monoclonal antibodies alone. Based on these observations the study has been expanded to include an additional 9 patients at two additional dose levels.

The Norwegian Medicines Agency has approved the application for authorisation of a phase I/II clinical trial with SBG in combination with Herceptin (monoclonal antibody against breast cancer). The trial will commence at Ullevaal University Hospital as the main center towards the end of 2006. The development of protocol and application to the Norwegian Medicines Agency for a phase I/II clinical trial with SBG in combination with Rituxan (monoclonal antibody against non-Hodgkin's lymphoma) is in a final stage. The

trial will commence at Rikshospitalet-Radiumhospitalet as soon as the application has been approved.

### **Oral mucositis**

Biotec Pharmacon has completed a clinical trial studying the effects of SBG in preventing oral mucositis in patients undergoing therapy for head and neck cancer. Of a total of 36 patients that were enrolled in the trial, 14 patients met the criteria for compliance. The main conclusion for the compliant group was that the group treated with SBG demonstrated significantly less mucositis than the control group receiving reference substance ( $p < 0.05$ ). Biotec Pharmacon considers the results to support a proof of concept for the use of SBG in oral mucositis in conjunction with conventional cancer treatment. However, it should be taken into consideration that the population was small.

The European Medicines Agency (EMA) has already granted Orphan drug designation for SBG used in the prevention of oral mucositis. The company will continue to work closely with regulatory agencies to refine the developmental route towards regulatory submission/marketing authorization, potentially in cooperation with a commercial partner.

### **Burn wounds**

The patient inclusion at Haukeland University Hospital has been slow due to the nature of the disease. Biotec Pharmacon is looking for alternative sites.

### **Non-pharmaceuticals**

Sales of non-pharmaceutical products were NOK 17.0 million in the 3<sup>rd</sup> quarter (NOK 20.1 million in Q3-05). Sales of consumer health products amounted to NOK 9.2 million (NOK 9.3 million in Q3-05), sales of animal health products amounted to NOK 3.7 million (NOK 6.8 million in Q3-05) and sales of biochemicals amounted to NOK 3.9 million (NOK 3.7 million in Q3-05). For the period January to September, non-pharmaceutical sales revenues were NOK 53.5 million

compared to NOK 53.3 million in the same period last year.

EBITDA in the 3<sup>rd</sup> quarter of 2006 for the non-pharmaceutical business segment was a loss of NOK 0.6 million (profit of NOK 6.1 million in Q3-05). Gross margin was 76.4% in the 3<sup>rd</sup> quarter 2006 (80.7% in Q3-05).

In August the company entered into the second supply agreement for MacroGard as replacement for feed antibiotics to a large European feed producer. Both agreements came about following extensive animal studies with MacroGard performed by the customers. As part of the supply agreements, the feed producers have received a discount on the quantities of MacroGard purchased in connection with the animal studies. The discounts have been credited in the third quarter 2006 and have thereby reduced sales income in this period. Furthermore, sales have been affected by somewhat lower supplies of MacroGard to the marine fish segment.

In line with the strategy for the non-pharmaceutical products, the company has increased marketing efforts in order to expand sales of all product groups in the coming years. This up-front investment will have a negative effect on earnings in the short term.

In 2005 the US company Biothera filed a patent infringement action against Biotec Pharmacon. Biothera originally claimed that Biotec Pharmacon's dietary supplement Immutol infringed on seven patents held by Biothera in the US market. Biotec Pharmacon has rejected such claims. In cooperation with US legal advisors, Biotec Pharmacon has prepared arguments that support Biotec Pharmacon's position that Immutol does not infringe on the said patents. Furthermore, information obtained during the discovery phase indicates doubts as to whether Biothera is the actual owner to all patents included in the original legal action.

Biothera has recently asked the court to expand the legal case to include seven additional patents also covering the pharmaceutical area. Biotec has delivered a request to the court arguing that such patents should not be part of the legal action. The court has not yet made a

final decision regarding the inclusion of the additional patents.

Furthermore, Biotec Pharmacon has submitted a counterclaim aiming at nullifying Biothera's patents included in the case.

## **Financials**

### **Third quarter**

Sales revenues in the third quarter of 2006 amounted to NOK 17.0 million compared to NOK 20.1 million in the same period last year. Group operating loss was NOK 13.0 million compared to NOK 1.5 million loss in the 3<sup>rd</sup> quarter of 2005. Research and pharmaceutical development expenses were NOK 9.0 million and NOK 6.8 million in the 3<sup>rd</sup> quarter of 2006 and 2005 respectively. Net loss was NOK 8.4 million compared to a net loss of NOK 0.8 million in the third quarter of 2005. Expenses incurred in connection with the Biothera-case amounted to NOK 5.6 million in the third quarter of 2006 and NOK 10.3 million for 9 months to September 2006.

### **January - September**

Sales revenues in the period January to September 2006 amounted to NOK 53.5 million compared to NOK 53.3 million in the same period last year. Group operating loss was NOK 22.5 million compared to NOK 9.9 million loss in the first nine months of 2005. Research and pharmaceutical development expenses were NOK 23.6 million and NOK 20.7 million in the first nine months of 2006 and 2005 respectively. Net loss was NOK 14.5 million compared to a net loss of NOK 7.2 million as per the third quarter of 2005.

### **Balance sheet and shareholder matters**

Cash equivalents per 30 September 2006 were NOK 61.5 million. The negative cash flow in the 3<sup>rd</sup> quarter was 16.1 million. Total equity amounted to NOK 110.7 million or 91% of total assets per 30 September 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 698.318 own shares following the sale of 3.682 shares to employees (NOK 38.40 per share after 20% discount) and 130.000 shares to the new CEO Lars Viksmoen (NOK 53.50 per share). The total number of options granted to employees per 30 September 2006 was 320.000. In October, Lars Viksmoen was granted 100.000 options that can be exercised in two to four years at 53.50 per share.

The 20 largest shareholders per 30 October 2006 are as follows (excluding own shares):

Paro AS	16.21%
Four Seasons Private Equity AS	10.25%
Odin Norge	8.50%
Ludwig Mack AS	8.22%
Hartvig Wennberg AS	4.00%
Gunnar Rørstad	3.75%
Nordea Bank Denmark AS	3.44%
Jan Raa	2.83%
NorgesInvestor Proto AS	2.47%
SEB Enskilda	2.33%
Knut Eirik Andersen	2.07%
MP Pensjon	1.63%
B Skaugen AS	1.27%
Holstein AS	0.96%
Arne Handeland	0.94%
VPF Avanse Norden	0.91%
Holberg Norden Verdi	0.85%
Hilde Raa	0.83%
Vital Forsikring ASA	0.81%
Odin Norden	0.70%

## Organization

Dr. Lars Viksmoen has been appointed as new CEO with effect from 16 October 2006.

Dr. Viksmoen has more than 20 years of experience within clinical development and marketing and sales from international positions within Merck & Co. Biotec Pharmacon is looking to further strengthen the organization by adding expertise within the fields of clinical and business development.

Dr.scient. Rolf Engstad, a prominent researcher within the beta-glucan field for more than a decade, serving with Biotec Pharmacon since 1994, has been appointed as

new Chief Scientific Officer. He succeeds Dr. Jan Raa who at the age of 67 has been appointed as Scientific Advisor reporting to CEO Lars Viksmoen.

## Future developments

Biotec Pharmacon has now reported clinical results from the priority therapeutic areas; treatment of diabetic ulcers and immunotherapy of cancer. In addition the company has reported results from the oral mucositis trial.

A main current priority for Biotec Pharmacon is to proceed with its clinical development plan in the diabetic ulcers area. A phase II (b) study will be performed at several specialized wound care centers in the UK with Nottingham City Hospital as the main center. At the same time the company will work with regulatory agencies on the developmental route towards regulatory submission/marketing authorization.

Within the immunotherapy of cancer area, the expanded trial at Memorial Sloan-Kettering Cancer Center will continue into 2007. As this is an open study, the company will provide updates when results are made available from Sloan-Kettering. The trial with SBG in combination with Herceptin in patients with breast cancer will commence around year-end at three centers with Ullevaal University Hospital as the main center. The phase I/II clinical trial with SBG in combination with Rituxan in patients with non-Hodgkin's lymphoma will commence at Rikshospitalet-Radiumhospitalet as soon as the application to the Norwegian Medicines Agency has been approved.

30 October 2006

The Board of Directors  
of Biotec Pharmacon ASA

## Biotec Pharmacon ASA Group - Third quarter accounts 2006

### INCOME STATEMENT

Amounts in NOK 1.000

	<b>3Q 2006</b>	<b>3Q 2005</b>	<b>Jan. - Sept. 2006</b>	<b>Jan. - Sept. 2005</b>	<b>Year 2005</b>
Sales revenues	16 951	20 063	53 544	53 253	70 041
Cost of goods sold	-4 000	-3 879	-10 692	-10 795	-14 581
Personell expenses	-10 301	-8 197	-26 797	-23 022	-32 780
Depreciation and amortisation expenses	-899	-959	-2 677	-4 173	-4 992
Other income	2 532	400	6 432	2 540	5 061
Other expenses	-17 267	-8 877	-42 279	-27 666	-38 754
Operating profit	-12 985	-1 450	-22 469	-9 864	-16 004
Finanical income, net	521	50	1 612	139	559
Profit before tax	-12 464	-1 400	-20 857	-9 725	-15 445
Tax	-4 090	-566	-6 313	-2 502	-3 635
Profit after tax for the period	-8 373	-834	-14 544	-7 223	-11 810
Basic EPS (profit for the period)	-0,41	-0,05	-0,70	-0,41	-0,65
Diluted EPS (profit for the period)	-0,40	-0,05	-0,69	-0,41	-0,65

### BALANCE SHEET

Amounts in NOK 1.000

	<b>30.09.2006</b>	<b>30.09.2005</b>	<b>31.12.2005</b>
<b>Non-current assets</b>			
Machinery and equipment	14 802	15 257	15 827
Intangible assets	20 496	10 170	13 675
Loan to employees and pension funds	512	562	554
<b>Total non-current assets</b>	<b>35 809</b>	<b>25 989</b>	<b>30 056</b>
<b>Current assets</b>			
Inventories	6 135	4 532	4 750
Trade receivables and other receivables	18 021	13 946	10 904
Cash and cash equivalents	61 510	6 123	94 884
<b>Total current assets</b>	<b>85 666</b>	<b>24 601</b>	<b>110 537</b>
<b>Total assets</b>	<b>121 476</b>	<b>50 590</b>	<b>140 593</b>
<b>Equity</b>			
Share capital	20 657	17 135	21 057
Other equity	90 091	25 039	106 701
<b>Total equity</b>	<b>110 748</b>	<b>42 174</b>	<b>127 758</b>
<b>Current liabilities</b>			
Trade-, short term-, and other payables	10 728	8 416	12 835
<b>Total current liabilities</b>	<b>10 728</b>	<b>8 416</b>	<b>12 835</b>
<b>Total equity and liabilities</b>	<b>121 476</b>	<b>50 590</b>	<b>140 593</b>

## CHANGES IN EQUITY

<i>Amounts in NOK 1.000</i>	<b>3Q 2006</b>	<b>3Q 2005</b>	<b>Jan. - Sept. 2006</b>	<b>Jan. - Sept. 2005</b>	<b>Year 2005</b>
As of beginning of period	118 409	46 076	127 758	51 253	51 253
Net profit for the period	-8 373	-834	-14 544	-7 223	-11 810
Pension Funds, 1. January 2005	0	0	0	512	512
Purchase own shares	0	-3 048	-3 048	-3 048	-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	360	0	693	0	87
Translation differences	352	-21	-112	680	684
As of end of period	110 748	42 174	110 748	42 174	127 758

## SUMMARY CASH FLOW ANALYSIS

<i>Amounts in NOK 1.000</i>	<b>3Q 2006</b>	<b>3Q 2005</b>	<b>Jan. - Sept. 2006</b>	<b>Jan. - Sept. 2005</b>	<b>Year 2005</b>
Cash flow from operating activities	-15 551	-2 796	-29 125	-10 720	-8 468
Cash flow from investing activities	-899	-296	-1 090	-930	-2 037
Cash flow from financing activities	0	-3 048	-3 048	-3 048	84 694
<b>Cash flow in the reporting period</b>	<b>-16 451</b>	<b>-6 140</b>	<b>-33 262</b>	<b>-14 698</b>	<b>74 189</b>
Currency conversion difference	352	-21	-112	680	554
Cash and cash equivalents at the beginning of period	77 609	12 284	94 884	20 141	20 141
<b>Cash and cash equivalents at end of period</b>	<b>61 510</b>	<b>6 123</b>	<b>61 510</b>	<b>6 123</b>	<b>94 884</b>

### Notes to the interim accounts for Q3 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 September 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

	3Q 2006	3Q 2005	Jan. - Sept. 2006	Jan. - Sept. 2005	Year 2005
<i>Sales revenue:</i>					
Non-pharmaceuticals	16 951	20 063	53 544	53 253	70 041
Research & pharmaceutical development	0	0	0	0	0
Group operating revenue	16 951	20 063	53 544	53 253	70 041
<i>Operating expenses:</i>					
Non-pharmaceuticals	-17 382	-13 940	-46 835	-40 746	-55 971
Research & pharmaceutical development	-8 624	-6 355	-22 601	-19 422	-27 646
Non-allocated items	-5 562	-656	-10 332	-1 315	-2 497
Group operating expenses before depreciation	-31 568	-20 951	-79 768	-61 483	-86 114
<i>Other income:</i>					
Non-pharmaceuticals	-154	25	-415	100	555
Research & pharmaceutical development	2 686	375	4 766	2 440	4 506
Non-allocated items	0		2 082		0
Group other income	2 532	400	6 432	2 540	5 061
<i>Operating profit (EBITDA):</i>					
Non-pharmaceuticals	-585	6 148	6 293	12 607	14 625
Research & pharmaceutical development	-5 938	-5 980	-17 835	-16 982	-23 140
Non-allocated	-5 562	-656	-8 251	-1 315	-2 497
Group operating profit before depreciation	-12 085	-488	-19 792	-5 690	-11 012
<i>Depreciation:</i>					
Non-pharmaceuticals	-549	-526	-1 636	-2 876	-3 560
Research & pharmaceutical development	-350	-434	-1 041	-1 298	-1 432
Group depreciation	-899	-960	-2 677	-4 174	-4 992
<i>Operating profit (EBIT):</i>					
Non-pharmaceuticals	-1 134	5 622	4 658	9 731	11 066
Research & pharmaceutical development	-6 288	-6 414	-18 876	-18 280	-24 572
Non-allocated	-5 562	-656	-8 251	-1 315	-2 497
Group operating profit	-12 985	-1 448	-22 469	-9 864	-16 004

30 October 2006

Biotec Pharmacon ASA