



*Active Biotech AB*

***Annual Report 2004***

*Active Biotech develops innovative drugs that regulate the body's own immune defense. We focus on diseases in need of new and more efficient forms of treatment. We have progressed furthest with our candidate drugs for the treatment of MS and cancer.*



The year in brief	1
Business concept, goals and strategies	2
Comments from the CEO	3
Assessment of biotech companies	6
Pharmaceutical development	8
Project portfolio	10

#### Project

■ Laquinimod	11
■ ANYARA	13
■ TASQ	16
■ 57-57	18
■ RhuDex®	20

Structural and human capital	21
Risk analysis	24
The share	25
Five-year summary	28

#### Annual Report

Directors' Report	29
Income Statement	35
Balance Sheet	36
Changes in shareholders' equity	38
Cash-flow statement	39
Accounting principles	40
Definitions	44
Notes	45
Proposed appropriation of earnings	56
Auditors' Report	57

Corporate governance	58
Board of Directors, President & CEO and Auditors	59
Management Group	60
Glossary	61

#### Financial information

Annual General Meeting	April 21, 2005
Interim report (Q1)	May 12, 2005
Interim report (Q2)	Aug 11, 2005
Interim report (Q3)	Nov 2, 2005
Year-end report for 2005	Feb 16, 2006
Annual Report 2005	March 2006

Financial information can be requested from Active Biotech AB, P.O. Box 724, SE-220 07 Lund, Sweden. Telephone +46 46-19 20 00, fax +46 46-19 20 50.

Information can also be obtained from our website [www.activebiotech.com](http://www.activebiotech.com).

#### Manager Corporate Communication

Cecilia Hofvander, +46 46-19 11 22,  
[cecilia.hofvander@activebiotech.com](mailto:cecilia.hofvander@activebiotech.com)

## This is Active Biotech

- Active Biotech develops innovative pharmaceuticals that regulate the body's own immune defense
- The company focuses on treatments for autoimmune/inflammatory diseases and cancer
- Around 90 employees with a strategic focus on clinical projects
- 30 strategic patent families for key projects
- Total market capitalization of SEK 1,231 million in December 2004

*This report contains forward-looking information regarding Active Biotech. Although we believe that our expectations are based on reasonable assumptions, forward-looking assumptions could be affected by factors causing the actual outcome and trend to differ materially from that forecast. The forward-looking comments comprise various risks and uncertainties. There are significant factors that could cause the actual outcome to differ from that implied by these forward-looking statements, some of which are beyond our control. These include the risk that patent rights might expire or be lost, exchange-rate fluctuations, the risk that research and development operations do not result in commercially successful new products, competition effects, tax risks, effects resulting from the failure of a third party to deliver products or services, difficulties in obtaining and maintaining official approval for products and environmental-responsibility risks.*

*This annual report has been prepared in Swedish and translated into English. In the event of any discrepancies between the Swedish and the translation, the former shall have precedence.*

## The year in brief

### *Active Biotech signed a first major partnership agreement – Teva to continue development of laquinimod*



In June 2004, Active Biotech and Teva Pharmaceutical Industries Ltd., a market-leading pharmaceuticals company in the field of MS and the world's leading producer of generic drugs, signed an agreement on the development and commercialization of laquinimod, Active Biotech's oral drug against multiple sclerosis (MS). Teva will take over the continued development process with the objective of achieving market introduction in 2009. The agreement provides Active Biotech with milestone payments on the achievement of results and royalties on future sales.

### *All projects now in clinical phases*



In November 2004, a Phase I study in healthy volunteers was initiated for Active Biotech's candidate drug 57-57 against the disease systemic lupus, or SLE, which is incurable to date. Consequently, all of Active Biotech's development projects are at various stages of clinical development in humans. The MS project being conducted in partnership with Teva has successfully completed a Phase II study. ANYARA (TTS) against non-small cell lung cancer and TASQ against prostate cancer were tested on patients in Phase I studies and RhuDex® against rheumatoid arthritis (RA) will be commencing Phase I studies in the spring of 2005 (see below). These projects also showed positive results in 2004.

### *Candidate drug RhuDex® enters clinical trials*



UK biotech company Avidex Ltd. has successfully completed pre-clinical studies of the CD80 antagonist, which it is developing under license from Active Biotech, and during the spring of 2005, it will commence Phase I studies. The new candidate drug, RhuDex® is intended for the treatment of rheumatoid arthritis. On the successful launch of the drug, Active Biotech gains rights to royalties on future sales.

### *Operations focused on development projects*



To maximize opportunities for all projects to reach market introduction as quickly as possible, operations in 2004 were focused on the four projects being developed in-house. The market potential of each of these is estimated to exceed USD 1 billion. The discovery research previously carried out by the company was gradually phased out during the year.

### *Convertible debenture issue*



In December 2004, convertible debentures were issued, generating proceeds of slightly more than SEK 140 million for continued project development.

# *Business concept, goals and strategies*



During 2004, Active Biotech focused its operations on the drug development projects. The discovery research conducted previously was phased out and the resources thus liberated were transferred to the drug development projects currently in progress. All of these efforts are intended to secure a commercialization of these projects that is as rapid and solid as possible.

## **Business concept**

Active Biotech's business concept is to utilize specialist knowledge of cancer and the immune defense to develop pharmaceuticals in areas where the medical need is extensive.

## **Goals**

Active Biotech's objective is to generate value for shareholders through the successful development of pharmaceutical products.

## **Strategies**

Active Biotech's business strategy is to

- achieve the greatest possible growth in value in each project and seek cooperation with strong partners for each project at the appropriate stage
- focus efforts on projects that are currently in, or close to entering, the clinical phase
- generate revenue through research cooperations, out-licensing, product sales and royalties
- limit costs through the utilization of partnerships, out-sourcing and external expertise
- maintain market rights for future sales in selected European markets
- aim to achieve growth organically and through acquisitions and alliances
- secure and strengthen expertise by being an attractive employer offering a creative atmosphere with opportunities for individual development
- create an organization that, in addition to specialist medical expertise, is able to conduct research projects professionally from candidate drugs through to market launch
- protect its expertise through strong patents and an active patent strategy
- create financial sustainability through well established partnerships and strong and active owners



President and CEO, Sven Andréasson

**The next year will be a very exciting time for Active Biotech. The results of trials with both of our cancer products ANYARA and TASQ will be concluded, and, at the same time, we will also receive the results of new studies involving our auto-immune/inflammatory projects, laquinimod and 57-57.**

I am sorry to say that 2004 was not a good year for the shareholders in Active Biotech. Our share price fell by 40 percent while the Stockholm Stock Exchange as a whole rose by 16 percent. I cannot blame this on a weak year for biotech companies in general, since the share price fell more than 34 percent, which was the sector average, according to Swedish financial weekly Affärsvärlden's Biotech Index.

Obviously, I am disappointed that the stock market did not appreciate the efforts made by myself and my colleagues during the year. However, I can report that we achieved all of our project milestones while, at the same time, we carried out extensive organizational changes, which are described in other parts of this Annual Report. It is of greater interest to see what lies ahead in the form of opportunities and challenges.

To begin with the latter, the question facing all research-intensive biotech companies is how long they are able to continue financing their expensive research. Naturally, this question also applies to Active Biotech. Prior to the reorganization in 2004, we had research costs of approximately SEK 300 million and, including administration, our burn rate was slightly more than SEK 300 million per year. Since we do not yet have any sales, this amount was also equivalent to our loss for the year.

#### Lower costs

With our decision in 2004 to discontinue discovery research and concentrate entirely on bringing our five clinical projects to completion as rapidly and securely as possible, we were able to reduce costs by about SEK 100 million compared with 2003. Our agreement with Teva comprises that our partner assumes the continued development costs for the laquinimod project and invests in an extensive clinical program. At the same time, the company's other projects are entering more advanced stages of development. Consequently, the company's burn rate will remain at close to SEK 200 million in 2005. After that time, the agreement with Teva is expected to begin generating revenue and further partnership agreements regarding one or more of the other projects

## Closer to a breakthrough

are also expected to generate revenue and cost reductions.

To finance our projects, Active Biotech issued convertible debentures during the latter part of 2004, providing a net cash injection of slightly more than SEK 140 million. Since the issue was guaranteed by the company's principal owner, MGA Holding, it could also be fully implemented. The need for strong and dedicated owners in research-intensive companies such as Active Biotech is obvious. For that reason, it is particularly pleasing that Nordstjernan has become a new owner of 8 percent of Active Biotech.

To increase our flexibility in finding attractive forms for the continued financing of the company, the Annual General Meeting also gave the Board a mandate to issue up to a total of six million new shares, with or without preferential rights.

I am not in the least doubtful that Active Biotech will be able to continue to finance its ongoing development efforts. The best guarantee for this is the progress being made in our projects.

During 2005 and until mid-2006, we will be able to report on the conclusions of several clinical studies and we look forward to being able to publish these results. Below, I have listed the objectives achieved during 2004 and those we expect to reach during the next 18 months:

#### All planned milestones achieved in 2004

- |                     |   |
|---------------------|---|
| <b>Laquinimod</b>   | <ul style="list-style-type: none"> <li>■ Partnership agreement signed with Teva</li> <li>■ Technology transfer to Teva completed</li> <li>■ Phase II safety study in MS patients started</li> </ul>   |
| <b>ANYARA (TTS)</b> | <ul style="list-style-type: none"> <li>■ Positive Phase II data reported for pancreatic and renal cancer</li> <li>■ Phase I study of ANYARA in non-small cell lung cancer proceeded according to plan</li> <li>■ Production collaboration agreement signed</li> </ul> |
| <b>TASQ</b>         | <ul style="list-style-type: none"> <li>■ Positive Phase I data in healthy volunteers reported</li> <li>■ Phase I study in prostate-cancer patients started</li> </ul>   |
| <b>57-57</b>        | <ul style="list-style-type: none"> <li>■ Phase I program in healthy volunteers started</li> </ul>   |
| <b>RhuDex®</b>      | <ul style="list-style-type: none"> <li>■ Candidate drug chosen by Avidex for the CD80 substance against rheumatoid arthritis</li> </ul>   |

### Planned milestones for the next 18 months

- |                     |  |
|---------------------|--|
| <b>Laquinimod</b>   | <ul style="list-style-type: none"> <li>■ Report additional Phase II data in MS patients, including higher doses</li> <li>■ Start Phase III program for MS indication in Europe and the US</li> <li>■ Report results of Phase II safety study in MS patients with high dose</li> </ul>  |
| <b>ANYARA (TTS)</b> | <ul style="list-style-type: none"> <li>■ Report results of Phase I study in non-small cell lung cancer</li> <li>■ Start Phase I study for combination therapy in non-small cell lung cancer</li> <li>■ Report results of Phase I study for combination therapy in non-small cell lung cancer</li> <li>■ Start Phase II/III study for non-small cell lung cancer</li> </ul> |
| <b>TASQ</b>         | <ul style="list-style-type: none"> <li>■ Report results of Phase I study in prostate cancer</li> <li>■ Start Phase II/III program in prostate-cancer patients</li> </ul>   |
| <b>57-57</b>        | <ul style="list-style-type: none"> <li>■ Report results of Phase I study in healthy volunteers</li> <li>■ Start Phase I study in lupus patients</li> <li>■ Report results of Phase I study in lupus patients</li> </ul>  |
| <b>RhuDex®</b>      | <ul style="list-style-type: none"> <li>■ Start Phase I study in healthy volunteers</li> <li>■ Report results of Phase I study in healthy volunteers</li> <li>■ Start Phase II study in RA patients</li> </ul>  |

It will be possible to report the results of Teva's extended Phase II study on laquinimod during the period and the subsequent Phase III study will start. This also means that Teva will begin making milestone payments.

Although laquinimod is the project that has progressed furthest in its development and that judged by the financial market to be closest to market launch, the awaited results of the clinical studies on our two cancer projects will be in focus during the coming period.

### Data strengthen cancer projects

Cancer projects are highly "data-driven" with great demand from the medical community for the development of efficient new drugs against cancer. Even during the Phase I clinical studies for the ANYARA lung-cancer project, and the TASQ prostate-cancer project, indications of tumor responses are studied. Indications of favorable data as early as possible in development are crucial for the design of the continued clinical program of controlled studies. This also provides guidance with regard to documentation and regulatory strategy and possible opportunities to speed up development with, for example, application for "fast track" status with the US FDA.

Results from Phase I studies for both ANYARA and TASQ will be available during 2005. The outcome of these two studies will be important for the company's continued development.

We have recently obtained "fast track" status from the FDA for our ANYARA project against non-small cell lung cancer, which may lead to a more rapid development process.

In 2005, we plan to commence a Phase I study for combination therapy with ANYARA being used in combination with chemotherapy. In our preclinical models, we observed synergistic effects supporting this clinical strategy and consequently, we plan to conduct the continued clinical development of ANYARA as a component in a combined therapy.

We look forward to the continued development of ANYARA with confidence. We have confirmed biological effect in the Phase II studies conducted for the first generation of the substance and have begun the production of clinical material in preparation for the upcoming Phase II study. We are also preparing for upcoming studies for TASQ and 57-57 and the need for pharmaceutical substance by developing different preparations.

### We are an attractive partner

With all of the company's projects now in clinical phases with the results of ongoing and future studies gradually being presented, the creation of value in the projects is becoming increasingly transparent. In the same way as in the process leading up to the agreement with Teva, we have now begun to scan the market for potential partners. We have observed growing interest in the pharmaceuticals market to enter projects at an early

stage thus enhancing the opportunities to affect these projects.

Active Biotech is an attractive partner in the market. The company has a strong clinical portfolio in areas with extensive market potential. We have focused on five projects that all target major potential markets.

Naturally, how rapidly the process of finding the right partners that are able to generate the greatest possible project value and maximize the likelihood of achieving a registered final product, is determined by the advances these projects are able to attain. In turn, this determines our financial status and our opportunities to initiate interesting new projects to replace those that have been completed.

#### **Pipeline projects**

We have interesting pipeline projects that have been placed on hold for the future. Two particularly potent projects are I-3D and CCR-1, which are both in the area of immunology, our principal field of expertise alongside cancer. Efforts regarding these two projects have, over the past two years, mainly focused on establishing strong patent protection. Unlike our other two immunology projects, laquinimod and 57-57, the two new projects do not build on our expertise in quinoline substances, but rather on other substances developed by Active Biotech with new mode of actions. Due to competition considerations, I will not go into more details regarding these two projects at this stage.

Naturally, it is difficult to establish a value for projects and for the knowledge base that has been built up within Active Biotech. Certain knowledge could be said to have a limited value as long as it does not generate revenue, or contribute to the company's development and cannot be commercialized. Other knowledge has a current market value since it can be sold in the form of licenses or patents. The value of the overall knowledge bank within Active Biotech is reflected daily in the price of our shares on the stock market. At the end of 2004, this was SEK 36.5 per share or SEK 1,231 million in total. At the same time, our cash balances amounted to SEK 215 million, meaning that the stock market valued our patents, knowledge and organization at slightly more than SEK 1 billion. This can be compared with the total historical investment of SEK 4-5 billion in our five ongoing research projects.

A price tag was established on part of our knowledge during the summer when Teva bought its participation in the laquinimod project. In addition to milestone payments and the financing of the continued clinical development process, the agreement entails considerable future royalty payments for Active Biotech following the successful development and launch of the product.

Naturally, Active Biotech is not a one product company. While the laquinimod project alone has the potential to recapture all of the company's research expenditure, the project descriptions provided later in this report show that we have a strong and well-filled project portfolio with candidate drugs that measure up well to laquinimod in terms of future market potentials. These are equally exciting, both medically and commercially.



Sven Andréasson  
Lund, 2005

Leading investment advisor:

## Why biotech is valued higher in the US

**US dominance of pharmaceutical development and investors who more readily accept risk explains why biotech companies are valued higher in the US than in Europe. Here, a few leading investment managers give their view of the difference.**

“Unlike during the bubble economy of the 1990s, investors today put considerably greater demands. They aren’t interested in dreams, only in solid, commercial products.”

This is how the president of a German biotech company summarizes his view of the complex issue of how his and other biotech companies should be valued. Nonetheless, the valuation of most biotech companies, which, like Active Biotech, do not yet have a completed commercial product to sell, is largely a matter of expectations regarding future earnings.

The difference compared with the 1990s is that expectations are now based on mathematical calculations of risk, probability and the net discounted value of cash flows.

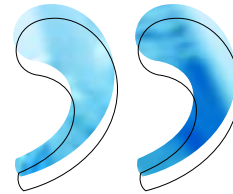
Despite the fact that industry analysts generally use the same methods regardless of whether they are located in the US or Europe, the US biotech companies are valued higher than their European counterparts. A comparison between Active Biotech and a few US companies demonstrates just how great the valuation differences can be.

One of many unlisted biotech companies based in California has been able to raise slightly more than half a billion SEK in two rounds of financing. Like Active Biotech, this company is conducting four projects, although, to date, none have left the preclinical phase. Consequently, several years of development are needed to reach where Active Biotech is today. The projects are in the areas of cancer, psoriasis and hypertension with potential markets that cannot be assumed to be greater than those for Active Biotech’s projects.

Magnus Persson, Med PhD and partner in the Swedish venture-capital fund HealthCap, believes that one of the explanations for the valuation differences between the US and Europe may lie in the expectation value. “Many US companies have delivered on their projects and when European companies also begin to bring projects to completion, I think the valuation differences will even out.”



Maxim Jacobs  
at Mehta Partners  
in New York.



**Quite clearly there is more capital here and US investors are generally willing to accept higher calculated risks than European investors.**

Maxim Jacobs, Mehta Partners

The US is completely dominant in the pharmaceuticals industry. Eight of the world’s ten most sold drugs were developed in the US. In 2004, a total of 605 US biotech companies were acquired or financed, raising a total of USD 76 billion, an increase of 38 percent since 2003. At the same time, 49 biotech companies were listed in the US.

“I believe that the extensive availability of venture capital in the US and the attention given to the industry compared with that in Europe may be one reason why companies are also valued higher,” says Magnus Persson. He does not feel that lower valuation in Europe will attract US capital. “They will stick to the home market with which they are familiar and where it is easier to make gains with the wide range of attractive projects available.”

“Quite clearly there is more capital here and US investors are generally willing to accept higher calculated risks than European investors. Here, larger capital injections are made at earlier stages of development than in Europe,” confirms Maxim Jacobs of Mehta Partners in New York.

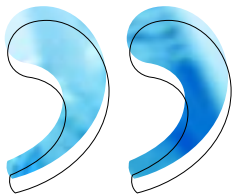
Mehta Partners is one of the US’ leading advisors with regard to investments in biotech companies and projects. Mehta Partners monitors 370 biotech companies worldwide.

“The difference in valuation between the US and Europe also definitely becomes tangible when a European company is



listed here – the share price is higher and the company finds it easier to raise capital. We have a different risk/profit balance here than in Europe,” adds Ilya Kravets, a former partner at Mehta Partners.

Mehta Partners also monitors Active Biotech. In 2004, it maintained a strong purchase recommendation of “outperform.” During the autumn, this was changed to “market perform.” According to Ken Wahl, who is responsible for Mehta Partners’ monitoring of Active Biotech, this is due to the fact that no results affecting the share price can be expected before the Phase I study of ANYARA is reported and, until that time, there is no reason for Active Biotech’s share price to differ from the trend in the industry as a whole.



***Previously, it was important to be first out.  
More important today is management  
structure and its ability to advance both the  
development and permit processes.***

Maxim Jacobs, Mehta Partners

Mehta Partners begins its analysis by looking first at the product and assessing its future market value. Once the product and its function have been understood, differences are sought in comparison with other products to see how the product fits in the “landscape.” An estimate is made of when the product will reach the market and how it will be structured at that time and whether it will be able to generate more or less sales than its potential competitors.

Once the landscape has been mapped, Mehta Partners makes an estimate of a reasonable market price and the year in which sales may reach their peak. That year is used as the basis for calculating the current value of the product.

“When we have charted the risks and opportunities of the product, we look at the corporate risk. What is the company’s marketing potential? What are its possibilities for finding financing? These are important questions,” says Ilya Kravets.

However, Mehta Partners has toned down the importance of the product being alone in the market. “Previously, it was important to be first out, but today, no one can expect to be alone for more than a year or two before a competing product becomes available,” explains Maxim Jacobs. “More important today is management structure and its ability to advance both the development and permit processes,” he adds.

“If three things are everything in property investments – location, location, location,” says Ilya Kravets, “then four things are everything in biotech – management, management, science and management.”

## SEK 5 billion for a new drug



**For each new pharmaceutical, 10,000 substances are rejected as inadequate or screened out during the 10 to 15 years it takes to progress from concept to a completed drug.**

The development of a new pharmaceutical from concept to a drug generally available in the market is a long and arduous process – and consequently, a costly one. Failures are frequent and only a small number of all product ideas reach the market. At that stage, the development process may have taken 10 to 15 years and cost more than SEK 5 billion.

Out of 10,000 substances tested by the pharmaceuticals industry, perhaps at most 250 are promising enough to be selected for preclinical assessment. Of these 250, only five are selected as candidate drugs and are allowed to enter clinical trials. According to Pharmaceutical Research and Manufacturers of America (PhRMA), from the many thousands of substances originally involved, only one is then approved for sale.

### **Only slightly more than 20 approved by FDA**

According to preliminary statistics, the US regulatory authority, the FDA, approved 23 entirely new pharmaceutical substances in 2004, compared with 21 in 2003, out of a total of 72 approved substances – the remainder being modifications of previously approved pharmaceuticals. The average cost for developing a pharmaceutical to approved drug is now estimated at USD 802 M. This represents an increase of 250 percent in ten years, at the same time as the number of new registrations halved from 133 in the peak year of 1996 to 66 in 2001. Since then, the number of new registrations remained low until 2004, during which a marked increase occurred.

The number of new drugs has also declined when viewed over a longer period. During the period 1970 to 1990, the FDA received an average of 160, new drug applications annually. Over the past 14 years, that average has fallen to 116. The trend towards fewer new registrations per year may be accentuated by regulatory authorities, such as the FDA, further increasing requirements for clinical safety following the withdrawal of a number of well-known drugs during the autumn of 2004 after extensive side effects were confirmed.

In total, US pharmaceuticals companies invested USD 35 billion in research and development in 2004. This represents

a doubling over eight years. However, calculated in relation to total sales, research and development costs have fallen over the same period from 16.6 percent to 15.6 percent.

### **US highly dominant**

The US has grown increasingly dominant in pharmaceutical research. Of the world's ten most sold drugs during the year, eight were developed in the US and two in Europe.

Rising costs and increased requirements on product safety and efficiency have resulted in the major pharmaceuticals companies outsourcing a larger share of their own research and development to specialized biotech companies. With specialist expertise and less bureaucracy, development projects can be conducted more rapidly, more efficiently and less expensively. Of the 131 new drugs registered in the US in 1996, all except a small handful came from the major pharmaceuticals companies.

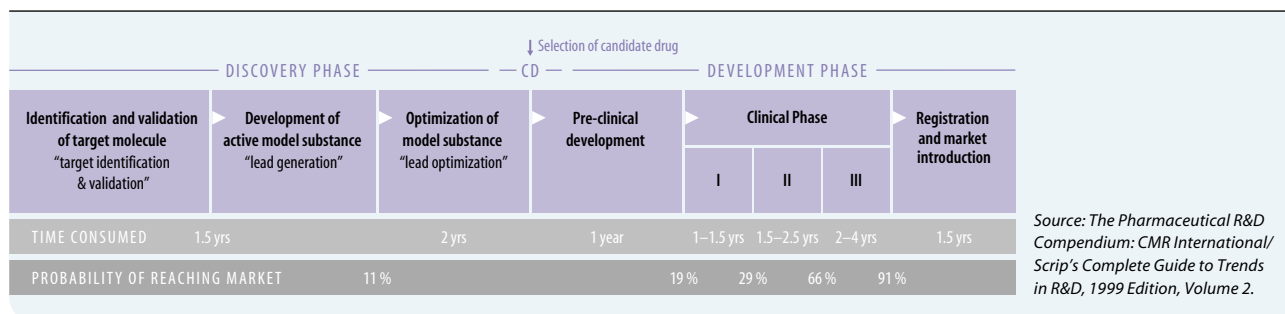
Increasingly, the major pharmaceuticals companies are complementing and updating their product portfolios by establishing collaboration with biotech companies with the specialist expertise and projects of interest to them.

The path taken by a drug from concept to completed product follows a carefully regulated development route, regardless of whether this takes place in the US under the supervision of the FDA or in Europe subject to the regulations of the European regulatory authority, the EMEA. Regulations on both sides of the Atlantic are growing increasingly similar, making it easier for companies to conduct their research projects globally. Like Active Biotech, most companies choose to let their research projects follow the US regulations established by the FDA.

### **The discovery phase**

The first stage of development is the “discovery phase.” This usually stems from a new concept or invention. The process begins with the identification and validation of the target molecule to which the drug must bind to exercise its effect. If possible, patent protection is obtained for the target molecule or concept already at this stage.

By producing pure quantities of the target molecule, it is possible to test which different chemical or biologically produced compounds, model compounds or “leads” bind to the isolated target molecule. Finally, the model compound is optimized.



The discovery phase requires an extensive program of chemical synthesis in which a large number of variants of model compounds are developed to create molecules with maximum effect and minimal side effects. Today, a large portion of this work is carried out by powerful computers. The purpose of the optimization process is to identify one or more candidate drugs. Once a candidate has been identified, the development phase begins and, if possible, patent protection is further strengthened.

The discovery phase normally takes four to five years up to the selection of the candidate drug.

### The development phase

The development phase starts with preparation for the initial studies of the candidate drug on people. To obtain permission to start these studies, the drug must be shown in pre-clinical models to have a good effect and it must be harmless to administer it to humans. This requires controlled safety studies in experimental models and laboratory trials. This phase is called pre-clinical development and this is where Active Biotech enters the process. The preclinical development phase can take one to two years to complete and the successful completion of the pre-clinical phase significantly increases the likelihood that the candidate drug will also become an approved drug. Statistically, one in five products, that is, about 20 percent, reach market introduction after a further eight to nine years of development and testing.

### Clinical development phases I-III

Before clinical trials in humans may commence, an application to proceed must be submitted to the authorities. In the US, a so-called Investigational New Drug (IND) application is submitted to the FDA.

In Phase I, the product is tested in healthy volunteers to document the product's safety profile and the dose levels that can be administered. Also studied is how the substance is absorbed, distributed and finally secreted and for how long it is active within the body. Phase I normally takes 12 to 18 months and a positive outcome increases the likelihood of future market introduction to about 30 percent.

In Phase II, the product is tested on between 100 and 500 patients suffering from the condition that the drug is intended

to treat. The purpose of Phase II studies is to confirm that the substance has the intended medical effect – Proof of Principle – and to determine the optimal dose. A Phase II study normally takes up to two years to complete. It is estimated that approximately 65 percent of products successfully completing Phase II receive approval for the market.

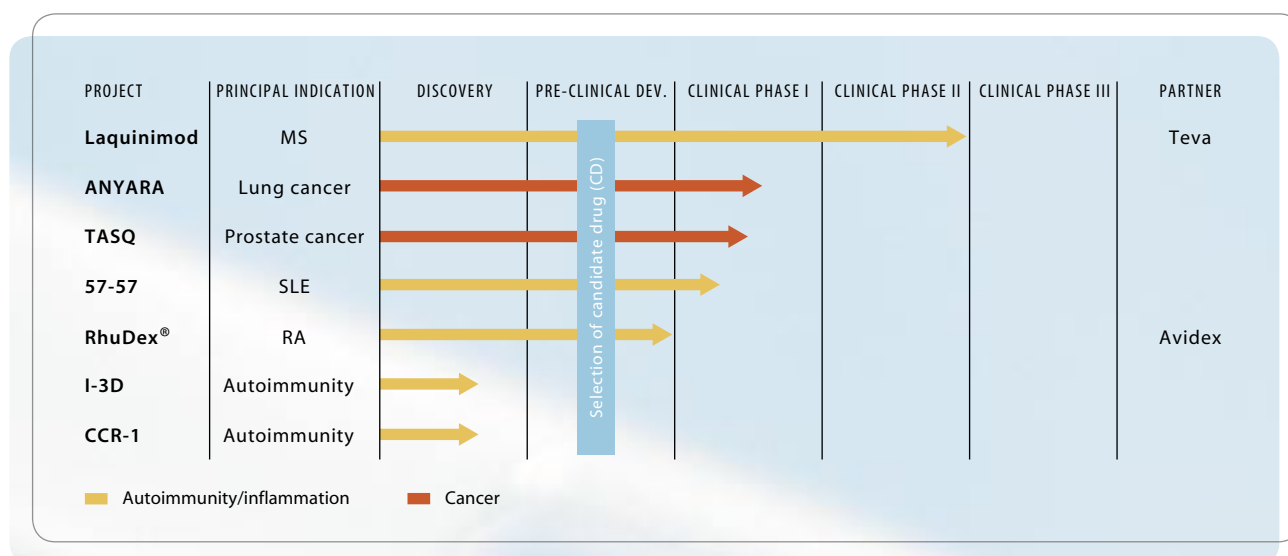
In Phase III, the substance is tested on a large number of patients (1,000 to 5,000). The purpose is to confirm that the product is at least as good, or better, than other products in the market. If no comparable products exist, a comparison is made with a placebo. Additional in-depth and complementary studies are also conducted regarding effective doses and side effects. Phase III studies are complicated and expensive to conduct. Of the entire cost for the three development phases, 70-80 percent may be incurred during Phase III. Nine out of ten products completing Phase III receive approval from the FDA.

### Registration

Following the successful completion of Phase III studies a New Drug Application (NDA) is submitted to the FDA. The application contains all information about the product emerging since the commencement of the discovery phase. A registration application normally comprises 100,000 pages or more of text. On average, approval takes 17 months from the submission of a registration application for a new chemical drug and twice that time for a new biotech drug.

As soon as approval has been received from the FDA, sales of the drug may commence. However, the company must submit regular reports to the FDA detailing aspects such as unfavorable reactions. In certain cases, the FDA may require additional clinical studies, "Phase IV studies," to document the long-term effects of the drug.

# Project portfolio



**Active Biotech conducts biotech and pharmaceutical research focusing on the clinical phases of pharmaceutical development. New products have been sought out in a purposeful and structured manner on the basis of, for example, the immunomodulatory molecule Roquinimex.**

Early research indicated that Roquinimex had an effect both on autoimmune diseases, such as MS and type-1 diabetes, and on different kinds of cancer.

Active Biotech has systematically synthesized and tested hundreds of new substances based on Roquinimex. Laquinimod, against multiple sclerosis (MS) is one of these new substances. The active ingredients in our TASQ project, targeting prostate cancer, and our 57-57 project, targeting lupus erythematosus (SLE), have also been developed within this program. Another of Active Biotech's research programs, for the development of CD80 antagonists, was licensed out to Avidex in 2002 and has resulted in the product RhuDex® against rheumatoid arthritis (RA).

Combined, these research processes have, over the years, resulted in Active Biotech amassing a strongly specialized expertise in the areas of autoimmune diseases and cancer. Consequently, it is no coincidence that two of our five key projects involve cancer and three autoimmune diseases.

All of the products, with the exception of ANYARA (TTS) are to be taken orally, a manner of administering drugs that facilitates long-term use. Oral administration is a very strong

competitive advantage compared with products that are given as an injection or infusion. Since cancer treatment with ANYARA is intended to be alternated with treatment-free periods, the need for an oral preparation is not as pronounced.

In addition to these five projects, where Active Biotech has chosen to focus its resources, other project activities also involve potential applications against autoimmune diseases (I-3D and CCR-1). Active Biotech has made progress during the year and new patent applications in this area have been submitted.

## Extensive market potential

The key projects in which we have elected to invest all target diseases that afflict very large numbers of people and for which the choice of effective drugs is limited. This means that all five of Active Biotech's projects have the potential of becoming "blockbusters," that is, of achieving annual sales of USD 1 billion or more. This applies within the indications on which Active Biotech has focused. For several of the products, there are alternative indications, which could be developed separately at a later stage.

According to current planning, if the five projects are successful, they should enter the market from 2009 and onwards. Active Biotech's strategy for project development includes seeking partners for continued development at the optimum point in time for each project. A collaborative project of this kind was begun with Avidex in 2002 regarding CD80 antagonists and with Teva in 2004 regarding laquinimod.



## *Teva – our partner for the development of laquinimod*

**Active Biotech has developed the new active substance laquinimod for the orally administered treatment of multiple sclerosis (MS). In June 2004, Active Biotech signed an agreement with Teva, one of the leading pharmaceutical companies in the field of MS, for the continued development and commercialization of laquinimod.**

The agreement grants Teva the exclusive right to develop, register, produce and commercialize laquinimod globally, with the exception of the Nordic and Baltic countries where Active Biotech retains all commercial rights.

MS is a chronic disease, often with an insidious progression. The cause of the disease remains unknown, but it affects the central nervous system in the brain and spinal cord. The symptoms are caused by the body's own immune system attacking and damaging the myelin sheaths surrounding nerve fibres. This causes inflammation within the central nervous system causing the patient to suffer flare-ups. These can affect various bodily functions causing problems such as impaired vision, fatigue, poor muscle coordination, memory loss and mental problems.

There are various forms of MS with relapsing remitting MS (RRMS) being the most common, occurring in approximately 65 percent of cases of diagnosed MS. RRMS is characterized by irregularly recurring flare-ups followed by periods completely or partially free from symptoms. Generally, with time, RRMS develops into secondary progressive MS (SPMS), which is characterized by a gradually increasing level of disability with no symptom-free periods.

### **Young women in the danger zone**

MS primarily affects young or middle-aged people with initial symptoms generally appearing between the ages of 20 and 40. Women are affected twice as frequently as men. In total, about 1.5 million people worldwide suffer from MS, of which approximately 600,000 in Europe and 400,000 in the US. Most affected are the temperate regions of Europe.

Although a number of drugs against MS are available in the market, less than half of MS sufferers in the US use any medication. Globally, less than a quarter of sufferers are treated with any of the existing pharmaceuticals. The reasons are a combination of side effects, price and inconvenience. All current

drugs must be injected or administered as a drip, some on a daily basis.

Today, there are four drugs of three kinds in the market. The largest group of drugs against MS are the three interferon-based substances: Avonex® (Biogen/Idec), Betaferon®/Betaseron® (Schering) and Rebif® (Serono). The fourth substance is Teva's Copaxone®, based on glatiramer acetate. Until November 2004, these four drugs shared the MS market with total global sales of approximately USD 4.2 billion.

### **Rapid market growth**

In 2004, Avonex led the US market with a 42-percent share. Copaxone and Rebif continued to grow to 28 and 14 percent of the market respectively, while Avonex and Betaferon/Betaseron continued to lose market shares.

In November 2004, Tysabri® from Biogen Idec/Elan was approved in the US. In February 2005, the product was unexpectedly recalled from the market and ongoing clinical studies were terminated due to suspicion of serious side effects.

Since all drugs against MS must be taken regularly throughout the patient's life, a simple tablet, administered orally, would have a tremendous advantage. Active Biotech's laquinimod is one of a few MS products in tablet form currently being developed.

#### **Laquinimod**

**Indication** Multiple sclerosis (MS)

**Preparation form** Tablets

**Development status** During the autumn of 2003, laquinimod demonstrated positive results in Phase II clinical studies. Treatment with 0.3 mg of laquinimod daily resulted in a more than 40-percent decrease in the number of harmful inflammations in the brain. A Phase II safety study with higher doses of laquinimod commenced in 2004.

**Market and competition** In 2004, the total market for MS drugs amounted to USD 4.2 billion.\* Today, the market is split among four products: Avonex® from Biogen/Idec, Betaferon®/Betaseron® from Schering, Rebif® from Serono and Copaxone® from Teva. All of these medicines are administered by injection. Laquinimod is given in tablet form.

\* Source: SG Cowen



**Q & A – Bill Fletcher,  
Chairman, Teva North America**

**“Did I use the word Holy Grail?”**

That was the rhetoric question Bill Fletcher, Chairman Teva North America, used to describe the importance of an oral MS-drug at Active Biotech’s Capital Markets Day in Stockholm in October last year.

“Teva already has its injectable MS-drug Copaxone selling for almost 1 billion dollars a year and any oral drug showing efficiency would easily exceed that,” Mr. Fletcher stated.

Mr. Fletcher did not foresee any conflict of interest in the fact that Teva will not discontinue working on its oral version of Copaxone and at the same time developing laquinimod.

Copaxone, together with two differently working oral drugs, opens for the possibility both to catch a larger part of the total MS-market and at the same time expanding the total market.”

“We estimate that only about 60 percent of people with relapsing-remitting MS are on any kind of therapy, 20 percent have dropped out because of unfavorable side effects and 20 percent have never tried any medication at all. New and better drugs will certainly expand the market,” he said.

The development of laquinimod should benefit from the experience Teva gained in the first Phase III study it conducted for its oral version of Copaxone, which did not reach statistical significance. “We are looking at some different designs with the purpose of bringing laquinimod to the market as fast as possible,” he said.

“If we can make it by 2009, I’m convinced that laquinimod will be one of the first, oral MS-drugs on the market,” he said.

In preclinical studies, Active Biotech’s laquinimod has demonstrated a favorable capacity to inhibit disease processes similar to MS in relevant animal models. Although the mode of action for laquinimod is unclear, model trials suggest that its mechanism differs from that of beta-interferon. Animal studies also showed no serious side effects at the doses relevant for the completed product. Favorable tolerability, without serious side effects was also confirmed by the clinical studies carried out with healthy volunteers and MS patients.

The results of the Phase II clinical study were presented in September 2003. Slightly more than 200 patients at 20 clinics in four countries received daily treatment for half a year. The study showed a statistically significant reduction in the number of inflammations in the brain, measured with MRI, among a mixed population of MS patients. Treatment with 0.3 mg of laquinimod per day reduced average disease activity by 44 percent. Patients with disease activity at the outset of the study demonstrated a decline in disease activity of 52 percent. The study also confirmed laquinimod’s highly favorable safety profile.

**First MS tablet**

As part of its responsibility for the continued development of laquinimod, Teva intends to complete the clinical development program. Teva has developed a strategy to maximize the chances of success and of taking laquinimod to the market as quickly as possible. Beginning in 2005, Teva will conduct a further Phase II dose study to elucidate the optimum dose for the upcoming pivotal study. With this strategy and energetic efforts to speed up the administrative application process, laquinimod may become an approved pharmaceutical in 2009 and consequently, probably the first drug against MS in tablet form.

**The agreement between Active Biotech and Teva**

On June 14, 2004, Active Biotech AB and Teva Pharmaceutical Industries Ltd. signed an agreement regarding the development and commercialization of laquinimod. Teva acquired the exclusive right to develop, register, produce and commercialize laquinimod globally, with the exception of the Nordic and Baltic regions where Active Biotech retains all commercial rights.

Teva has made an initial payment of USD 5 million to Active Biotech and has undertaken to conduct and finance the continued clinical development of laquinimod. The agreement between the two companies also means that Teva will make milestone payments to Active Biotech upon the achievement of various milestones, including sales targets. If all of these milestones are met, these payments will total USD 92 million. Active Biotech will also receive tiered double digit royalties on future sales of the product.



# ANYARA

## – the targeted cancer therapy

**In its ANYARA (TTS) project, Active Biotech is developing a method for combating cancer. The body's own immune defense is stimulated with a targeted immune activator that helps T cells track and kill cancer cells. T cells can be stimulated with different targeted immune activators depending on the type of cancer being treated.**

Initially, Active Biotech has elected to concentrate the development of its TTS project (Tumor Targeted Superantigens) on the latest product generation, ANYARA (previously known as TTS CD3), for the treatment of non-small cell lung cancer. Clinical Phase II studies, involving the first product generation, targeted renal and pancreatic cancer.

Lung cancer is the type of cancer resulting in the greatest number of deaths each year (WHO). More than 1.2 million people are affected by lung cancer annually. Non-small cell lung cancer represents approximately 80 percent of lung-cancer cases and mortality is 85-90 percent.

The market potential for products against lung cancer is considerable. Products currently in the market generate sales in excess of USD 1 billion per year. In the US, current products cost around USD 20,000 per year per patient. However, none of these existing products can cure patients with non-small cell lung cancer and the need for new and better products is extremely great.

### ANYARA's unique mechanism

Today, lung cancer can only be treated effectively when the tumor has not generated metastases, and then only with surgery. Cytotoxins, such as cisplatin, carboplatin, paclitaxel, docetaxel and gemcitabine, are used with limited success for the treatment of the advanced disease.

Eli Lilly registered its product, Alimta (pemetrexed) in Europe in 2004 and is currently awaiting registration in the US.

In addition to cytotoxins, a number of products that utilize "targeted therapies" are in development. Following completion of Phase III studies in 2004, Roche/Genentech's Tarceva (erlotinib) achieved registration in the US, while AstraZeneca was unable to prove extended survival with its Iressa (gefitinib), causing its registration to be reconsidered by the US pharmaceutical authority, the FDA.

### Mode of action

T cells include the most powerful "killer cells" in the body's defense system. They have the task of removing deviant or infected cells. However, cancer cells are able to protect themselves, making it extremely difficult for T cells to detect and attack them. Active Biotech's substance ANYARA is injected into the bloodstream, seeks out the cancer cells, attaches itself to their surface and attracts the T cells, which attack the cancer.

### Focus on ANYARA

In preclinical models, positive results have shown the method to have an effect in the treatment of cancer. Active Biotech has completed Phase I and Phase II studies for the first generation substance TTS CD2.

The final results of a Phase IIa study using CD2 against renal cancer were presented in December 2003. The results showed that the cancer stabilized in 68 percent of patients in the study following treatment with CD2.

In March 2004, promising final results of a Phase IIa study using CD2 against pancreatic cancer were presented.

In both studies, treatment with CD2 demonstrated only limited, mild side effects.

**Percentage share of newly-diagnosed lung-cancer patients surviving five years after diagnosis**



Source: WHO World Cancer Report/IARC Press, Lyon 2003.



## ANYARA

**Indication** Primarily non-small cell lung cancer

**Preparation form** Freeze-dried product for intravenous injection

**Development status** Given promising results from Phase II studies of the first generation, TTS CD2, Active Biotech decided to focus continued product development on the optimized candidate drug ANYARA (TTS CD3). Phase I clinical trials with ANYARA are in progress and are planned to reach completion during 2005. It is also planned that a Phase I study for combination therapy involving ANYARA will commence in 2005.

**Market and competition** The market for the treatment of lung cancer is estimated at slightly more than USD 1 billion (source: Blomqvist & Associates, Feb. 1, 2003). Currently, surgery offers the only cure, effective only when the tumor has not yet formed metastases. Cytotoxins such as cisplatin, carboplatin, paclitaxel, docetaxel and gemcitabine are used with limited success to treat metastasizing disease.

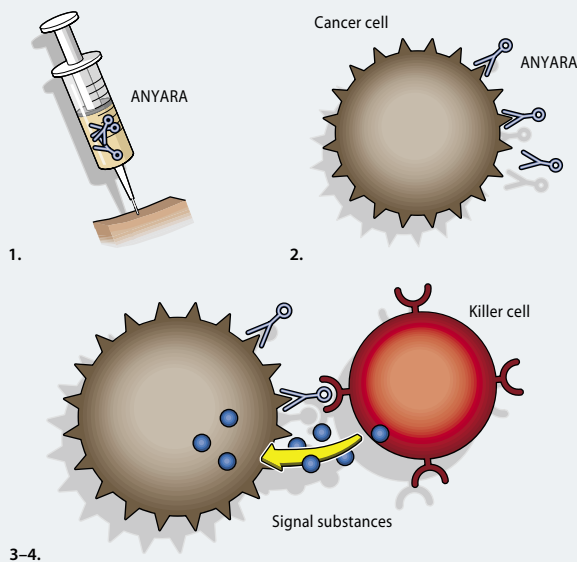
In parallel with the Phase II studies with CD2, Active Biotech began to develop the next generation TTS product, ANYARA. With ANYARA, it has been possible to develop the TTS method into an improved product with considerably higher anti-tumor activity, while side effects have been further reduced. Consequently, ANYARA can be given in far higher doses than CD2 and can also be administered in injectable standardized doses.

Against this background, Active Biotech decided to focus continued development on the considerably improved product ANYARA, primarily targeting its efforts on the diagnosis of non-small cell lung cancer.

During 2003, Phase I studies of ANYARA commenced in the US and Norway with the purpose of determining the maximum dose that can be administered to patients with non-small cell lung cancer. Here, patients are treated with doses 100 times greater than in the earlier Phase II study for CD2. In 2004, the study was extended to document ANYARA in patients with renal or pancreatic cancer. It is expected that Phase II studies will commence during 2006 and will continue for slightly more than a year.

## Cooperation agreement

In June 2004, Active Biotech signed an agreement with Strathmann Biotech AG of Germany on the production of ANYARA, primarily to cover requirements for Phase II/III studies and with possibilities for future commercial production of larger volumes. The agreement is based on shared development of the product. Strathmann Biotech will play an active role in product



1. The ANYARA double molecule is injected into the bloodstream of the cancer patient.
2. ANYARA is carried around the body in the bloodstream until it finds a tumor. It then binds to the ST4 antigen on the surface of the tumor cell. At the same time, ANYARA signals the presence of a tumor.
3. The killer cells of the immune defense (T lymphocytes) circulate around the body and are activated when coming into contact with ANYARA on the surface of a tumor cell.
4. The T cells kill the tumor cell by releasing signal substances that make holes in the tumor cells and cause it to self-destruct. At the same time, the T cells expand in numbers.

Graphics: Svenska Grafikbyrån



development and will share part of the financial risk. This reduces Active Biotech's initial development costs. In return, Strathmann Biotec obtains rights to limited royalties based on Active Biotech's revenues from future milestone payments and sales. Payments to Strathmann can total a maximum of EUR 10 million.

#### FDA grants ANYARA "fast-track" status

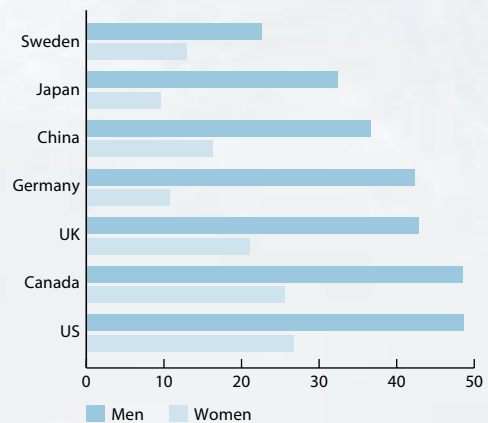
In parallel with the ongoing Phase I studies, Active Biotech intends to initiate a clinical study to assess the safety of ANYARA in combination with an established cytotoxin for the treatment of non-small cell lung cancer. Major benefits have previously been shown if different cancer treatments can be combined. Preclinical experiments with ANYARA in combination with cytotoxins show that ANYARA can generate synergies in combination with established chemotherapies.

In December 2004, the FDA granted Active Biotech "fast-track" status for the continued development of ANYARA. The FDA's rules for fast-track handling have been developed to speed the development of new drugs intended for the treatment of serious or life-threatening diseases and which demonstrate the potential to meet a widespread medical need.

If the report from the concluded Phase I study due in 2005 indicates a favorable response for ANYARA, this will have an impact on future clinical development, both in terms of content and time. In combination with fast-track status, it may mean that the current schedule, with a possible market introduction in 2010, may be shortened.

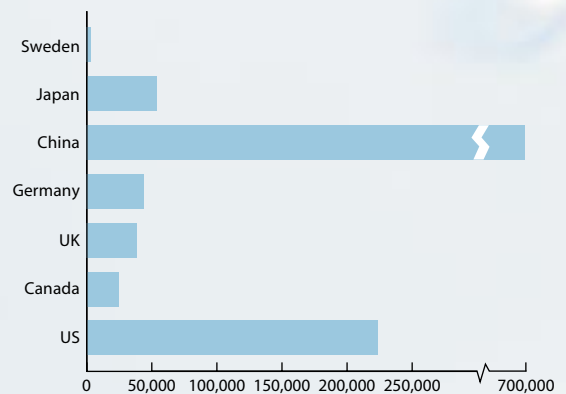
#### Lung-cancer deaths

Lung-cancer deaths per 100,000 inhabitants, 2002



Source: American Cancer Society, Surveillance Research, 2005

Lung-cancer deaths in 2002, total



Total figures based on population, from US Census Bureau ([www.census.gov](http://www.census.gov)).

Source: American Cancer Society, Surveillance Research, 2005

## Huge market potential for new prostate drug



**In the TASQ project, Active Biotech is developing its patented substance TASQ for the oral treatment of prostate cancer. TASQ, which is an antiangiogenic substance, inhibits the growth of cancer cells.**

Prostate cancer can vary greatly in severity. Despite a fairly favorable prognosis, prostate cancer is second only to lung cancer in causing the highest number of cancer-related deaths in men in Sweden. In the US, prostate cancer is more widespread among men than breast cancer is among women. Prostate cancer is particularly common in Scandinavia and the US but less widespread in China, Japan and other areas of Asia.

According to the American Cancer Society's Surveillance Research 2005, 232,000 new cases are forecast in 2005 in the US alone. In 2003, the global market for the treatment of prostate cancer was estimated to amount to USD 3.1 billion annually. With new, more effective products, the market can be expected to expand substantially in the future.

In its early stages, a prostate tumor can be removed surgically or treated with radiation. However, in more than 50 percent of cases, the disease spreads through the body, after which surgery is no longer an option. In this early phase, the

prostate tumor is hormone-dependent and its growth is stimulated by the male sex hormone testosterone. However, treatment involving the elimination of the growth-promoting effects of testosterone results in a number of undesirable side effects, such as sterility and impotence.

### Starves cancer cells

Sooner or later, the prostate cancer starts to grow again, now as a hormone independent, solid cancer tumor. For its continued growth, the cancer tumor is highly dependent on the supply of nutrients and consequently needs to grow new blood vessels – a process called angiogenesis. Antiangiogenic substances that inhibit the growth of blood vessels can, alone or in combination with, for example, chemotherapy, make it possible to slow the development of prostate cancer. Alternatively, they can be used for prevention.

The first antiangiogenic product has been available in the market since February 2004. This is Genentech/Roche's Avastin, which is intended for the treatment of colon cancer. Some 20 other angiogenesis-inhibiting substances are currently being tested in humans, Active Biotech's TASQ being one of them.

A tumor has the capacity to stimulate the growth of new blood vessels by emitting growth-stimulating substances, such as VEGF (Vascular Endothelial Growth Factor). However, Active Biotech's TASQ project (Tumor Angiogenesis Suppression by Quinolines) differs from other angiogenesis-inhibiting products in that it is not based on inhibiting the stimulation of blood-vessel growth by VEGF. Consequently, the TASQ project is unique and it is also protected by various patents.

In the TASQ project, Active Biotech collaborates with professor John T. Isaacs at John Hopkins University in Baltimore, in the US.

### TASQ in combination with chemotherapy

In various disease models, the candidate drug has been shown to have a favorable "antiangiogenic" effect, that is, it has the capacity to close-off the supply of nutrients to the tumor cells, and has also been shown to have a direct anti-tumor effect in preclinical models. During the preclinical development of the TASQ project, TASQ was shown to be able to decrease blood-vessel growth by 50 percent and growth of the tumor itself by

### TASQ

**Indication** Prostate cancer

**Preparation form** Tablets

**Development status** Phase I dose-escalation study with healthy volunteers completed in February 2004. Phase I study with prostate-cancer patients commenced in December 2004.

**Market and competition** The global market for drugs for prostate cancer is estimated at approximately USD 3.1 billion a year (source: Blomqvist / Associates, Feb. 1, 2003). Drugs that influence angiogenesis are being developed by various centers worldwide, but having several companies working in the same area is not necessarily a disadvantage. On the contrary, since combination treatment involving several products can produce considerably greater effect. Several new substances with antiangiogenic characteristics have entered clinical trials over the past few years. Data shows, however, that Active Biotech's substance has an active mechanism that is clearly unlike that of other substances currently being developed.



80 percent. Studies have also shown that TASQ does not inhibit the enzyme systems (“kinases”) that are the target molecules for most current antiangiogenic substances. As indicated above, this means that the active mechanism of TASQ differs from these substances. Consequently, this means that it may be possible to administer TASQ not only in combination with traditional chemotherapies but also in combination with other antiangiogenic substances.

In January 2003, the results were presented of the first Phase I study on TASQ in healthy volunteers. The results showed that the candidate drug has pharmaceutical properties that make it suitable to be administered orally. In February 2004, the next Phase I study was concluded – this had the purpose of determining the tolerance of higher doses of the substance in healthy volunteers. The study showed that TASQ can be administered orally on a daily basis at dose levels that are expected to be effective in the treatment of prostate cancer.

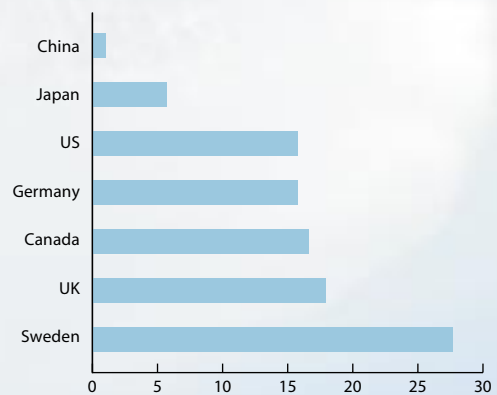
In December 2004, the next stage in the clinical development of TASQ commenced with the start of a Phase I dose-escalation study, intended to study the safety of TASQ when administered in increasing doses to patients with prostate cancer. The study began as a four-week tolerance study with the possibility of being extended to document long-term tolerance and safety.

The follow-up study will also monitor a number of effect parameters. The study comprises patients not showing the desired effect of antihormonal treatment, administered with the purpose of counteracting the stimulating effect of the male hormone testosterone on prostate-cancer growth. The recruitment of patients is expected to be completed in early 2005. The study will be conducted at the Sahlgrenska University Hospital in Gothenburg and at the University Hospitals in Lund and Malmö. The results are expected to be available during the third quarter of 2005. The contents of the subsequent Phase II study are being formulated at the same time.

The outcome of the Phase II study will then determine the scope and length of the final Phase III study. According to the current time plan, it is estimated that a market introduction could take place in 2010. However, unequivocally favorable results in Phase II could make it possible to conduct subsequent studies more rapidly, particularly if “fast-track” status is obtained.

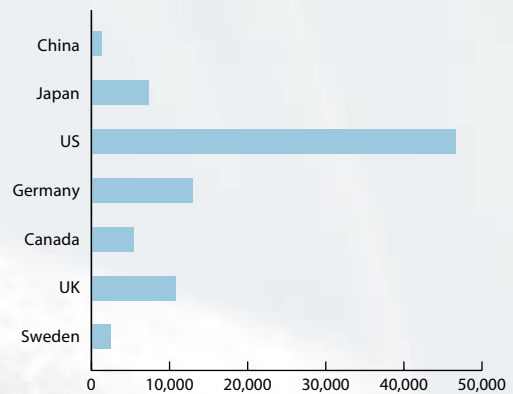
## Prostate-cancer deaths

Prostate-cancer deaths per 100,000 inhabitants, 2002



Source: American Cancer Society, Surveillance Research, 2005

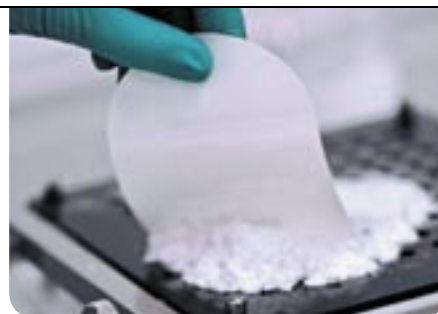
Prostate-cancer deaths in 2002, total



Total figures based on population, from US Census Bureau ([www.census.gov](http://www.census.gov)).

Source: American Cancer Society, Surveillance Research, 2005

## 57-57 could help millions of lupus sufferers



**In its 57-57 project, Active Biotech is developing its own patented substance for the treatment of Systemic Lupus Erythematosus (SLE), by far the dominant form of the lupus disease, which has been incurable and carried for life until now. Lupus belongs to the rheumatic group of diseases.**

Lupus is a life-threatening autoimmune disease, for which there are few forms of treatment. There has been practically no major progress at all in treatment over the past 20 years and no new medication has been approved in the US since the 1960s, when cortisone and immune suppression were introduced. In global terms, lupus is more widespread than leukaemia, multiple sclerosis and muscular dystrophy. Of those affected, 90 percent are women. Some 80 percent of those affected acquire the disease while still young, between ages 15 and 45. The most common and more serious form of lupus is SLE, which occurs in about 70 percent of all cases. It is still not known what causes lupus.

SLE is often difficult to diagnose because the symptoms are so varied. The complaints, which can often begin with a skin rash, pain in joints, extreme fatigue and mobility problems, frequently progress into the inflammation of various internal organs. In half of SLE patients, the kidneys are affected, which can ultimately result in a need for lifelong dialysis or a transplant. Other organs, such as the brain, heart and lungs, may be affected. All of a person's organs or systems are open to attack and, if untreated, SLE is life-threatening.

### 57-57

**Indication** Systemic lupus erythematosus (SLE)

**Preparation form** Tablets

**Development status** Phase I of clinical testing using healthy volunteers commenced in November 2004.

**Market and competition** Current treatments include NSAIDs, such as malaria medicines, acetylsalicylic acid, and corticosteroids and cytostatic drugs, such as cyclophosphamide and methotrexate. These medications can cause strong side-effects, which is why there is an extensive need for new treatment alternatives. No new medication for the treatment of SLE has been registered since the 1960s, when cortisone and immune suppression were introduced.

### 1.5 Americans affected

According to the Lupus Foundation of America ([www.lupus.org](http://www.lupus.org)), it is estimated that 1.5 million Americans have some form of lupus and nearly 20,000 new cases are reported each year. Most of those in the US who acquire lupus can live a normal life during the symptom-free periods between the attacks that are characteristic of the disease, so long as no vital organs are affected.

The organization estimates that every lupus patient treated in the US costs between USD 6,000 and USD 10,000 in treatment per year, but some cases require this amount per month. It is also stated that two in three patients become fully or partially unable to work, that one in three becomes periodically disabled, and one in four permanently disabled. Although lupus is two to three times more common among people of African, Asian or Latin origin, it is estimated that the number of lupus sufferers in Europe matches the level in the US.

In Asia, lupus is considerably more common than in the US and Europe. According to the Asian-Pacific League of Associations of Rheumatology, 70 in 100,000 persons in China are affected, compared with 15 per 100,000 in New Zealand and 21 per 100,000 in the US. Based on American statistics, the number of lupus sufferers is estimated at more than ten million in China alone.

### Market valued at more than USD 6 B

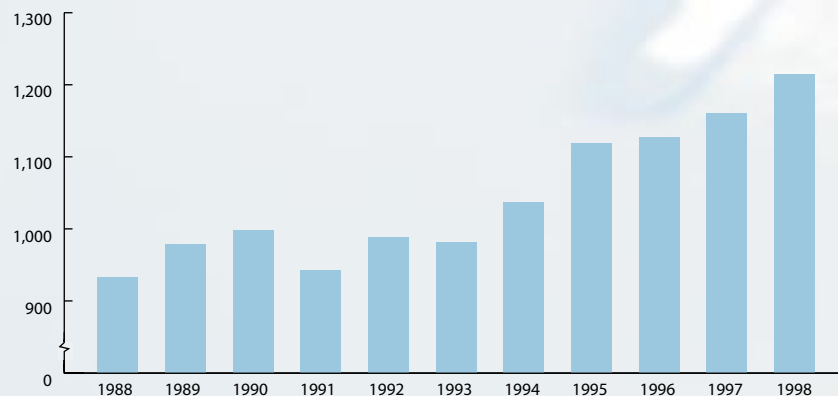
Lupus and its dominant form, SLE, are thus widespread throughout the world, but in such a manner that most sufferers can never expect to receive any form of treatment. In its market assessment for its 57-57 project, Active Biotech opted for a cautious estimate of the market of not less than 500,000 patients each in Europe and the US. This is the same assessed volume that La Jolla Pharmaceutical in San Diego uses as the basis for its development of a substance for patients with SLE-related kidney problems. This means that a modest estimate of the market potential for the indication at which the 57-57 project is targeted amounts to a minimum of USD 6 billion per year.

As described above, there is no cure for SLE. Current treatment of SLE patients is often according to which organs have been affected.

Pharmaceuticals that have been applied more or less successfully include antiinflammatory medication, malaria drugs acetylsalicylic acid, and corticosteroids and cytostatic drugs.



**SLE-related deaths among women in the US per 10 million inhabitants, 1988-1998**



Source: *Trends in Deaths from Systemic Lupus Erythematosus – United States, 1979–1998*.  
Data reported by: JJ Sacks, MD, CG Helmick, MD, G Langmaid, JE Sniezek, MD, Div of Adult and Community Health, National Center for Chronic Disease Prevention and Health Promotion, CDC.

These substances can cause strong side-effects, which is a major problem in treatment of SLE.

#### Lifelong treatment

Active Biotech's 57-57 project is based on the company's own patented 57-57 substance. The substance has demonstrated favorable treatment effects in an SLE-like experimental model, in which it protects animals from developing the disease. The survival rate of the animals treated increased, regardless of whether the animal was treated in the early or later stages of the disease. The substance also demonstrated positive effects on the levels of blood and protein in the urine, which reflects an effect on the renal damage that is associated with the disease. The substance is immune-modulating, which resulted in a normalization of several immunological parameters in the animals.

The substance will be administered in tablet form, which is particularly important for patients who require continuous medication for the rest of their lives.

In November 2004, phase I of clinical studies for 57-57 commenced. This study is a dose-escalation study aimed at examining the safety of increased doses of 57-57 in parallel

groups of healthy volunteers. The study is being conducted at the Karolinska University Hospital in Stockholm and is expected to be concluded in 2005.

The next step in the clinical development of the drug candidate is a phase I clinical study of how the substance is tolerated in the treatment of SLE patients.

A number of injectable monoclonal antibodies, proteins and peptides are being developed as medication against SLE. Some of these have been developed for RA and are now also being tested against SLE. These substances are expensive to produce and it is generally believed that they can only be effective in the treatment of certain patient groups.

An attractive alternative for optimizing treatment is to combine these substances with available oral pharmaceuticals. The pharmaceuticals that are available in the market in this category are strongly immune-suppressive, which leads to increased susceptibility to infection among patients.

If 57-57 is successfully developed, it will have a positive effect and a substantially improved tolerance levels compared with the pharmaceuticals used today. If this is the case, 57-57 will be the first choice in the treatment of SLE, either alone or in combination with other substances.

## License from Active Biotech could give Avidex a best-seller



**Avidex, Oxford in the UK is starting Phase I studies on RhuDex® for rheumatoid arthritis, RA. RhuDex is based on the CD80 project licensed from Active Biotech. Avidex estimates that RhuDex could achieve sales of more than USD 2 billion per year.**

In April 2002, the UK biotech company Avidex Ltd., signed a licensing agreement with Active Biotech that provided Avidex with the right to utilize CD80 antagonists developed and patented by Active Biotech. The agreement also gives Avidex exclusive rights to further develop CD80 antagonists and to market products in which these substances are included.

For Active Biotech, the agreement means that an initial payment was received in 2002 and that predetermined milestone payments can be received in an amount of up to GBP 5.8 million as well as royalties on future sales.

In December 2004, Avidex reported very positive results from its pre-clinical studies of RhuDex. The results mean that during April 2005, Avidex will initiate a Phase I study in which the effects of RhuDex in healthy volunteers will be studied. The commencement of the Phase I study means that Active Biotech will receive a small milestone payment.

### Unique mechanism

CD80 antagonists constitute a new generation of immunomodulatory substances that can be used in the treatment of primarily autoimmune/inflammatory diseases. RhuDex is being developed to treat RA and has a completely different mode of action, compared with the Cox-2 inhibitors used to treat RA, such as Vioxx and Celebrex, which have recently been scrutinized.

In contrast to other antibody-based anti-TNF (Tumor Necrosis Factor) preparations to combat RA, such as Remicade,

Enbrel and Humira, RhuDex is administered orally, while the others must be administered as an injection or infusion. Since RA and other autoimmune diseases require lifelong treatment, an oral product offers major patient benefits. RhuDex acts directly against the causes of RA, instead of attacking and alleviating the symptoms.

“The positive biochemical and pre-clinical results for RhuDex mark a significant milestone for Avidex in its development of what could become an extremely successful and valuable product. Our data indicates that RhuDex has the potential to achieve world-class status within RA medicine,” said Avidex’s CSO Bent Jacobsen, when the research results were presented. The value of the market for drugs to treat RA amounts to more than USD 14 billion and if RhuDex reaches the market, it has the potential to achieve annual sales of more than USD 2 billion, according to Avidex.

### Further cooperation with Avidex

A further cooperation agreement was signed between Active Biotech and Avidex in May 2004, whereby the two companies are combining their protein platforms to develop specifically targeted immunotherapeutic products against cancer. Active Biotech contributes the know-how gained through the development of ANYARA (TTS) (see page 14) and Avidex through its know-how in the monoclonal T-cell receptor field, mTCRs. The agreement with Avidex means that Active Biotech will be able to increase the number of possible tumor antigen targets for ANYARA.

For Avidex, a spin-out from Oxford University in 1999, RhuDex is the first product to have reached clinical phase. The company has 50 employees and is based in Milton Park, near Oxford, UK.



## *Focus reinforces expertise*

**Concentrating Active Biotech's resources on clinical development projects improves opportunities for commercial success to be achieved more rapidly and reliably. The company has considerable knowledge value built on how drug development projects are conducted and patent-protected.**

At a Board meeting on February 12, 2004, the decision was taken that Active Biotech would concentrate its financial and personnel resources exclusively to conducting research and development projects in the clinical phase or in the late pre-clinical, or "near-clinical" phase. The decision means that the discovery research conducted by Active Biotech since 1989 has been discontinued. In addition to this decision contributing an estimated approximately SEK 100 million in the form of reduced costs, compared with 2003, with full effect as of the beginning of 2005, it has enabled the company's organization to become more efficient and more flexible. The latter means that an organization has been built up that is capable of conducting different types of drug projects, rather than projects restricted to certain areas of medical expertise. This has created a value in the organization that will also be able to handle the future drug projects that will gradually succeed the current projects as soon as they are completed.

### **Four units**

Accordingly, Active Biotech's research and development operations have been organized into four units: R&D Laboratories, Clinical Development, Scientific Affairs and Project Management.

R&D Laboratories includes functions for analytical chemistry, pharmacology, drug metabolism, pharmacokinetics and biopharmaceutics.

Clinical Development is chiefly responsible for the clinical studies carried out in the company's various projects. At the heart of this operation are the four current development projects in the clinical phase. Each of these is led by a project manager, who is assisted by a project team composed of representatives from various company departments.

Through the agreement with Teva, whereby that company has taken over the continuing development work on laquinimod, personnel resources and competence will be able to gradually

be transferred to strengthen the company's other projects.

Clinical Development is also responsible for handling contacts with Clinical Research Organizations (CROs).

Responsibility for toxicological studies also lies within this unit.

Scientific Affairs handles patents and systems for knowledge management. Project Management manages the R&D portfolio and resources. In close cooperation between the individual project managers, the Project Management unit ensures that the projects achieve clearly defined goals within planned time frames.

The primary task of Regulatory & Quality Affairs, which is a separate unit, is to ensure that all activities within the company are conducted in accordance with legislation on pharmaceuticals.

Research and development activities are supported by the following central administrative units: Finance, Administration/IT, Investor Relations, Legal affairs and Human resources.

### **Employees the company's strength**

The new organization further emphasizes the areas in which the company will build competence to drive projects ranging from choice of candidate drugs to proof of principle in clinical trials. The company's policy of focusing on a limited number of strategic development phases has built up strong competence enabling a process of rapid decision-making and high tempo in project work.

The collective pharmaceuticals experience of the personnel and their ability to co-operate with and support each other during this key stage of pharmaceutical development is an important competitive advantage.

At the end of 2004, the company had 104 employees, of whom 15 will leave the company gradually during the early part of 2005 as their employment contracts expire. The new focused organization will have 89 employees, of whom 72 work in research and the remaining 17 with administrative tasks. Of the 72 in the research area, 24 have PhDs. The average period of employment is 15.7 years.

### **Vital patents**

Active Biotech's greatest challenge has not been to find attractive R&D projects, but rather to manage in an optimal manner the extremely promising projects already being conducted in

#### ■ No. of employees at Dec. 31, 2004

Women: 60  
Men: 44  
Total: 104  
Average no. of employees: 151  
Average no. of employees at year-end: 104

#### ■ Absence due to illness

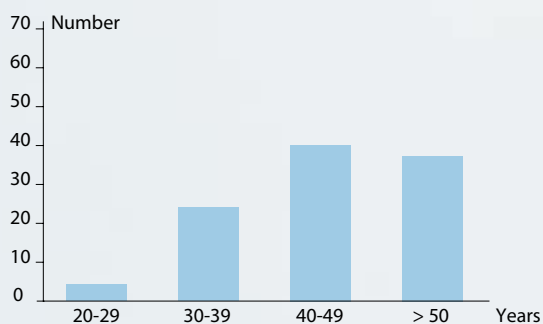
Jan. 1, 2004 – Dec. 31, 2004: 2.2 percent

#### ■ Occupational injuries

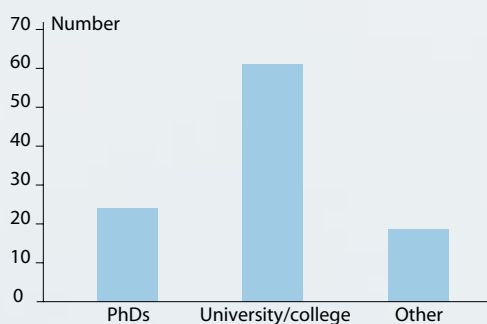
Reported injuries at Dec. 31, 2004: 6

#### ■ Age distribution

Average age: 43  
Average employment time: 15.7 years



#### ■ Employees' level of education



#### ■ Training cost: SEK 6,556 per employee/year

the company and bring the products to market as quickly, safely and efficiently as possible, thereby generating sales revenue.

Accordingly, many attractive “early” concepts and research ideas have, of necessity, been taken off the priority list. The most

attractive of these have been put on hold for reactivation at a future date. In many cases, they have been assigned individual patent protection or are protected by the comprehensive patent portfolio built up by the company within its core area of expertise: autoimmune diseases and cancer. As described in more detail in the section on the company’s product portfolio, substantial common denominators exist between the different projects. This means that many of the patents sought by and granted to the company protect not only the projects shown in the accompanying list, but also other company projects.

The use of strong patents to protect the know-how in projects is a vital part of the company’s strategy. Active Biotech’s patents are managed by a working group with expertise in the fields of science, patent and commercial law. The company’s current patent portfolio consists in total of 30 patent families, with more than 230 patents, and in excess of 500 patent applications in more than 52 countries. During 2004, applications for a total of 20 new patents were filed.

Patent applications are submitted to the patent authorities in many of the world’s countries. The principal regions are the US, Europe and Japan, which are also the company’s most important commercial markets.

It is estimated that the current patents portfolio protects the company’s products for a period of 8-12 years following their market launch. The company strives to protect all aspects of the pharmaceuticals’ development and safeguard and maintain the portfolio so that the products are patent-protected for a maximum period of time following their market introduction.

#### **Ethics and safety prioritized**

For a company like Active Biotech, which focuses on the development and testing of new candidate drugs on humans, safety and quality awareness are assigned the highest importance.

As a consequence, all pre-clinical safety analysis tests are conducted in accordance with Good Laboratory Practice (GLP). All raw materials and preparation of new compounds are manufactured in accordance with Good Manufacturing Practice (GMP) and clinical trials are performed in accordance with Good Clinical Practice (GCP). These three regulatory systems are international and compliance is monitored by the Swedish Medical Products Agency.

Active Biotech strives to replace, reduce and refine its use of laboratory research animals to the extent this is possible. However, when there are no alternatives, research based on animals must be planned expediently and conducted with due regard to ethical requirements. The company follows the regulations prescribed in animal protection legislation, in the society for the prevention of cruelty to animals and ordinances and general recommendations prescribed by the Central Board for Laboratory Animals, the Board of Agriculture and the Animal Protection Agency.

The company does not manufacture any drugs for clinical use, nor does it have permits to engage in such operations. However, Active Biotech is responsible for ensuring that outsourced manufacturing is conducted in an acceptable manner. The company holds a wholesale permit, whereby it can store and distribute drugs for clinical studies. The development of regulations governing the clinical area has prompted the fact that Active Biotech requires a manufacturing license, and an application for a license to perform limited manufacturing operations has now been submitted. This will enable the company to better meet the need of pharmaceuticals for future clinical trials.

**NO. OF PATENT FAMILIES**

<b>Owned</b>	Laquinimod, TASQ, 57-57	6
	ANYARA	7
	Other projects	17
<b>Total owned</b>		30
<b>On license</b>	ANYARA	2
	Other projects	1
<b>Total on license</b>		3

**PATENT PROTECTION FOR TASQ**

Patent family Type of protection	Priority area	Status	Year of expiry
"product"	Europe	Granted	2019
	US	Granted	2019
	Japan	In progress	2019
"application"	Europe	In progress	2020
	US	Granted	2020
	Japan	In progress	2020

**PATENT PROTECTION FOR LAQUINIMOD**

Patent family Type of protection	Priority area	Status	Year of expiry
"product"	Europe	Granted	2019
	US	Granted	2019
	Japan	In progress	2019
"method"	Sweden	In progress	2023
	US	In progress	2023

**PATENT PROTECTION FOR ANYARA**

Patent family Type of protection	Priority area	Status	Year of expiry
"application"	Europe	Granted	2010
	Japan	Granted	2010
"product"	Europe	Granted	2011
	US	Granted	2016
	Japan	Granted	2011
"product"	Europe	Granted	2015
	US	In progress	2018
	Japan	In progress	2015
"product"	Europe	In progress	2017
	US	Granted	2016
"product and method"	Japan	In progress	2017
	Europe	In progress	2018
"product"	US	Granted	2018
	Japan	In progress	2018
	Europe	In progress	2022
"product"	US	In progress	2021
	Japan	In progress	2022

**PATENT PROTECTION FOR 57-57**

Patent family Type of protection	Priority area	Status	Year of expiry
"product"	Europe	Granted	2019
	US	Granted	2019
	Japan	In progress	2019
"method"	Sweden	In progress	2023
	US	In progress	2023

## Risks in operations



**Due to the nature of its operations, Active Biotech is exposed to many different risks. The following section presents some of the factors judged as potentially having a significant negative impact on the company's continued earnings trend and financial position.**

Active Biotech specializes in the development of a number of pharmaceutical projects. However, none of the company's products have yet been approved for sale, and operations to date have therefore been loss-making. The Active Biotech projects that have advanced the furthest in terms of development into a finished drug have concluded clinical Phase II, which means it can take until 2009 before any of these products are registered and approved for sale. As a result, Active Biotech will continue to report operating losses for several years to come, and there is a risk that the company may never be profitable.

### Operational risk

The most important operational issue for a company that develops pharmaceuticals relates to the probability of a candidate drug reaching approval. As shown in the diagram on page 9, the probability increases significantly as projects progress. However, there is a risk that one, several or all of the company's research projects will fail at a later stage. The three most common reasons for a candidate drug failing to reach the market are lack of adequate effect, pharmacokinetic properties such as absorption and distribution in the body, and side-effects.

Even through preclinical and clinical studies conducted for Active Biotech's candidate drugs to date have produced positive outcomes, there are no guarantees that the continued requisite clinical studies will produce results that are sufficiently positive to secure approval. Neither are there any guarantees that the company will find necessary partners or that these partnerships will achieve the planned outcome.

If approval is obtained, there is no guarantee that the approved product will achieve sales success. Competing products with better properties can be launched onto the market or the company may prove incapable of marketing its product, either by itself or via partners.

While Active Biotech is constantly working to improve patent protection for its substances, methods and applications,

there is no guarantee that the patents will in fact provide the necessary protection or that competitors will not somehow circumvent the patents or in some other manner use the research findings or other intellectual rights that the company has built up.

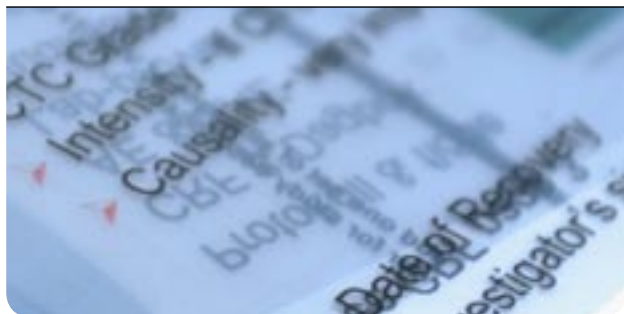
Since Active Biotech's expenses are expected to exceed its revenues for many years to come, a continued need to turn to the capital market is forecasted. Both the extent and timing of the company's future capital requirements will depend on a number of factors, such as possibilities to enter into partnership agreements and the degree of success for development projects. There is no guarantee that the company will manage to secure necessary financing in the future or will have sufficient funds to repay outstanding convertible debentures if these have not been converted into shares prior to June 15, 2009.

### Authority requirements

Active Biotech currently holds all the permits required to conduct its operations. Operations are naturally conducted in accordance with applicable legislation, and also meet high environmental and ethical standards. However, there is no guarantee that new requirements introduced by authorities will not make it more difficult to conduct operations. Neither is there any guarantee that the currently applicable permits will be renewed on the same terms or that the company's insurance cover, which is deemed adequate today, will continue to be adequate.

### Currency risk

Given that its operations are mainly conducted in Sweden, the company's currency exposure is relatively limited. However, the proportion of costs in foreign currency – mainly USD and EUR – could increase in the future with more clinical studies being conducted abroad. At the same time, revenues in these currencies could increase through signed partnership agreements. The company does not currently employ forward contracts or options to hedge currency risk. Credit risk in operations is still only marginal due to the low level of invoicing by the company. The company's liquid funds are invested in accordance with a long-term policy established by the Board of Directors.



## The share

Shares in Active Biotech AB have been listed on the O-List of the Stockholm Stock Exchange under the designation Acti since November 1997, when the company was converted into a pure biotechnology company. Since January 1, 2004, the shares have been traded on the O-List's Attract40, comprising the 40 most traded shares. The shares are traded in lots of 200.

The latest price information is available on Active Biotech's website [www.activebiotech.com](http://www.activebiotech.com), and also in the Reuter system under the symbol ACTI.ST and in the Bloomberg system under ACTI SS.

The Active Biotech share is included in the Stockholm Stock Exchange All-Share index SAX, in Attract40, the healthcare index SX35, Affärsvärlden's AFV General Index and AFV Biotech, and in SIX General Index and SIX Biotech.

### Share capital

The share capital amounts to SEK 337.4 million and the number of ordinary shares is 33,738,876. Each share has a par value of SEK 10 and entitles the holder to one vote and a corresponding participation in the company's assets and earnings.

The Board of Directors has been authorized by the 2004 Annual General Meeting to issue a maximum of 6 million new shares, with or without preferential rights, during the period up until the 2005 Annual General Meeting.

### Employee stock options

In December 2003, Active Biotech introduced an employee stock options program, which can result in a total of 1 million shares being issued without consideration. The program covers all employees.

The options program, together with hedging of future social security expenses, covers a total of 1,330,000 options, entailing a maximum dilution of 3.8 percent for existing shareholders, 2.9 percent of which is attributable to the allotment of options to the employees.

The options are allotted on three occasions: Series 1 encompassing 330,000 shares was allotted in December 2003, Series 2 encompassing 330,000 shares will be allotted in June 2005 and Series 3 with 340,000 shares in June 2006.

The exercise price for Series 1 is SEK 90.50 per share. The exercise price for Series 2 and 3 has been set at 120 percent of

the share price during the last five trading days in May 2005 and 2006.

### Convertible debenture loan 2004/2009

During the period November 19 through December 9, 2004, a new issue of convertible debentures was held, with preferential rights for the company's shareholders. The issue, which was guaranteed by Active Biotech's principal shareholder MGA Holding AB, contributed SEK 149,950,560 before issue expenses. Trading in the convertible debentures commenced on December 29, 2004.

Every nine shares in Active Biotech entitled the holder to subscribe for a convertible debenture for SEK 40. A total of 3,748,764 convertible debentures were issued. The debentures carry 2-percent interest from January 1, 2005. The interest is paid in arrears from December 31, 2005, and subsequently falls due for payment on December 31 each year and when the loan expires on June 30, 2009, provided that conversion has not taken place prior to this date.

Holders of convertible debentures are entitled, until June 15, 2009, to call for conversion of the debentures into shares, which is executed monthly. Full conversion of the loan will cause the number of shares in Active Biotech to increase by 10 percent, or by 3,748,764 shares, to a total of 37,487,640 shares, thereby also increasing the share capital from SEK 337,388,760 to SEK 374,876,400.

Where conversion has not taken place, the convertible debentures must be repaid at the nominal amount on June 30, 2009.

If the average price of the Active Biotech share after January 1, 2007 exceeds the conversion rate by 30 percent – that is, amounts to at least SEK 52 during a consecutive period of 30 trading days – the company has the right to repay the loan prematurely.

### Price trend

In 2004, the Active Biotech share dropped 40.2 percent, from SEK 61 on December 31, 2003 to SEK 36.50 at year-end 2004. The highest price paid for the share during the year was SEK 74.5 (February 27) and the lowest was SEK 30.0 (August 16). The average difference between the buy and sell price during the year was 1.17 percent.

The Stockholm Stock Exchange All-Share index (SAX) rose by 16.2 percent during the year. At the same time, AFV Biotech, the Affärsvärlden index that includes Active Biotech, declined by 34.1 percent.

The Active Biotech share closed the year at SEK 36.50, corresponding to a total market capitalization for Active Biotech of SEK 1,231,468,974.

#### Trading activity

A total of 19,520,020 shares (24,059,556) were traded during the year, giving an average trading volume of 77,154 shares per day. This corresponds to a turnover rate of 58 percent (72). An average of 89 trades was executed per trading day. The value of shares traded during the year amounted to SEK 1,026.3 million (996.8).

#### Shareholder and liquidity measures

In January 2005, Active Biotech AB concluded agreements with FöreningsSparbanken AB/Swedbank Markets ("Swedbank") to implement the following:

- Offer commission-free trading for Active Biotech's shareholders
- Sign a liquidity-guarantee agreement

#### Commission-free trading

The Board of Active Biotech resolved to offer shareholders an opportunity to engage in commission-free trading to buy or sell the number of shares necessary to arrive at a holding corresponding to a round lot (200 shares). The offer is being administered by Swedbank and will be implemented during

the period February 28 through March 11, 2005. The aim of the offer is to increase the number of shareholders with round lots and thereby create conditions for better liquidity in the Active Biotech share.

#### Liquidity guarantee agreement

The aim of the liquidity guarantee agreement is to increase the liquidity of the Active Biotech share. The basic terms of the agreement entail that Swedbank sets buy and sell prices for the Active Biotech share listed on the Stockholm Stock Exchange's O-List, Attract 40, and undertakes to buy and sell shares at these prices. The agreement became effective on February 7, 2005.

#### Changes in ownership

At December 31, 2004, Active Biotech had a total of 12,387 shareholders (13,942). MGA Holding AB and other institutional owners accounted for 52.5 percent (48.9) of the Swedish shareholders, while the remaining shares were owned directly by private persons. During the year, the Swedish company Nordstjernan AB became the company's second largest shareholder by acquiring all of Pfizer's 2,714,286 shares, corresponding to 8 percent of Active Biotech.

The free float, which excludes the company's two largest shareholders, corresponds to 63.1 percent (65.5) of the outstanding shares.

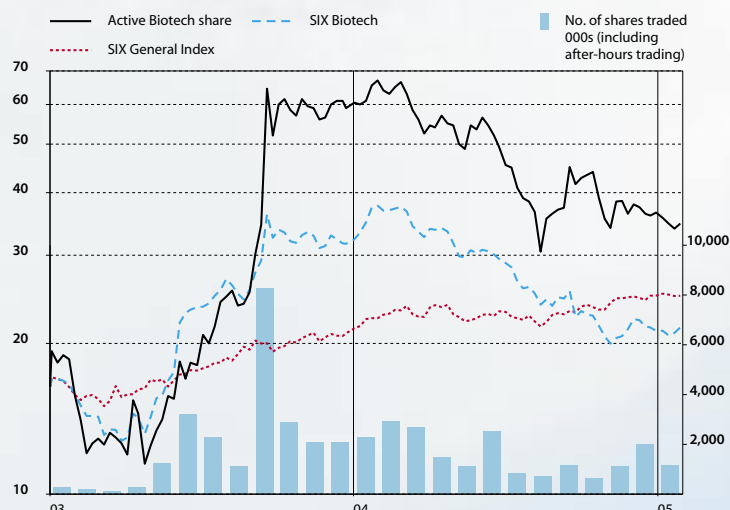
#### Dividend and dividend policy

In view of the company's continued capital-intensive development work, the Board of Directors does not intend to propose that any dividends be paid for the next few years.

#### Shareholder statistics, January 31, 2005

Shareholding interval	No. of owners	% of all shareholders	No. of shares	% of share capital	Average per shareholder
1-1 000	10,443	85.4 %	2,665,831	7.9 %	255
1 001-10 000	1,602	13.1 %	4,530,409	13.4 %	2,828
10 001-100 000	149	1.2 %	4,105,128	12.2 %	27,551
100 001-	31	0.3 %	22,437,508	66.5 %	723,791
Total	12,225	100.0 %	33,738,876	100.0 %	2 76

Price trend,  
January 2003 to  
January 2005



### Swedish analysts covering Active Biotech

- Alfred Berg ABN AMRO
- Carnegie
- Enskilda Securities
- Handelsbanken
- Kaupthing
- Redeye
- Swedbank

### Active Biotech share

SEK	2004	2003
Profit/loss after full tax	-5.16	-11.80
Adjusted equity	4.81	8.58
Share price at year-end	36.50	61.00

### Shareholders

The following reflects circumstances as known to the company at January 31, 2005:

Owner	No. of shares	Holding, %
MGA Holding AB	9,756,028	28.9
Nordstjernan AB	2,714,286	8.0
Catella funds	1,961,800	5.8
Nordea Bank SA	963,241	2.9
Robur funds	806,700	2.4
Ronni Sand and companies	610,000	1.8
Borgelin and companies	485,100	1.4
Skandia Liv	459,336	1.4
Futuris fund	442,200	1.3
Zenit fund	430,000	1.3
<b>Total, 10 largest</b>	<b>18,628,691</b>	<b>55.2</b>
Others	15,110,185	44.8
<b>Total</b>	<b>33,738,876</b>	<b>100.0</b>
Max dilution		
Options	1,330,000	
%		3.8

### Change in share capital

Event	Active Biotech share	Class A shares	Class B shares	Par value	Change in share capital, SEK M	Total share capital, SEK M
1994 Conversion of debenture			9,142,856	1	9.2	55.3
1995 Share consolidation 1:10, par value SEK 10						
New issue 4 Class B shares		-20,840,940	-28,892,930	10	0	55.3
1996 Bonus issue				25	82.9	138.2
1997 Conversion SEK 4,000,000			40,000	25	1.0	139.2
1998 Non-cash issue			2,000,000	25	50.0	189.2
1998 New issue			1,891,496	25	47.3	236.5
1998 New issue, directed			1,400,000	25	35.0	271.5
1998 Conversion SEK 36,000,000			388,810	25	9.7	281.2
1998 Reclassification of A as B		-342,965	342,965	25	0	281.2
1999 Reclassification of A as B		-8,950	8,950	25	0	281.2
2000 Reclassification of A as B		-676,214	676,214	25	0	281.2
2001 Reclassification of A as B		-117,840	117,840	25	0	281.2
2002 Reclassification of A as B		-24,667	24,667	25	0	281.2
2003 Reduction of share capital				10	-168.7	112.5
2003 New issue. One A or B share carried entitlement to subscribe for two new B shares.			22,492,584	10	224.9	337.4
2003 Reclassification of A as B		-16,850	16,850	10	0.0	337.4
2003 Reorganization as a single share class	33,738,876	-1,128,174	-32,610,702	10	0.0	337.4

# Five-year summary

SEK millions	2004	2003	2002	2001	2000
<b>Condensed income statements</b>					
Net sales	69.7	0.3	3.8	102.3	280.4
Operating profit/loss	-200.9	-336.4	-341.1	17.1	-509.4
Participations in the earnings of associated companies	-2.1	-2.5	-3.0	-1.0	-
Net financial items	28.8	32.0	35.8	18.7	90.0
Profit/loss after financial items	-174.2	-307.0	-308.3	34.8	-419.4
Profit/loss before tax	-174.2	-307.0	-308.3	34.8	-419.4
Tax	-	-0.6	9.4	-1.8	0.1
<b>Profit/loss for the year</b>	<b>-174.2</b>	<b>-307.6</b>	<b>-298.9</b>	<b>33.0</b>	<b>-419.3</b>
<b>Condensed balance sheets</b>					
Fixed assets	82.5	95.4	108.1	126.3	297.9
Current assets	230.4	250.0	359.4	621.4	571.0
<b>Current assets</b>	<b>312.9</b>	<b>345.4</b>	<b>467.5</b>	<b>747.7</b>	<b>868.9</b>
Shareholders' equity	162.3	289.6	380.3	678.8	646.0
Non-interest-bearing liabilities	50.1	49.1	57.8	68.9	222.9
Interest-bearing liabilities	100.5	6.7	29.4	-	-
<b>Total liabilities and shareholders' equity</b>	<b>312.9</b>	<b>345.4</b>	<b>467.5</b>	<b>747.7</b>	<b>868.9</b>
<b>Condensed cash-flow statements</b>					
Cash flow from operating activities before changes in working capital	-156.3	-288.1	-285.7	-281.9	-105.7
Changes in working capital	6.7	-0.7	-6.0	-72.7	65.5
Cash flow from investment activities	-1.8	-1.1	-1.2	508.6	-46.9
Cash flow from financing activities	138.6	188.5	26.2	34.0	-50.0
<b>Cash flow for the year</b>	<b>-12.8</b>	<b>-101.4</b>	<b>-266.7</b>	<b>188.0</b>	<b>-137.2</b>
Net debt	-154.3	-260.9	-339.7	-636.1	-447.9
<b>Key ratios</b>					
Return on shareholders' equity (%)	-77.1	-91.8	-56.4	5.0	-49.0
Return on capital employed (%)	-61.7	-86.2	-56.2	5.5	-45.4
Equity/assets ratio, Group (%)	51.9	83.8	81.3	90.8	74.3
Equity/assets ratio, Parent Company (%)	30.8	28.5	36.1	55.6	59.5
Interest coverage ratio (multiple)	neg	neg	neg	22.3	neg
Net debt/equity ratio (multiple)	neg	neg	neg	neg	neg
Average number of employees	151	179	183	258	337
<b>Share data</b>					
Number of shares at end of period (thousands)	33,739	33,739	12,783	12,783	12,783
Number of shares at end of period including subscription rights (thousands)	35,069	35,069	12,783	12,783	12,783
Earnings per share before dilution (SEK)	-5.16	-11.80	-23.38	2.58	-32.80
Earnings per share after dilution (SEK)	-5.16	-11.80	-23.38	2.40	-32.80
Adjusted shareholders' equity (SEK)	4.81	8.58	33.81	60.36	57.44
Unrestricted liquidity per share (SEK)	6.23	6.66	29.27	53.00	36.28
Market price at year-end (SEK)					
Active Biotech shares	36.5	61	-	-	-
Class A shares	-	-	24	105	109
Class B shares	-	-	25	108	117
Dividends	0*	0	0	0	0

\* proposed dividend

Definitions, see page 44.

# The Directors' report

The Board of Directors and the President & CEO of Active Biotech AB (publ), Swedish corporate registration number 556223-9227 hereby submit their Annual Report and consolidated financial statements for the fiscal year January 1, 2004 to December 31, 2004.

Active Biotech conducts operations as a limited liability company and has its registered office in Lund, Sweden.

## Operations

Active Biotech is a company that focuses on pharmaceutical research and development within medical fields where the immune system plays a central role. The company's research portfolio includes the development of pharmaceuticals for the treatment of autoimmune/inflammatory diseases and cancer.

## The Group

The Group's legal structure is built around the Parent Company Active Biotech AB, which comprises Group-wide functions and asset management, as well as the wholly-owned subsidiary Active Biotech Research AB, which conducts pharmaceutical research in Lund.

The Group also owns 24.3 percent of shares in the associated company, Isogenica Ltd of the UK, which was founded in 2001 to develop molecular biology technologies.

## Research and development

Active Biotech's field of expertise mainly comprises the human immune system. This knowledge is used to develop pharmaceuticals for the treatment of autoimmune/inflammatory diseases and cancer. The company currently has five projects in clinical development. Three of these projects involve potential drugs intended for the treatment of the autoimmune/inflammatory diseases multiple sclerosis, MS (laquinimod) and systemic lupus erythematosus, SLE (57-57) and RhuDex<sup>®</sup> against rheumatoid arthritis, RA, which has been licensed out to Avidex Ltd. The project portfolio also includes two potential drugs for treatment of the indications non-small cell lung cancer (ANYARA) and prostate cancer (TASQ). In addition to these five projects, the company conducts project activities with possible applications against autoimmune/inflammatory diseases, for which patent applications were submitted during the year.

Research operations developed in a highly favorable manner during the year, with positive results for all ongoing projects.

The project which has reached furthest in the clinical development process is laquinimod, a drug in tablet form for the treatment of MS. The project has completed a Phase II study with favorable results, which were reported in September 2003. In June 2004, the company reached an agreement with Teva Pharmaceutical Industries Ltd. (Teva) regarding the development and commercialization of laquinimod. The agreement grants Teva exclusive rights to develop, register, produce and commercialize laquinimod globally, with the exception of the Nordic and Baltic countries, where Active Biotech retains all commercial rights.

In addition, the company has four other projects in clinical development. ANYARA (TTS, Tumor Targeted Superantigens) is an immunological cancer treatment, whereby the body's own T lymphocytes are activated and used to kill cancer cells. Following the optimization of the first generation candidate drug (TTS CD2), the ANYARA project now primarily involves a substance focused on the treatment of non-small cell lung cancer, but where patients with renal and pancreatic cancer also have been included in studies. The ongoing Phase I dose-escalation study is being carried out at the Radiumhospitalet Hospital in Oslo, Norway and is expected to be completed during 2005.

In parallel with the ongoing Phase I studies, Active Biotech intends to initiate a clinical study to assess the safety of ANYARA in combination with an established cytotoxin for the treatment of non-small cell lung cancer. Preclinical experiments with ANYARA in combination with cytotoxins show that ANYARA can provide synergistic effects in combination with established chemotherapies.

In the TASQ (Tumor Angiogenesis Suppression by Quinolines) project, Active Biotech is developing an antiangiogenic substance for the oral treatment of prostate cancer. In February 2004, a clinical Phase I study involving healthy volunteers was concluded. The study showed that the TASQ candidate drug can be administered on a daily basis at dosage levels expected to have an effect in the treatment of prostate cancer. In December 2004, the next stage of clinical development began with the commencement of a clinical Phase I dose-escalation study in patients, with the purpose of studying the safety of TASQ when administered to prostate-cancer patients. The study is being conducted at the urology clinics of the Sahlgrenska University Hospital in Gothenburg and the University Hospitals in Lund and Malmö. The results of the study are expected to be reported during 2005.

The company's third project, 57-57, is developing a substance for the treatment of SLE. A clinical Phase I dose-escalation study was started at the Karolinska Hospital in Stockholm in November 2004 and is expected to be completed in 2005. The objective of the study is to assess the safety of the candidate drug 57-57 in increasing doses in parallel groups of healthy volunteers.

In April 2002, Active Biotech signed a licensing agreement with Avidex Ltd. of the UK regarding Active Biotech's CD80 antagonist. Avidex has been successful in its preclinical development process and during 2004, a candidate drug named RhuDex<sup>®</sup> was selected and will be developed against the indication RA. Phase I studies of RhuDex<sup>®</sup> are expected to begin during the spring of 2005, which, according to the agreement, will entail a milestone payment to Active Biotech. If the project continues to market launch, milestone revenues may amount to as much as GBP 5.8 million. In addition, Active Biotech will receive royalties on future sales.

As indicated previously, in addition to the above-mentioned clinical projects, a number of interesting projects are currently on hold. These include two promising immunology projects, I-3D and CCR-1. Here, efforts during the past year have focused on building up strong patent protection.

The company's operations are focused on the clinical development of the above-mentioned prioritized projects with the intention of developing these to the Proof of Principle stage, meaning that the candidate drug has demonstrated biological activity in humans.

#### Comments on the Income Statement

The Group's sales amounted to SEK 69.7 million (0.3). This increase in revenue reflects the initial payment of SEK 37.7 million from the partnership agreement entered into with Teva in June, along with the additional purchase price of SEK 30.3 million from Chiron Corp. in conjunction with the travel vaccine Dukoral receiving registration approval in Europe. In addition, active pharmaceutical substances, clinical materials and research services totaling SEK 1.7 million (0.3) were sold during the year.

Operating costs fell by 20 percent during the year from SEK 336.8 million to SEK 270.6 million.

Administrative costs amounted to SEK 30.9 million (52.6), a reduction of SEK 21.7 million. Of that, SEK 19.7 million relates to compensation expensed in 2003 for lack of guarantees in connection with the divestment of the subsidiary Peltor AB in 1996.

Research and development costs decreased by SEK 44.5 million to SEK 239.7 million (284.2). The change is attributa-

ble to reduced costs for clinical trials during 2004, compared to the more extensive clinical Phase II studies for laquinimod and TTS CD2, which were concluded during the later part of 2003. Current year costs include ongoing clinical Phase I dose-escalation studies for ANYARA against lung cancer in the US and Norway, and costs for Phase 1 studies later in the year for the TASQ prostate cancer project and project 57-57 for SLE.

The effects of the focus on clinical projects implemented during the year and the reduction in employee numbers this decision entailed only marginally affected overall costs for 2004, as the costs for laid off employees are paid out as layoff notice periods expire. Costs for 2004 include a provision of SEK 5.7 million for remaining expenses associated with employee layoffs.

The consolidated operating loss decreased by SEK 135.5 million to SEK 200.9 million (loss: 336.4). The improvement is attributable to higher revenues and significantly reduced costs.

Consolidated net financial items amounted to SEK 28.8 million (32.0). During the year, the Group's holdings in the interest-hedge fund Nectar were sold. The capital gains amounted to SEK 12.2 million (2.6). Net interest amounted to SEK 2.9 million (3.7) – dividends received from share investments amounted to SEK 14.7 million (26.0) and exchange-rate differences amounted to a net loss of SEK 1.0 million (loss: 0.4).

Participations in the earnings of the associated company Isogenica Ltd amounted to a loss of SEK 2.1 million (loss 2.5). During the year, the company has developed positively, with a number of technology out-licensing agreements implemented.

The Group's pre-tax loss amounted to SEK 174.2 million (loss: 307.0).

#### Comments on the balance sheet

The Group's total assets amounted to SEK 312.9 million (345.4). The decline in assets is primarily attributable to the negative cash flow for the year and the related reduction in liquid assets, short-term investments and current receivables.

Tangible fixed assets amounted to SEK 39.1 million (50.3) and mainly consisted of equipment, tools and technical installations.

Financial fixed assets amounted to SEK 43.4 million (45.1), of which SEK 40.0 million (40.0) correspond to shares in the Stockholmsledet 7 limited partnership, which owns the property from which the company operates, SEK 2.3 million (2.8) worth of shares in the associated company Isogenica Ltd., of which Active Biotech owns 24.3 percent, and SEK 1.2 million (2.3) in other receivables. A new share issue in Isogenica

was carried out as planned during the year and, in line with its ownership in the company, Active Biotech subscribed for shares for SEK 1.7 million.

Short-term investments and liquid assets amounted to SEK 214.8 million (227.6), of which SEK 210.6 million (45.3) in short-term interest-bearing investments and SEK 4.2 million (182.3) in medium-term interest-bearing investments.

#### Comments on the cash-flow statement

The Group's negative cash flow for the 2004 full year amounted to SEK 12.8 million (neg: 101.4).

Cash flow from current operations during 2004 was negative in the amount of SEK 149.6 million (neg: 288.8). Cash flow from investing activities was negative in the amount of SEK 1.8 million (neg: 1.1) and cash flow from financing activities was positive in the amount of SEK 138.6 million (188.5).

Investments in tangible assets amounted to SEK 1.8 million (5.6), of which SEK 1.8 million (5.5) was attributable to financial leasing. The majority of investments concerned purchases of instruments and laboratory equipment for the research operations in Lund.

The Extraordinary General Meeting on November 8, 2004, approved the issue of convertible debentures with preferential rights for the company's shareholders. The issue was guaranteed by the main owner MGA Holding and generated SEK 140.9 million for the company after issue costs.

#### Liquid funds and financial status

At year-end, current liquid funds and short-term investments amounted to SEK 214.8 million (227.6).

This change represents SEK 12.8 million in negative cash flow during the period, which is attributable to the earnings trend for 2004, a positive change in operating capital and the capital infusion in December 2004 from the implemented convertible-debenture issue.

The Board of Active Biotech has established a policy for the investment of the Group's liquid funds, which allows liquid funds to be invested at low risk in Swedish and foreign shares, interest-bearing securities denominated in Swedish kronor and interest and equity funds. The proportion of shares, including equity funds, may not exceed 40 percent of the total portfolio and the proportion of equity hedge funds may not exceed 50 percent of the total share portfolio. Interest-bearing investments are limited to securities issued by the Swedish government, Swedish mortgage institutions and Swedish banks.

During the first quarter of 2004, the company's portfolio of remaining holdings in the interest hedge fund Nectar were

sold, along with a majority of its medium-term interest-bearing investments. This means that liquid assets and financial investments are now invested only in short- and medium-term interest-bearing investments.

At year-end, liquid funds amounted to SEK 210.6 million (45.3). Short-term investments amounted to SEK 4.2 million (182.3).

Interest-bearing liabilities amounted to SEK 100.5 million (6.7), SEK 94 million of which resulted from the issue of convertible debentures in December, and SEK 6.5 million (6.7) from liabilities to leasing companies. At year-end, the Group had no other external loans.

Consolidated shareholders' equity amounted to SEK 162.3 million (289.6) and the equity/assets ratio to 51.9 percent (83.8).

#### Parent Company

The Parent Company's net sales for the year amounted to SEK 72.8 million (3.5), of which SEK 30.3 million is related to the additional purchase price from Chiron Corp. and SEK 37.7 million to the initial payment from Teva.

Operating costs for the year amounted to SEK 30.8 million (52.6) – corresponding costs in 2003 included expenses attributable to the lack of guarantees in connection with the sale of the subsidiary Peltor AB in 1996. Net financial items for the period amounted to SEK 100.0 million (29.4), with the difference between the years being attributable to dividends received from subsidiaries. The Parent Company's investments in fixed assets during the period amounted to SEK 0.0 million (0.0). The Parent Company's liquid assets at year-end amounted to SEK 212.9 million, compared with SEK 217.0 million at the beginning of the year.

#### Risk factors

A research company such as Active Biotech is characterized by a high operational and financial risk, since the projects in which the company is involved are either at the preclinical or the clinical phase, and there are a number of factors that have an impact on the likelihood of commercial success. The earlier in the development chain the project is, the higher the risk, while the risk decreases and the likelihood of reaching the market increases as each project completes the various specified development phases.

The risk level of a project must be weighed against the potential that the project will result in the development of a drug within the major indication areas addressed by the company.

The section "Risks in operations" on page 24 describes in greater detail the factors that are judged to have the greatest negative impact on the company's future earnings trend and financial position.

#### Exchange-rate effects

The Group has a relatively limited currency exposure since operations are mainly conducted in Sweden. Earnings are exposed to exchange-rate fluctuations with regard to the procurement of clinical trials, research services and clinical materials. Operating costs amounted to SEK 270.6 million during the fiscal year, of which about 19 percent corresponded to costs in foreign currencies.

The proportion of costs in foreign currencies, principally in USD and EUR, may fluctuate as projects enter the later phases of development with more clinical studies potentially being conducted abroad. Since the Group does not make use of forward contracts or options to hedge foreign-exchange risk, the positive effect of the strengthening of SEK during the year has affected the income statement.

The company's credit risks are marginal, since the company's operations are only subject to low invoicing levels by virtue of the fact that it engages primarily in research and development.

#### Personnel

The average number of employees in the Group amounted to 151 (179), of which 91 were women (107).

The number of employees at December 31, 2004 was 104 (176), representing a decline of 72. The average number of employees in the Parent Company, Active Biotech AB, amounted to six, a reduction of one employee compared to the previous year. Research operations in Lund employed 145 persons (of which, women: 90), compared with 172 (of which, women: 105) in 2003. For further information, see Note 4.

#### Incentive programs

An Extraordinary General Meeting on December 8, 2003 resolved to implement a free employee stock options program comprising a total of 1.0 million shares for all employees of the Active Biotech Group. The options program, in combination with the hedging of future social-security costs, comprises a total of 1,330,000 options, entailing a maximum dilution for existing share-holders of 3.8 percent, of which 2.9 percent is attributable to employee allotments. The incentive program is described in greater detail under "The share" on page 25.

#### Environmental information

Active Biotech conducts its operations in accordance with the permits issued by the authorities for the company. The company has, for example, a permit from the Swedish Radiation Protection Institute for the handling of radioactive materials, and from the Swedish Board of Agriculture and the Swedish Work Environment Authority regarding genetically modified organisms. In accordance with the Swedish Environmental Code, the company has registered its operations with the County Administrative Board. Inspections by the Swedish Work Environment Authority, the Lund Municipal Environmental Administration and the Swedish Radiation Protection Institute all achieved satisfactory results. Active Biotech has a well-developed program for the sorting of waste at source and for the destruction of environmentally hazardous waste, and works actively to minimize energy consumption and the use of environmentally hazardous substances.

Active Biotech is not involved in any environmental disputes.

#### Outlook

The company's focus on clinical projects combined with the signing of partnership agreements and development of the clinical project portfolio will result in further cost reductions during 2005. As previously announced, operating costs for 2005 compared with fiscal year 2003, are expected to fall by approximately SEK 100 million.

Since the timing for the signing of partnership agreements and the receipt of milestone payments from agreements already entered into is uncertain, no earnings forecast is being issued for fiscal year 2005.

Existing liquidity, the complete or partial exercise of the mandate provided by the General Meeting to issue six million shares, combined with revenues from existing and anticipated partnership agreements are predicted to finance operations through 2009.

#### Events after the balance sheet date

In January 2005, Active Biotech entered into an agreement with the Health Protection Agency (formerly CAMR).

In January 2003, the Health Protection Agency presented demands to Actinova Ltd. (a dormant subsidiary of Active Biotech) regarding payment for services rendered and milestone payments for the transfer of intellectual property rights. A ruling was issued in July 2004 by the Southampton District Registry that Actinova Ltd. was obliged to pay GBP 1,188,730 (approximately SEK 15.8 million) plus costs.

However, an agreement was reached in January 2005 which requires Active Biotech to pay approximately SEK 0.9 million in compensation to the Health Protection Agency.

#### **Dividend**

The Board of Directors proposes that no dividend be paid for the 2004 fiscal year.

#### **Report on the work of the Board**

The Board decides on the overall strategy of the Group, its organization and administration pursuant to the Swedish Companies Act (1975:1385).

At the end of the year, the Board consisted of six members elected by the Annual General Meeting and two employee representatives. Other company officials take part in Board meetings in a reporting or administrative capacity as required.

Ten Board meetings at which minutes were kept were held during the year. The President has kept both the Chairman of the Board and the other Board members informed about developments within the company on an ongoing basis. Important issues addressed by the Board include the following:

- Progress of the research projects
- Business-development projects
- Partnership strategy and discussions with prospective partners
- Active Biotech's strategic focus
- Information about the financial accounts
- Budget and forecasts for operations

The work of the Board and how Active Biotech is managed is described in detail in the "Corporate governance" section on page 58.

#### **Transition to IFRS 2005**

In accordance with the IAS decree adopted by the EU in 2002, all listed companies throughout the EU shall, effective 2005, implement the International Financial Reporting Standards (IFRS) in their consolidated accounts. IFRS 1 deals with the transition to IFRS for those companies implementing the standards for the first time. The standards state that a company, when transitioning from national accounting principles, must present at least one year comparative information in accordance with IFRS. Companies shall also explain how the transition from former accounting principles to IFRS has impacted their financial position, earnings and cash flow. According to IFRS 1, this information must be submitted in the first interim report for financial year 2005 at the latest.

In November 2005, the Stockholm Stock Exchange issued a recommendation to listed companies regarding the reporting of the key effects of the transition to IFRS in conjunction with year-end reporting for 2004. These are presented below.

#### **Accounting principles – key differences**

Based on existing IAS/IFRS rules and proposed changes to them, the company has identified a number of areas that will impact consolidated accounts and related key financial figures, compared with currently applied accounting principles. The key areas are the "sale and lease back" agreement relating to its property, short-term investments and the employee options program.

##### **1. Tangible assets**

The company's "sale and lease back" agreement relating to the property in which it conducts operations, and which has been reported as an operational leasing agreement, will be reported as a financial leasing agreement in accordance with IAS 17. That means the property will be reported as an asset in the Group's balance sheet and be depreciated according to plan down to its estimated residual value.

The Group's obligation towards the lease holder to pay future leasing fees will be reported both as short and long-term liabilities, with the property reported as collateral. Future lease payments will be reported as interest expenses and amortization. The capital gain that was reported in 1998 when the "sale and lease back" agreement was entered into will be distributed over the period of the lease.

##### **2. Short-term investments**

In accordance with IAS 39, the Group's short-term investments will be valued and reported at their actual values effective January 1, 2005. No recalculation of comparative figures for 2004 will be made.

##### **3. Employee stock options program**

In December 2003, Active Biotech issued an employee stock options program covering all employees, in which employees were given the opportunity to subscribe for newly-issued shares. The employee stock options program will be reported in accordance with IFRS 2. The requirement for exercising the options is that the employee remains in service for a specified amount of time. The Board may, by special decree, grant an option holder the ability to exercise their options even after their employment has ended. The actual value of the options is calculated at the

time of issue and will be reported as an employee cost distributed over the period earned. Transactions regulated with equity instruments are accounted for as an increase in shareholders' equity. An options program for employees where the options are exchanged for the company's own shares offsets that period's earnings but does not have an effect on total shareholders' equity.

#### Estimated effect on Group's income statement

The Group's earnings for 2004 would have improved by SEK 2.3 million if IFRS had been implemented on January 1, 2004. The accounting of the "sale and lease back" agreement as a financial lease has a positive effect of SEK 3.9 million while the employee stock options program has a negative effect of SEK 1.6 million.

#### Estimated effect on Group's balance sheet

	Dec 31 2004	Adjustment	IFRS Dec 31, 2004
Total fixed assets	82.5	274.0	356.5
Total current assets	230.4	0.0	230.4
<b>Total assets</b>	<b>312.9</b>	<b>274.0</b>	<b>586.9</b>
Total shareholders' equity	162.3	-58.2	104.1
Total long-term liabilities	98.5	295.6	394.1
Total short-term liabilities	52.1	36.6	88.7
<b>Total shareholders' equity and liabilities</b>	<b>312.9</b>	<b>274.0</b>	<b>586.9</b>

The effects that the transition to IFRS will have are preliminary and based on current standards, which could change before December 31, 2005.

# Income statement

SEK thousands	note	Group		Parent Company	
		2004	2003	2004	2003
Net sales	1	69,724	335	72,800	3,500
Administrative expenses	2, 3	-30,919	-52,603	-30,817	-52,560
Research and development expenses	2	-239,657	-284,169	-	-
<b>OPERATING PROFIT/LOSS</b>	4	<b>-200,852</b>	<b>-336,437</b>	<b>41,983</b>	<b>-49,060</b>
Participations in the earnings of associated companies	5	-2,148	-2,501	-	-
<i>Profit/loss from financial investments</i>					
Profit/loss from shares in subsidiaries	6	-	-	72,410	-
Profit/loss from participations in associated companies	5	-	-	-2,208	-2,871
Interest revenue and similar items	7	30,462	34,711	30,215	32,650
Interest expenses and similar items	8	-1,690	-2,760	-409	-383
<b>PROFIT/LOSS AFTER FINANCIAL ITEMS</b>	9	<b>-174,228</b>	<b>-306,987</b>	<b>141,991</b>	<b>-19,664</b>
Tax on profit for the year	10	-	-612	-	-612
<b>NET PROFIT/LOSS FOR THE YEAR</b>		<b>-174,228</b>	<b>-307,599</b>	<b>141,991</b>	<b>-20,276</b>
Loss for the year		-174,228	-307,599		
<b>Earnings per share, before dilution, SEK</b>	11	<b>-5.16</b>	<b>-11.80</b>		
Weighted number of ordinary shares before dilution (thousands)		33,739	26,062		
<b>Earnings per share after dilution, SEK</b>	11	<b>-5.16</b>	<b>-11.80</b>		
Weighted number of ordinary shares after dilution (thousands)		33,739	26,062		
<b>Proposed dividend per share</b>		<b>None</b>	<b>None</b>		

# Balance sheet

SEK thousands	note	Group		Parent Company	
		Dec 31, 04	Dec 31, 03	Dec 31, 04	Dec 31, 03
<b>ASSETS</b>					
Land improvements		463	491	-	-
Equipment, tools, fixtures and fittings		38,597	49,812	486	480
<b>Total tangible fixed assets</b>	12	<b>39,060</b>	50,303	<b>486</b>	480
Shares in subsidiaries	13	-	-	539,631	377,831
Participations in associated companies	13	2,262	2,767	2,262	2,767
Other long-term securities	13	40,000	40,000	40,000	40,000
Other long-term receivables		1,184	2,310	185	222
<b>Total financial fixed assets</b>		<b>43,446</b>	45,077	<b>582,078</b>	420,820
<b>Total fixed assets</b>		<b>82,506</b>	95,380	<b>582,564</b>	421,300
Accounts receivable		1,377	2,595	1,318	2,586
Receivables from subsidiaries		-	-	168,357	64,669
Tax receivables		1,741	1,897	-	-
Other receivables	14	3,926	8,063	1,478	3,113
Pre-paid costs and accrued revenues	15	8,550	9,900	1,558	1,934
<b>Total short-term receivables</b>		<b>15,594</b>	22,455	<b>172,711</b>	72,302
Short-term investments	16	4,174	182,272	4,174	182,272
Cash and bank balances		210,614	45,293	208,724	34,734
<b>Total short-term investments</b>	17	<b>214,788</b>	227,565	<b>212,898</b>	217,006
<b>Total current assets</b>		<b>230,382</b>	250,020	<b>385,609</b>	289,308
<b>TOTAL CURRENT ASSETS</b>		<b>312,888</b>	345,400	<b>968,173</b>	710,608

SEK thousands	note	Group		Parent Company	
		Dec 31, 04	Dec 31, 03	Dec 31, 04	Dec 31, 03
<b>SHAREHOLDER'S EQUITY AND LIABILITIES</b>					
Restricted equity					
Share capital		337,389	337,389	337,389	337,389
Restricted reserves		48,383	186,367	46,868	184,926
		<b>385,772</b>	523,756	<b>384,257</b>	522,315
Unrestricted equity					
Unrestricted reserves		-49,244	73,421	-228,103	-299,808
Loss for the year		-174,228	-307,599	141,991	-20,276
		<b>-223,472</b>	-234,178	<b>-86,112</b>	-320,084
<b>Total shareholders' equity</b>	18	<b>162,300</b>	289,578	<b>298,145</b>	202,231
Long-term interest-bearing liabilities	19, 20	98,472	4,930	93,987	-
<b>Total long-term liabilities</b>		<b>98,472</b>	4,930	<b>93,987</b>	0
Accounts payable, trade		15,427	25,029	4,125	1,725
Liabilities to subsidiaries		-	-	562,670	497,680
Tax liabilities		3,116	3,256	3,116	3,256
Other current liabilities	21	5,916	4,727	1,029	1,079
Accrued costs and pre-paid revenues	22	27,657	17,880	5,101	4,637
<b>Accrued costs and pre-paid revenues</b>		<b>52,116</b>	50,892	<b>576,041</b>	508,377
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>312,888</b>	345,400	<b>968,173</b>	710,608
Assets pledged	23	4,653	3,000	4,653	3,000
Contingent liabilities	23	40,000	40,000	47,854	47,575

## Changes in shareholders' equity

SEK thousands	note 18	Group			Parent Company		
		Share capital	Restricted reserves	Unrestricted equity	Share capital	Restricted reserves	Unrestricted equity
<b>Shareholders' equity, December 31, 2002</b>		<b>281,157</b>	<b>332,810</b>	<b>-233,700</b>	<b>281,157</b>	<b>325,269</b>	<b>-309,037</b>
Exchange-rate differences		-	-8,768	8,960	-	-	-
Treatment of profit/loss in preceding year		-	-309,037	309,037	-	-309,037	309,037
Transfers between restricted and non-restricted equity		-	2,668	-2,668	-	-	-
Loss for the year		-	-	-307,599	-	-	-20,276
Reduction of share capital		-168,694	168,694	-	-168,694	168,694	-
New share issue		224,926	-	-8,208	224,926	-	-8,208
Group contribution		-	-	-	-	-	-291,600
<b>Shareholders' equity, December 31, 2003</b>		<b>337,389</b>	<b>186,367</b>	<b>-234,178</b>	<b>337,389</b>	<b>184,926</b>	<b>-320,084</b>
Exchange-rate differences		-	-1,438	1,520	-	-	-
Treatment of profit/loss in preceding year		-	-184,926	184,926	-	-184,926	184,926
Transfers between restricted and non-restricted equity		-	1,512	-1,512	-	-	-
Profit/loss for the year		-	-	-174,228	-	-	141,991
Convertible issue		-	46,868	-	-	46,868	-
Group contribution		-	-	-	-	-	-92,945
<b>Shareholders' equity, December 31, 2004</b>		<b>337,389</b>	<b>48,383</b>	<b>-223,472</b>	<b>337,389</b>	<b>46,868</b>	<b>-86,112</b>

# Cash-flow statement

SEK thousands	note 24	Group		Parent Company	
		2004	2003	2004	2003
<i>Operating activities</i>					
Profit/loss after financial items		-174,228	-306,987	141,991	-19,664
Adjustments for items not included in the cash flow, etc.		17,896	18,857	-67,600	2,911
		<b>-156,332</b>	<b>-288,130</b>	<b>74,391</b>	<b>-16,753</b>
Taxes paid		0	0	0	0
<b>Cash flow from current operations before changes in working capital</b>		<b>-156,332</b>	<b>-288,130</b>	<b>74,391</b>	<b>-16,753</b>
<i>Cash flow from changes in working capital</i>					
Increase(-)/reduction(+) in current receivables		5,304	8,595	-30,549	6,845
Increase(-)/reduction(+) in current liabilities		1,383	-9,294	34,720	-5,120
<b>Cash flow from operating activities</b>		<b>-149,645</b>	<b>-288,829</b>	<b>78,562</b>	<b>-15,028</b>
<i>Investment activities</i>					
Shareholders' contributions received		-	-	-161,800	-
Acquisition of tangible fixed assets		-68	-67	-22	-
Acquisition of financial fixed assets		-1,703	-1,022	-1,703	-1,022
<b>Cash flow from investing activities</b>		<b>-1,771</b>	<b>-1,089</b>	<b>-163,525</b>	<b>-1,022</b>
<i>Financing activities</i>					
New share issue		-	216,718	-	216,718
Convertible loan		140,855	-	140,855	-
Amortization of loans		-	-26,700	-	-26,700
Amortization of financial leasing liabilities		-2,222	-1,534	-	-
Group contributions paid		-	-	-60,000	-278,000
<b>Cash flow from financing operations</b>		<b>138,633</b>	<b>188,484</b>	<b>80,855</b>	<b>-87,982</b>
<b>Cash flow for the year</b>		<b>-12,783</b>	<b>-101,434</b>	<b>-4,108</b>	<b>-104,032</b>
<b>Liquid funds, January 1</b>		<b>227,565</b>	<b>329,132</b>	<b>217,006</b>	<b>321,038</b>
<b>Exchange-rate differences in liquid funds</b>		<b>6</b>	<b>-133</b>	<b>-</b>	<b>-</b>
<b>LIQUID FUNDS AT YEAR-END</b>		<b>214,788</b>	<b>227,565</b>	<b>212,898</b>	<b>217,006</b>

# Accounting principles

The Annual Report has been prepared in accordance with the Annual Accounts Act and the recommendations of the Swedish Financial Accounting Standards Council and its Emerging Issues Task Force.

Effective 2004, the following new recommendation of the Swedish Financial Accounting Standards Council is applied: RR 29 Employee Benefits

The recommendation introduced has not entailed any changes in accounting principles and consequently no recalculation of comparative figures.

Amounts are expressed in SEK thousands, unless otherwise indicated.

## Consolidated accounts

The consolidated accounts include the Parent Company Active Biotech AB and those companies in which the Parent Company directly or indirectly holds more than 50 percent of the voting rights or exercises decisive influence as a result of agreements.

The consolidated financial statements have been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation on consolidated Financial statements (RR1:00) and applying the purchase method.

The assets and liabilities of acquired subsidiaries are entered at market value according to the established acquisition analysis. These market values, together with direct costs attributable to the acquisition, constitute the Group's acquisition costs. The difference between the acquisition value of the subsidiary's shares and the acquisition value estimated by the acquisition analysis of acquired identifiable assets and liabilities are entered as consolidated goodwill, or alternatively, negative goodwill. The earnings of acquired companies are included in the consolidated accounts from the time of acquisition.

Companies divested during the year are included in consolidated earnings up until the time of divestment.

## *Translation of foreign subsidiaries*

In the preparation of the consolidated financial statements, foreign subsidiaries are translated according to the current-rate method, since the Group's foreign subsidiaries form independent units in which the Parent Company has a net investment. The current-rate method entails all assets, provisions and liabilities being translated at the exchange rate on the closing date and that all items in the income statement are translated at the average exchange rate for the year. Exchange-rate differences that arise are charged directly against shareholders' equity without affecting earnings for the year.

## *Associated companies*

Any company which is not a subsidiary but where the Parent Company directly or indirectly holds 20 percent of the total votes, or where the Parent Company directly or indirectly exercises a significant influence is considered an associated company.

Participations in associated companies are accounted for according to the equity method. The value of holdings in associated companies reported in the consolidated accounts is equivalent to the Group's share in the shareholders' equity of the associated companies and any remaining consolidated surplus or deficit value. In the consolidated income statement, "Profit/loss from participations in associated companies" includes the Group's participations in the earnings of associated companies after financial income and expenses, adjusted for any amortization or reversals of acquired surplus or deficit values. The Group's share of the reported taxes of the associated company is included directly in consolidated tax expenses. Participations in earnings generated following the acquisition of associated companies not yet realized through dividends are placed in the equity method reserve, which forms part of the Group's restricted shareholders' equity. The operations conducted by associated company Isogenica Ltd are fundamentally different from the Group's other operations and is consequently reported after operating profit/loss.

## *Elimination of transactions between Group companies*

Intra-Group receivables and liabilities, transactions between Group companies and related unrealized gains are eliminated in their entirety. Unrealized losses are eliminated in the same way as unrealized gains, unless a need to conduct a write-down exists.

## Classifications

Fixed assets, long-term liabilities and provisions primarily consist of amounts that are expected to be recovered or paid after more than 12 months from the balance-sheet date. Current assets and liabilities primarily consist of amounts that are expected to be recovered or paid within 12 months from the balance-sheet date.

## Valuation principles

Assets, provisions and liabilities have been valued at their acquisition value unless otherwise indicated below.

## Intangible fixed assets

In accordance with the Swedish Financial Accounting Standards Council's recommendation RR 15 Intangible Assets, intangible

assets are reported in the balance sheets when it is likely that the future financial benefits attributable to these assets will become available to the company and when the acquisition value of the assets can be calculated in a reliable manner.

Since the period in which the company's research and development projects are expected to be registered as pharmaceuticals lies well into the future, it is highly uncertain when possible future financial benefits will become available to the company. Development expenditure is only capitalized on the condition that it is technically and financially possible to realize the asset, that the intention is to utilize the asset in operations and that this is possible, or that the asset will be sold, and that its value can be calculated in a reliable manner. All research expenditure is charged against earnings on an ongoing basis.

Expenses in connection with patents, technology and brand rights and other similar assets are not capitalized but are expensed against earnings on an ongoing basis. No assets of this kind have been acquired.

#### **Fixed assets**

Tangible fixed assets are reported at their acquisition value following deductions for straight-line depreciation and possible write-downs. The acquisition value includes the purchase price, including customs and excise duties and costs directly attributable to getting the asset into place and into condition for use in accordance with the purpose of the purchase. The purchase price is reduced by discounts, etc. Examples of directly attributable costs included in acquisition value are costs for delivery, handling, installation, land certification, consultant fees and legal services. Further expenses are added to the acquisition value to the extent that the performance of the asset is improved in comparison with the level applicable upon its original acquisition. All other additional expenses are reported as costs during the period in which they are incurred.

#### **Depreciation**

Straight-line depreciation is based on original acquisition values less residual value. Straight-line depreciation is implemented over the asset's useful life and is reported as an expense in the income statement.

Straight-line depreciation is applied with the following percentages:

Plant and machinery 10-20%  
Computer equipment 20-30%  
Land improvements 3-14%

#### **Write-downs**

The company follows the Swedish Financial Accounting Standards Council's recommendation RR 17 Impairment of assets. The reported values of the Group's assets are verified at each balance-sheet date to determine whether any write-downs are necessary. If there are any such indications, the recoverable value of the asset is determined as the higher of its utilization value and its net realizable value. A write-down is made if the recoverable value is less than the carrying amount.

#### **Financial instruments**

The balance sheets include all financial instruments with the exception of derivative instruments.

A financial asset or liability is included in the balance sheets when the company becomes a party to the contractual terms of the instrument. Accounts receivable are included in the balance sheets upon invoicing. Accounts payable are included when invoices have been received.

A financial asset is removed from the balance sheets when the contractual rights have been realized, have matured or when the company loses control over them. The same applies for any part of a financial asset. A financial liability is removed from the balance sheets once the contractual commitments have been fulfilled or otherwise nullified. The same applies to any part of a financial liability. Financial instruments accounted for in the balance sheet include on the assets side include liquid assets, accounts receivable, short-term securities, loan receivables and bond receivables.

On the liability side are found accounts payable, short-term securities issued, loan debts and bond debts.

#### *Liquid assets*

Liquid assets include cash, immediately accessible bank holdings and other money market instruments with a term of less than three months. Items that have fixed interest are valued at their accrued value.

#### *Financial investments*

Financial instruments that are designed to always be kept on an ongoing basis within the operation are classified as fixed assets. Financial fixed assets comprised of shares are reported at their acquisition value after any depreciation to actual value. Evaluations are made on a share by share basis and depreciation to actual value is done when the decline in value is judged to be lasting. Short-term investments are valued at the lesser of their acquisition value and their net sale value at accounting year end. Valuations are made at the portfolio level.

*Accounts receivables*

Accounts receivables are reported in the amount which they are expected to be received after deductions for unsecured liabilities, which are evaluated individually. The anticipated term of accounts receivable is short, which is why values are reported at a nominal amount, without discounting.

*Accounts payable*

Accounts payable have a short anticipated term and are valued, without discounting, at their nominal amount.

*Convertible debentures*

When accounted for in the balance sheet for the first time, convertibles issued are divided according to their financial content. This means that convertibles are divided into a financial liability and an equity instrument. The value of the equity instrument is ascertained by subtracting the actual value of the financial liability at the time of issue from what was received when the convertible was issued. The liability's actual value is calculated by discounting future payment streams with the actual market interest rate for a similar liability, without the right of conversion. Issue costs for convertibles are distributed proportionally in relation between the calculated value of the financial liability and the equity instrument. To the extent that issue costs relate to equity instruments, they are reported as a deduction from restricted equity. The extent to which costs relate to financial liabilities is considered when calculating the effective interest rate for the loan.

**Receivables**

Receivables are reported at acquisition value reduced by any write-downs.

**Receivables and liabilities in foreign currencies**

Receivables and liabilities in foreign currencies have been translated at the exchange rate on the balance-sheet date in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 8 The Effects of Changes in Foreign Exchange Rates. Exchange-rate differences on current receivables and liabilities are included in operating loss/profit, while differences pertaining to financial receivables and liabilities are included among financial items.

**Borrowing costs**

Borrowing costs are reported in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 21 Borrowing Costs, and are charged against earnings in the

period to which they pertain, regardless of how the borrowed funds have been used. The company does not capitalize borrowing costs.

**Reporting of revenues**

The company follows the Swedish Financial Accounting Standards Council's recommendation RR11, Revenue. Active Biotech currently receives revenues for out-licensing of research projects and for invoiced research services.

In the out-licensing of research projects, non-recurring revenues in connection with contracts are recognized on the contract date. Any partial payments are recognized as revenue as and when Active Biotech meets the agreed criteria and agreement has been reached with the counterparty.

Possible future royalty revenues are recognized in accordance with the financial content of the agreements.

Invoicing of research services are recognized as revenue in the accounting period during which the work was performed.

Interest revenues are distributed over time to provide a uniform return during the lifetime of the holding.

Dividends are recognized as revenue when the right to receive payment is considered secure.

**Income taxes**

The company applies the Swedish Financial Accounting Standards Council's recommendation RR 9 Income Taxes. Total tax comprises current taxes and deferred taxes. Deferred taxes are calculated in accordance with the balance-sheet method based on temporary differences between the reported and taxation values of assets and liabilities.

Deferred tax receivables pertaining to loss carryforwards are reported to the extent that it is likely that the loss carryforwards can be settled against future surplus. Since it is not deemed likely that the Group will report taxable revenues exceeding its accumulated loss carryforwards in the near future, no deferred tax receivables are reported.

**Leasing**

The Swedish Financial Accounting Standards Council's recommendation RR 6:99 Leasing Agreements, is applied in the consolidated accounts for leasing agreements that have been entered into. Leasing is classified in the consolidated accounts as either financial or operational leasing. Financial leasing applies when the financial risks and benefits associated with ownership have, to all intents and purposes, been transferred to the lessee. Where this is not the case, operational leasing applies. Assets leased through financial leasing agreements have been reported

as assets in the consolidated balance sheet. The commitment to pay future leasing fees has been reported as long-term and current liabilities. These assets are subject to straight-line depreciation while leasing fees are reported as interest and amortization of liabilities.

### Segment reporting

In accordance with the Swedish Financial Accounting Standards Council's recommendation RR 25 Segment Reporting, companies shall provide information on the various parts of their operations according to types of business and geographic segments.

Since operations within the Active Biotech Group are organized as a cohesive unit, with similar risks and opportunities for the products and services produced, the company reports its operations jointly as a single type of operations forming its primary segment and its geographic distribution as its secondary segment. Because all operations are conducted in Sweden, all of the Groups earnings, assets and investments are reported as a single secondary segment.

### Employee remuneration

The company follows the Swedish Financial Accounting Standards Council's recommendation RR29, Employee remuneration.

#### *Current employee compensation*

Current employee compensation, such as salaries, social security costs, paid vacation and sick leave, are accounted for when an employee has performed services in exchange for said compensation, which are due in their entirety within twelve months after the end of the period during which the employee performed the service that entitled them to compensation.

#### *Compensation to employees after conclusion of employment*

Both defined-benefit and defined-contribution pension plans exist within the Group. For defined-benefit plans, compensation to current and former employees is based on their salary at the time of retirement as well as the number of years of service. The Group assumes responsibility for ensuring that promised compensation is paid out.

For defined-contribution plans, the company pays pension premiums to separate legal entities and has no legal commitment or informal obligation to pay further premiums if these should lack the assets necessary to provide the promised benefits. The Group's earnings are offset by costs as these benefits are earned.

Commitments for retirements and family pensions for salaried employees in Sweden are secured through insurance

with Alecta. In accordance with a statement issued by the Swedish Financial Accounting Standards Council's Emerging Issues Task Force, URA 42, this is a defined-benefit plan that includes several employers. For financial year 2004, the company did not have access to information that would make it possible to report this plan as a defined-benefit plan. According to ITP, the pension plan, which is secured through an Alecta insurance policy, is therefore accounted for as a defined-contribution plan. Fees for pension insurance policies with Alecta amounted to SEK 6.4 million (6.3) for the year. Alecta's surplus can be divided among the insurance policy holders and/or the insured. At the end of 2004, Alecta's surplus, in the form of a collective consolidation level, was 128 percent (120 percent). The collective consolidation level is based on the market value of Alecta's assets as a percent of insurance commitments calculated according to Alecta's insurance technical calculation assumptions, which are not in agreement with the Swedish Financial Accounting Standards Council's recommendation RR29.

The Group's payments with regard to defined-contribution plans are reported as costs during the period in which employees conducted the services to which the payments are related.

#### *Severance compensation*

Severance compensation is compensation paid to employees resulting from a company decision to eliminate a position early. It is accounted for once the company demonstrates that it has eliminated a position in advance of when that position would normally expire.

#### *Share-related compensation*

At an Extraordinary General Meeting on December 8, 2003, an employee options program was implemented, with allocations in 2003, 2005 and 2006, through which all Active Biotech Group employees are offered the opportunity to acquire shares in the company. Employee options are allocated without consideration. The set exercise price for employee options from Series 1 issued to date, exceed the market value as of December 31, 2003 and 2004 respectively. The options program has not affected the Group's income statement or balance sheet. The options program will be accounted for in accordance with IFRS 2 effective January 1, 2005.

### Provisions

In accordance with the Swedish Financial Accounting Standards Council's recommendation RR 16 Provisions, Contingent Liabilities and Contingent Assets, provisions are reported when the Group has, or may be considered to have a commitment as

the result of events and it is likely that payment will be demanded to meet that commitment. A condition for this is that it is possible to make a reliable estimate of the amount that is to be paid.

#### **Contingent liabilities**

A contingent liability is reported as such in memorandum items when a possible commitment exists stemming from events that have occurred, the validity of which can only be confirmed by the occurrence or absence of one or more future events not entirely under the company's control. Alternatively, a contingent liability may be reported when a commitment exists stemming from events but which is not reported as a liability or provision since it is unlikely that an outflow of resources will be necessary, or the size of the commitment cannot be calculated with sufficient accuracy.

#### **Transactions with closely-related parties**

##### *Close relationships entailing influence over decisions*

The Parent Company has a close relationship with its subsidiaries entailing influence over decisions, see Note 13.

#### *Closely-related party transactions*

##### **Group**

With regard to salaries, other remunerations, costs and commitments related to pensions and similar benefits, as well as severance agreements for the members of the Board, the President and other Senior Executives, see Note 4.

##### **Associated companies**

No transactions with associated companies have taken place during the year. The associated company has no receivables or liabilities relative to the Group.

#### **Group contributions and shareholders' contributions**

Group contributions and shareholders' contributions are accounted for in accordance with the statement by the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council.

#### **Group details**

Of the Parent Company's total purchases, measured in SEK, 0 percent of purchases and 100 percent of sales are attributable to other companies within the entire group of companies to which the company belongs.

## Definitions

#### **Return on shareholders' equity**

Profit/loss for the year as a percentage of average shareholders' equity.

#### **Return on capital employed**

Operating profit/loss after net financial items plus financial expenses, as a percentage of average capital employed. Capital employed has been calculated as total assets less non-interest bearing liabilities.

#### **Equity/assets ratio**

Shareholders' equity plus minority interests, as a percentage of total assets.

#### **Proportion of risk-bearing capital**

Shareholders' equity plus minority interests and deferred tax liabilities as a percentage of the balance sheet total.

#### **Interest coverage ratio**

Operating profit/loss after financial items plus financial expenses, divided by financial expenses.

#### **Net debt/equity ratio**

Net interest-bearing liabilities (interest-bearing liabilities less short-term investments) divided by shareholders' equity, including minority interests.

# Notes

## Note 1 Notes

Net sales per market	Group		Net sales per type of revenue	Group	
	2004	2003		2004	2003
SEK thousands			SEK thousands		
Sweden	336	335	Research services	424	335
Denmark	88	-	Licensing revenues	69,300	-
Rest of Europe	30,312	-	<b>Total</b>	<b>69,724</b>	<b>335</b>
<b>Total Europe</b>	<b>30,736</b>	<b>335</b>			
Rest of the world	38,988	-			
<b>Total</b>	<b>69,724</b>	<b>335</b>			

## Note 2 Depreciation according to plan

SEK thousands	2004		2003	
	Tangible assets	Total assets	Tangible assets	Total assets
<i>Distribution by function</i>				
Administration	16	16	40	40
Research and development	13,073	13,073	15,445	15,445
<b>Total depreciation</b>	<b>13,089</b>	<b>13,089</b>	<b>15,485</b>	<b>15,485</b>
<i>Type of assets</i>				
Equipment, tools, fixtures and fittings	13,061	13,061	15,457	15,457
Land improvements	28	28	28	28
<b>Total depreciation</b>	<b>13,089</b>	<b>13,089</b>	<b>15,485</b>	<b>15,485</b>

Depreciation for financial leasing assets in the Group has been entered at SEK 2,546,000 (2,087,000) and refers to equipment, tools, fixtures and fittings within the research and development function.

### PARENT COMPANY

The Parent Company's depreciation for 2004 amounted to SEK 16,000 (40,000) and related to equipment, tools, fixtures and fittings within the administration function.

## Note 3 Auditors' remuneration

SEK thousands	Group and Parent Company	
	2004	2003
KPMG, auditing assignments <sup>1</sup>	991	1,301
KPMG, other assignments	117	206

<sup>1</sup> Review of prospectus accounted against SEK 766,000 (476,000) in shareholders' equity.

## Note 4 Employees, personnel expenses and Board members' fees

Personnel, number of employees	2004		2003	
	Average number of employees	of which, women	Average number of employees	of which, women
<b>Parent Company</b>				
Sweden	6	1 (17%)	7	2 (29%)
<b>Parent Company total</b>	<b>6</b>	<b>1 (17%)</b>	<b>7</b>	<b>2 (29%)</b>
<b>Subsidiaries</b>				
Sweden	145	90 (62%)	172	105 (61%)
<b>Group total</b>	<b>151</b>	<b>91 (60%)</b>	<b>179</b>	<b>107 (60%)</b>

Gender distribution in Senior Management	2004	2003
	Proportion women	
<b>Parent Company</b>		
Board of Directors	13%	13%
Other Senior Management	0%	20%
<b>Group total</b>		
Board of Directors	13%	13%
Other Senior Management	0%	20%

Personnel, absence due to illness	2004	2003	2003
	Jan 1-Dec 31	July 1-Dec 31	Jan 1-Dec 31
<b>Group total</b>	Sick leave in percent		
All employees	2.2%	3.1%	3.0%
Men	1.0%	1.3%	2.0%
Women	3.0%	4.2%	3.7%
Employees under 30 years of age	1.2%	2.3%	1.7%
Employees 30-49 years of age	1.6%	2.3%	2.2%
Employees over 49 years of age	3.7%	5.1%	5.4%
Absence of at least 60 days as % of total absence due to illness	58.6%	53.2%	54.0%

Salaries, other remunerations and social security costs	2004			2003		
	Board and CEO	Of which, earnings-related salary	Other employees	Board and CEO	Of which, earnings-related salary	Other employees
SEK thousands						
Parent Company						
Sweden	4,302	-	6,049	4,253	-	7,254
<b>Total Parent Company</b>	<b>4,302</b>	<b>0</b>	<b>6,049</b>	<b>4,253</b>	<b>0</b>	<b>7,254</b>
Subsidiaries in Sweden	-	-	66,091	-	-	62,418
<b>Total subsidiaries</b>	<b>0</b>	<b>0</b>	<b>66,091</b>	<b>0</b>	<b>0</b>	<b>62,418</b>
<b>Group total</b>	<b>4,302</b>	<b>0</b>	<b>72,140</b>	<b>4,253</b>	<b>0</b>	<b>69,672</b>

SEK thousands	Group		Parent Company	
	2004	2003	2004	2003
Board and CEO	4,302	4,253	4,302	4,253
Other employees	72,140	69,672	6,049	7,254
<b>Total salaries and remunerations</b>	<b>76,442</b>	<b>73,925</b>	<b>10,351</b>	<b>11,507</b>
Social security costs	40,635	41,429	6,624	7,969
of which, pension costs	15,274	16,742	3,220	4,223
(of which, to Board and CEO)	1,078	1,292	1,078	1,292
<b>Total payroll costs</b>	<b>117,077</b>	<b>115,354</b>	<b>16,975</b>	<b>19,476</b>

#### Senior management's conditions of employment

**Principles:** The Board of Directors will be remunerated in accordance with the decisions of the Annual General Meeting. Remuneration paid to The President & CEO and senior executives consists of fixed salary, other benefits and pensions as indicated below. Decisions on remunerations to the President and CEO are made by the Board. Remunerations for other senior executives are determined jointly by the Board and the President & CEO.

**The Board:** In accordance with a resolution of the Annual General Meeting, a total fee of SEK 750,000 was paid during 2004 to Board Members who are not employed within Active Biotech. The Chairman of the Board received a fee of SEK 250,000. The other members of the Board not employed by the company received fees of SEK 125,000 each (four members). The members of the Board have not received any other remuneration.

**President & CEO:** In 2004, the President & CEO Sven Andréasson received remuneration and other benefits of SEK 3,507,158 (of which other benefits amounted to SEK 4,022). Retirement is at 65 years of age with a defined-contribution pension. Pension premiums shall amount to 30 percent of pensionable income, which consists of basic salary. A mutual period of notice of 12 months applies to both the company and the President & CEO. Severance pay will not be paid and there are no loans. In December 2003, the President & CEO was allocated 11,200 Series 1 employee stock options, in accordance with a decision by the Extraordinary General Meeting on December 8, 2003.

**Other senior executives:** The four other senior executives received remuneration and other benefits of SEK 4,220,446 (of which other benefits amounted to SEK 237,766).

A mutual period of notice of six months applies to both the company and the senior executives. No severance pay will be paid. Pension benefits for other senior executives are payable in the interval between ITP conditions and up to 25 percent of salary.

Retirement age is between 60 and 65 years of age with defined-contribution pensions. Senior executives have not been granted any loans. In December 2003, the other senior executives were together allocated 22,500 Series 1 employee stock options.

#### Incentive program from 2003

The Extraordinary General Meeting of December 8, 2003 resolved to introduce an employee stock options program, according to which, employees of the Active Biotech Group will be offered the opportunity to jointly acquire at most 1,000,000 shares in the company. It was also decided to hedge the commitments implied by the employee stock options program by issuing a total of at most 1,330,000 options for subscription for shares to a subsidiary on the same conditions as those applicable to the employee stock options program. The full exercise of the employee stock options will entail a dilution of approximately 3.8 percent of the share capital.

**The principal conditions for the employee stock options are as follows:**

Series 1 employee stock options were issued in December 2003 and grant employees the opportunity to acquire at most 330,000 shares during the period June 1, 2006 to May 31, 2009. Series 2 and 3 employee stock options will be issued in June 2005 and June 2006 and will grant employees the opportunity to acquire at most 330,000 shares during the period June 1, 2007 to May 31, 2010, and at most 340,000 shares during the period June 1, 2008 to May 31, 2011. The exercise price for the Series 1 employee stock options has been set at SEK 90.70. However, as a consequence of the decision by the Extraordinary General Meeting on November 8, 2004 to issue convertible debentures, the exercise price has been recalculated at SEK 90.50 in accordance with the conditions of the options. The exercise price for Series 2 and 3 employee stock options will be set at 120 percent of the average share price during the final five trading days of May 2005 and May 2006 respectively.

The employee stock options will be allotted free of charge, with at most 33,600 being allocated to the President & CEO, and with a lower number per person to other employees. The options shall not be considered securities and it will not be possible to transfer them to a third party. The exercise of the options primarily requires that the holder is employed by the Active Biotech Group at the time of exercise. The Board may, pending a special decision, permit holders to exercise their options even after their employment has terminated. Holders' estates have the right to exercise the options on the condition that the holder remained in the employ of Active Biotech at the time of his/her death or was granted right of exercise through a special decision by the Board.

**Issue of debentures linked to options to subscribe for new shares and disposition of options**

To hedge the commitments entailed by the employee stock options program described above, debentures have been issued linked to options to subscribe for new shares on the following principal conditions:

Debentures of a nominal amount not exceeding SEK 1,330 associated with at most 438,900 Series 1 options, 1,438 900 Series 2 options and 452,200 Series 3 options for subscription for new shares shall be issued to a fully-owned subsidiary of Active Biotech AB (publ), waiving the rights of existing shareholders. Debentures are to be issued at a price corresponding to their nominal value and shall apply without interest and mature for payment on March 31, 2004.

Each Series 1 option entitles the holder to subscribe for one share during the period June 1, 2006 to May 31, 2009 at an exercise price of SEK 90.50.

Each Series 2 option shall entitle the holder to subscribe for one share during the period June 1, 2007 to May 31, 2010 at a subscription price corresponding to 120 percent of the average stock-market price for shares in Active Biotech AB (publ) during the final five trading days of May 2005.

Each Series 3 option shall entitle the holder to subscribe for one share during the period June 1, 2008 to May 31, 2011 at a subscription price corresponding to 120 percent of the average stock-market price for shares in Active Biotech AB (publ) during the final five trading days of May 2006.

**Note 5 Participations in the earnings of associated companies**

Pertains to the Active Biotech Group's share in the earnings of the associated company Isogenica Ltd and the Parent Company's write-down of its shares in associated companies. Isogenica Ltd has reported no tax expense for 2004.

**Note 6 Earnings from shares in subsidiaries**

SEK thousands	Group		Parent Company	
	2004	2003	2004	2003
Distributions from subsidiaries	-	-	72,410	-

In the event that the Articles of Association permit the issue of different classes of shares at the time at which the subscription price and the exercise of the options are determined, the subscription price and the shares purchased using the options shall be Class B shares.

Having subscribed for debentures with options, the subsidiary shall detach the options and hold them in order to meet their commitments in accordance with the employee stock options program described above. The subsidiary shall have the right to divest at most 330,000 options with the purpose of financing possible social security fees, etc. in connection with the implementation of the employee stock options program.

**Dilution effect and costs for the program**

Full exercise of the proposed options would increase the share capital by at most SEK 13,300,000, with reservation for the increase that could be caused by the recalculation of the number of shares to which each option provides purchase rights, which may occur as a consequence of share issues, etc. The dilution effect on full exercise of the options corresponds to about 3.8 percent (of which 2.9 percent as a consequence of allotments to employees). With the application of the Swedish Financial Accounting Standards Council's recommendation RR 18, the proposed options would not result in the dilution of the reported earnings per share for 2003. The proposed options may cause costs, partly in the form of social security costs on exercise of the options, and partly accounting costs during the lifetime of the options in accordance with the regulations proposed by the IASB, which are expected to come into force on January 1, 2005. On full exercise of all 1,000,000 options, on reaching maturity, the social security costs are estimated to amount to approximately SEK 7.8 million at an assumed original share price of SEK 60 and an annual increase in the price of Active Biotech shares of 10 percent. The intention is to finance this cost through the sale of options in the market.

**Valuation of options**

At the request of the Board, Handelsbanken Capital Markets has valued the options. Applying the customary valuation model (Black & Scholes) and without consideration for limitations on the right of disposition, the value of the options allotted in December 2003 is calculated at SEK 21.10 per option, giving a combined value of approximately SEK 7.0 million. The value of the options to be allotted in 2005 and 2006 is calculated in the same way and assuming a share price on each occasion of allotment of SEK 38 and SEK 42 respectively, amounts to SEK 14.50 and SEK 16.10 per option respectively, totaling SEK 10.2 million. Consequently, the total value of all options allocated through the program can be calculated at approximately SEK 17.2 million.

**The reasons for the proposal**

The reasons for the options program, which involves the waiving of the rights of existing shareholders are as follows: A share-related incentives program contributes to employees' continued focus on the growth of value in the company's projects and creates the conditions whereby all employees are able to share in the future growth in the value of the company, generated through the employees' efforts.

**Note 7 Interest revenues and similar profit/loss items**

SEK thousands	Group		Parent Company	
	2004	2003	2004	2003
Dividend	14,672	26,002	14,673	26,002
Interest	3,583	4,498	3,355	4,066
Exchange-rate differences	20	1,629	-	-
Capital gains on the sale of securities	12,187	2,582	12,187	2,582
	30,462	34,711	30,215	32,650

No interest revenues have been received from subsidiaries.

**Note 8 Interest expenses and similar profit/loss items**

SEK thousands	Group		Parent Company	
	2004	2003	2004	2003
Interest	-656	-766	-190	-383
Exchange-rate differences	-1,034	-1,994	-219	-
	-1,690	-2,760	-409	-383

No interest expenses have been paid to subsidiaries.

**Note 9 Exchange-rate differences affecting earnings**

SEK thousands	Group		Parent Company	
	2004	2003	2004	2003
Exchange-rate differences affecting earnings	61	51	34	55
Financial exchange-rate differences	-1,014	-365	-219	-
	-953	-314	-185	55

**Note 10 Tax**

SEK thousands	Group		Parent Company	
	2004	2003	2004	2003
<i>Current tax expenses (-) / tax income (+)</i>				
Tax expenses/tax income for the period	-	-	-	-
Tax adjustments brought forward from previous years	-	-612	-	-612
	0	-612	0	-612

SEK thousands	Group		Parent Company	
	2004	2003	2004	2003
<i>Reconciliation of effective tax</i>				
Profit/loss before tax	-174,228	-306,987	141,991	-19,664
Tax on the Parent Company according to current rates	48,784	85,956	-39,757	5,506
Effect of other tax rates for foreign subsidiaries	8	45	-	-
Other non-deductible expenses	-1,135	-6,726	-872	-6,662
Non-taxable revenues	98	13	20,372	11
Increase in loss carryforward without equivalent capitalization of deferred taxes	-48,292	81,104	-	-
Utilization of loss carryforward previously not capitalized	-	-	20,257	1,145
Reduction of temporary differences for which deferred tax has not previously been capitalized	537	1,816	-	-
Tax attributable to prior years	-	-612	-	-612
Reported effective tax	0	-612	0	-612

In 2003 and 2004, the Parent Company reported a pre-tax loss and a negative taxable loss before tax. As a result, the Parent Company did not report any current tax expenses for 2003 or 2004. As the Parent Company does not capitalize loss carryforwards, there was no deferred tax income in 2003 or 2004.

Because of the Group's activities with considerable research and development costs, the company is not liable for tax. At the end of 2004, the Group's accumulated loss carryforwards amounted to SEK 1,084 million and are attributable to the Group's Swedish companies. Since the time at which the company may be expected to generate revenues cannot be specified in accordance with RR 9, no deferred tax demands are reported.

Since no significant taxable or deductible temporary differences exist, no deferred tax assets or tax liabilities have been reported.

## Note 11 Earnings per share

The calculation of earnings per share is subject to the following:

**New share issue 2003:** The number of shares outstanding before the new share issue was 11,246,296 (1,145,024 Class A shares and 10,101,268 Class B shares).

The new share issue was conducted in accordance with the following: Two new Class B shares were issued for each old Class A share held (in total, 22,492,584 new shares).

Issue price of SEK 10, resulting in proceeds from the new share issue of SEK 224,925,840.

**Employee stock options:** The number of potential ordinary shares after the decision by the Extraordinary General Meeting on December 8, 2003 amounts to 1,330,000.

**Issue of convertible debentures in 2004:** The number of potential ordinary shares after the decision by the General Meeting on November 8, 2004 amounts to 3,748,764.

*Calculation of the number of shares in 2003*

For 2003, the newly issued shares have been included in the weighted average number of shares from the settlement date. Payment for the newly issued shares took place gradually during the month of May. The weighted average number of shares has been calculated at 26,062,252.

*Calculation of the number of shares in 2004*

For 2004, the number of ordinary shares was unchanged at 33,738,876.

*Earnings per share after dilution*

The outstanding convertible debentures and options have not resulted in any dilution in the calculation of the number of shares after full dilution.

*Summary of share data*

	2004	2003
Profit/loss for the year	-174,228,196	-307,598,529
Weighted number of ordinary shares before dilution	33,738,876	26,062,252
Weighted number of ordinary shares after dilution	33,738,876	26,062,252
Earnings per share before and after dilution	-5.16	-11.80
Number of shares at end of period	33,738,876	33,738,876
Number of shares at end of period, including warrants	38,817,640	35,068,876

## Note 12 Tangible assets

Group	2004			2003		
	Land	Equipment, tools, fixtures and fittings	Total	Land	Equipment, tools, fixtures and fittings	Total
TSEK						
Opening acquisition values	564	155,091	155,655	564	149,499	150,063
Acquisitions	-	1,846	1,846	-	5,592	5,592
Divestments/scrappings	-	-365	-365	-	-	0
Reclassifications	-	-	0	-	-	0
<b>Closing accumulated acquisition values</b>	<b>564</b>	<b>156,572</b>	<b>157,136</b>	<b>564</b>	<b>155,091</b>	<b>155,655</b>
Opening depreciation	73	105,279	105,352	45	89,822	89,867
Divestments/scrappings	-	-365	-365	-	-	0
Depreciation according to plan for the year	28	13,061	13,089	28	15,457	15,485
<b>Closing accumulated depreciation according to plan</b>	<b>101</b>	<b>117,975</b>	<b>118,076</b>	<b>73</b>	<b>105,279</b>	<b>105,352</b>
<b>Closing residual value according to plan</b>	<b>463</b>	<b>38,597</b>	<b>39,060</b>	<b>491</b>	<b>49,812</b>	<b>50,303</b>

During the year, tangible fixed assets for SEK 1,846,000 were acquired, of which SEK 1,777,000 was financed through financial leasing agreements.

*Financial leasing in the Group*

In 2002, the company and a leasing company signed an agreement on financial leasing of machinery and other technical facilities. The main terms of the agreement are as follows: rental period 36-60 months, final residual value three percent of the acquisition cost and an interest rate linked to a floating market rate. The Group has also signed agreements on the financial leasing of cars. Property leased through the above-mentioned agreements is entered in the consolidated balance sheet under equipment, tools, fixtures and fittings. At December 31, 2004 the book value of property covered by financial leasing agreements amounted to SEK 5,016,000. See also Note 19, Long-term interest-bearing liabilities.

*Operational leasing in the Group*

Group companies rent the building Stockholmsledet 7, Lund, where Active Biotech conducts its research operations. The building is owned by the Stockholmsledet 7

limited partnership, in which Active Biotech is a limited partner with a partnership share of SEK 40 million. The rental agreement is valid until January 31, 2009, but notice of termination may only be served provided that the limited partnership continues to receive external financing. If notice to terminate the agreement is not served at the latest three years prior to the termination of the lease, the agreement will, on each occasion, be extended by a further ten years. In the case of an extension, the terms of the agreement will remain unchanged. During the year, rent of SEK 18 million was paid. Estimated future rent payments, provided that the rental agreement is not extended, are due as follows: SEK 18 million within one year; later than one year but within five years SEK 56 million; and later than five years SEK 0 million (calculated on the basis of an assumed price index and unchanged interest rates). Between January 31, 2006 and January 31, 2009, Active Biotech AB will be entitled to acquire remaining shares in the limited partnership.

Parent Company	2004		2003	
	Equipment, tools, fixtures and fittings	Total	Equipment, tools, fixtures and fittings	Total
SEK thousands				
Opening acquisition values	1,012	1,012	1,012	1,012
Acquisitions	22	22	-	0
Divestments/scrappings	-	0	-	0
<b>Closing accumulated acquisition values</b>	<b>1,034</b>	<b>1,034</b>	<b>1,012</b>	<b>1,012</b>
Opening depreciation	532	532	492	492
Divestments/scrappings	-	0	-	0
Depreciation according to plan for the year	16	16	40	40
<b>Closing accumulated depreciation according to plan</b>	<b>548</b>	<b>548</b>	<b>532</b>	<b>532</b>
<b>Closing residual value according to plan</b>	<b>486</b>	<b>486</b>	<b>480</b>	<b>480</b>

**Note 13 Shares in subsidiaries and participations in associated companies and other long-term holdings of securities****Shares in subsidiaries**

December 31, 2004 (SEK thousands)	Corp. Reg. No.	Registered office	No. of shares	Proportion	Nominal value	Book value
Lund Research Center AB	556168-8515	Lund	200	100%	200	350,781
Active Biotech Research AB	556541-8323	Lund	1,000	100%	100	161,900
Actinova Ltd		Cambridge	4,500,000	100%	450,000 GBP	0
Actinova AB	556532-8860	Lund	1,000	100%	100	
Movera Holding AB	556157-8385	Lund	500	100%	100	26,950
Transport AB Movera	556256-9441	Lund	45,667,000	100%	45,667	
Active Security Trading AB	556092-7096	Lund	400	100%	400	
Active i Malmö AB	556254-0947	Lund	1,000	100%	100	
						<b>539,631</b>

**Change in book value of shares in associated companies**

SEK thousands	2004	2003
Opening acquisition value	377,831	377,831
Shareholders' contribution	161,800	-
Closing accumulated acquisition value	539,631	377,831
Opening write-downs	0	0
Write-downs for the year	-	-
Closing accumulated acquisition value	0	0
Closing book value	539,631	377,831

**Participations in associated companies**

December 31, 2004 (SEK thousands)	Corp. Reg. No.	Registered office	No. of shares	Proportion	Nominal value	Book value
Isogenica Ltd, 2004 12 31	3571781	Cambridge	1,749,690	24.3%	723,137 GBP	2,262
Isogenica Ltd, 2003 12 31	3571781	Cambridge	1,453,011	23.8%	648,967 GBP	2,767

**Change in book value of participations in associated companies**

SEK thousands	Group		Parent Company	
	2004	2003	2004	2003
<i>Accumulated acquisition values</i>				
Opening balance	2,767	4,616	9,677	8,655
New share issue	1,703	1,022	1,703	1,022
Participations in earnings of associated companies for the year	-2,148	-2,501	-	-
Exchange-rate differences for the year	-60	-370	-	-
	2,262	2,767	11,380	9,677
<i>Accumulated depreciation</i>				
Opening balance	0	0	-6,910	-4,039
Depreciation for the year	-	-	-2,208	-2,871
	0	0	-9,118	-6,910
<b>Residual value at close of period</b>	<b>2,262</b>	<b>2,767</b>	<b>2,262</b>	<b>2,767</b>

In the Parent Company, participations have been written-down to correspond to the Parent Company's share in the shareholders' equity of the associated company.

**Other long-term securities**

Other long-term securities pertain to the holding in the limited partnership Stockholmsledet 7 (Corp. Reg. No. 969646-1677). See also Note 12 on operational leasing.

**Note 14 Other receivables**

SEK thousands	Group		Parent Company	
	2004	2003	2004	2003
VAT receivable	3,893	5,130	1,474	576
Other current receivables	33	2,933	4	2,537
	3,926	8,063	1,478	3,113

**Note 15 Pre-paid expenses and accrued revenues**

SEK thousands	Group		Parent Company	
	2004	2003	2004	2003
Interest	1,005	1,424	1,005	1,424
Pre-paid rent	4,500	4,936	15	26
Pre-paid insurance	542	599	362	362
Other pre-paid expenses	2,503	2,941	176	122
	8,550	9,900	1,558	1,934

**Note 16 Short-term investments**

SEK thousands	Group		Parent Company	
	2004	2003	2004	2003
Interest-rate hedge fund	-	176,048	-	176,048
Swedish interest-bearing bonds	4,174	6,224	4,174	6,224
	4,174	182,272	4,174	182,272
Market value, short-term investments	4,179	211,376	4,179	211,376

**Note 17 Available liquid funds**

SEK thousands	Group		Parent Company	
	2004	2003	2004	2003
Cash and bank balances	210,614	45,293	208,724	34,734
Short-term investments	4,174	182,272	4,174	182,272
	214,788	227,565	212,898	217,006
Blocked bank balances	-4,653	-3,000	-4,653	-3,000
Available liquid funds	210,135	224,565	208,245	214,006

**Note 18 Shareholders' equity****Restricted reserves**

Restricted reserves may not be diminished through payment of dividends.

*Statutory reserve* The purpose of the statutory reserve is to save part of the net profit and is not used to cover the loss carried forward.

*Share premium reserve* When shares are issued at a premium rate, that is, at a price exceeding their nominal value, the amount exceeding the nominal value is placed in the share premium reserve.

**Unrestricted shareholders' equity**

*Unrestricted reserves* These comprise the unrestricted shareholders' equity of prior years following transfers to the statutory reserve and after the payment of any dividends.

In combination with the profit/loss for the year, forms total unrestricted shareholders' equity, that is, the amount available for distribution to shareholders.

Share capital	No. of A shares	No. of B shares	No. of Active Biotech shares	Total no. of shares	Share capital (SEK)
Opening balance, January 1, 2003	1,145,024	10,101,268	-	11,246,292	281,157,300
Reduction of share capital	-	-	-	0	-168,694,380
New share issue	-	22,492,584	-	22,492,584	224,925,840
Reclassification from class A to class B shares	-16,850	16,850	-	0	-
Transition to single share class	-1,128,174	-32,610,702	33,738,876	0	-
<b>Transition to single share class</b>	<b>0</b>	<b>0</b>	<b>33,738,876</b>	<b>33,738,876</b>	<b>337,388,760</b>
<b>Closing balance, December 31, 2004</b>	<b>0</b>	<b>0</b>	<b>33,738,876</b>	<b>33,738,876</b>	<b>337,388,760</b>

At the Annual General Meeting in April 2003, it was resolved to reduce the company's share capital by SEK 168,694,380 to SEK 112,462,920 for transfer to the statutory reserve through a reduction in the par value of shares from SEK 25 to SEK 10.

The Annual General Meeting also decided to conduct a new share issue with preferential rights for the company's shareholders under the following conditions: An existing share, regardless of class, entitled the holder to subscribe for two new Class B shares at the subscription price of SEK 10. The new share issue was fully subscribed, increasing the number of B shares by 22,492,584 and increasing share capital by SEK 224,925,840.

The Extraordinary General Meeting of December 8, 2003 resolved to amend the Articles of Association such that all shares shall be of the same class and consequently carry the same number of voting rights.

At the Extraordinary General Meeting of December 8, 2003 it was furthermore resolved to introduce an employee stock options program, according to which, all employees of the Active Biotech Group will be offered the opportunity to acquire at most 1,000,000 shares in the company. It was also decided to hedge the commitments entailed by the employee stock options program by issuing a total of at most 1,330,000 options for subscription for new shares to a fully-owned subsidiary on the same conditions as those applicable to the employee stock options. Full exercise of the employee stock options will entail a dilution effect of approximately 3.8 percent of the share capital. The principal conditions for the employee stock options are as follows:

- Series 1 employee stock options were allocated in December 2003 and grant the employees the opportunity to acquire at most 330,000 shares during the period June 1, 2006 to May 31, 2009. Series 2 and 3 employee stock options will be allocated in June 2005 and June 2006 respectively and grant the employees the opportunity to acquire at most 330,000 shares during the period June 1, 2007 to May 31 2010 and at most 340,000 shares during the period June 1, 2008 to May 31, 2011.
- The exercise price for Series 1 employee stock options has been set at SEK 90.70, but due to the decision by the Extraordinary General Meeting on November 8, 2004 to issue a convertible subordinated debenture, the exercise price has been recalculated to SEK 90.50 in accordance with options requirements. The exercise price for the Series 2 and 3 employee stock options will be set at 120 percent of the average share price during the final five trading days of May 2005 and May 2006 respectively.

The employee stock options will be allotted free of charge with at most 33,600 being allocated to the President & CEO and a lower number per person for other employees.

At the Extraordinary General Meeting on November 8, 2004, it was decided to issue 3,748,764 convertible subordinated debentures, each with a nominal value of SEK 40. Holders of convertible debentures are entitled through June 15, 2009 to convert their convertible debentures into shares. The conversion rate is SEK 40. Upon full conversion, the number of shares in Active Biotech will increase by 3,748,764 shares, from 33,738,876 to 37,487,640 shares, corresponding to 11 percent of votes and capital in the company. Share capital increases upon full conversion from SEK 337,388,760 to SEK 374,876,400.

Restricted reserves	Parent Company	
SEK thousands	2004	2003
Statutory reserve	46,868	184,926

Specification of exchange-rate differences on shareholders' equity for the year	Group	
SEK thousands	2004	2003
Exchange-rate difference in foreign subsidiaries for the year	142	562
Exchange-rate difference in foreign associated companies for the year	-60	-370
	82	192

Specification of accumulated exchange-rate differences in shareholders' equity	Group	
SEK thousands	2004	2003
Accumulated exchange-rate difference, January 1	1,096	904
Exchange-rate difference in foreign subsidiaries	142	562
Exchange-rate difference in foreign associated companies	-60	-370
Accumulated exchange-rate differences at year-end	1,178	1,096

## Note 19 Long-term interest-bearing liabilities

### Convertible debentures

At the Extraordinary General Meeting on November 8, 2004, it was decided to issue 3,748,764 convertible subordinated debentures, each with a nominal value of SEK 40. Holders of convertible debentures are entitled through June 15, 2009 to convert their convertible debentures into shares. The conversion rate is SEK 40. Upon full conversion,

the number of shares in Active Biotech will increase by 3,748,764 shares, from 33,738,876 to 37,487,640 shares, corresponding to 11 percent of votes and capital in the company. Share capital increases upon full conversion from SEK 337,388,760 to SEK 374,876,400.

On the condition that no conversion takes place during 2005, the debenture loan will mature as follows:

SEK thousands	Amortization	Interest	Total payment
Within one year	-	2,999	2,999
Between one and five years	149,951	10,497	160,448
Later than five years	-	-	-
	149,951	13,496	163,447

### Financial leasing

Long-term interest-bearing liabilities concerning the Group's financial leasing agreements primarily involve future leasing fees attributable to agreements under financial leasing. Commitments involving financial leasing mature for payment as follows:

SEK thousands	Amortization	Interest	Total payment
Within one year	2,007	454	2,461
Between one and five years	4,485	883	5,368
Later than five years	-	-	-
	6,492	1,337	7,829

Amortization maturing within one year is reported as a current liability. Interest on financial leasing agreements is linked to floating market interest rates.

## Note 20 Financial instruments and financial risk management

Through its operations, the Group is exposed to various forms of financial risk. Financial risk denotes fluctuations in the company's earnings and cash flow resulting from changes in exchange rates, interest levels, refinancing and credit risks.

The Group's financial policy for the management of financial risk has been formulated by the Board and acts as a framework of guidelines and regulations in the form of risk mandates and limits for financial operations. Responsibility for the Group's financial transactions is managed centrally by the Parent Company's finance department. The general objective for the finance function is to provide cost-efficient financing and to minimize negative effects on the Group's earnings from market fluctuations.

### Currency risks

Currency risk comprises the risk that changes in exchange rates will have a negative impact on the Group's income statement, balance sheet and/or cash flow. Exchange-rate risks exist in the form of transaction and translation risks.

The Group has a relatively limited currency exposure, since operations are primarily conducted within Sweden. Earnings are exposed to fluctuations in exchange rates in the procurement of clinical trials, research services and clinical materials. Operating costs for the fiscal year amounted to SEK 270.6 million, of which approximately 19 percent consisted of costs in foreign currencies.

The proportion of costs in foreign currencies, primarily USD and EUR, may fluctuate as projects advance to later stages of development, potentially necessitating an increased number of clinical trials abroad.

The Group does not utilize any currency forward contracts or options to hedge its exchange-rate risks. Consequently, the strengthening of SEK during the year had a positive effect on the year's earnings.

### Credit risks

The Group's credit risks are marginal, since operations have a low invoicing level, due to the fact that the business activities currently comprise mainly research and development.

### Interest-rate risks

The Group's financing sources primarily consist of shareholders' equity and liabilities for financial leasing commitments.

Outstanding interest-bearing liabilities are reported in Note 19.

The Board of Active Biotech has established a policy for the investment of the Group's liquid funds, which allows liquid funds to be invested at low risk in Swedish and foreign shares, interest-bearing securities denominated in Swedish kronor and interest and equity funds. The proportion of shares, including equity funds, may not exceed 40 percent of the total portfolio and the proportion of equity hedge funds may not exceed 50 percent of the total share portfolio. Interest-bearing investments are limited to securities issued by the Swedish government, Swedish mortgage institutions and Swedish banks.

Interest-rate risk refers to the risk of negative impact on the Group's earnings due to fluctuations in market interest rates. The speed with which a sustained change in interest rates affects the Group's net interest income/expense depends on the fixed-interest term of borrowing and investments.

Outstanding interest-bearing investments are reported in note 16.

## Note 21 Other current liabilities

SEK thousands	Group		Parent Company	
	2004	2003	2004	2003
Personnel tax at source	3,136	2,186	256	277
Current interest-bearing liabilities	2,007	1,739	-	-
Other current liabilities	773	802	773	802
	5,916	4,727	1,029	1,079

## Note 22 Accrued expenses and pre-paid revenues

SEK thousands	Group		Parent Company	
	2004	2003	2004	2003
Accrued vacation liability including social security costs	8,964	8,911	2,291	2,076
Accrued employer's contributions	2,403	1,993	272	269
Reserved expenses for laid off personnel	5,671	-	-	-
Other accrued personnel costs	2,754	2,988	563	735
Other items	7,865	3,988	1,975	1,557
	27,657	17,880	5,101	4,637

**Note 23 Pledged assets and contingent liabilities**

SEK thousands	Group		Parent Company	
	2004	2003	2004	2003
<i>Assets pledged</i>				
For liabilities to credit institutions	4,653	3,000	4,653	3,000
	4,653	3,000	4,653	3,000
<i>Contingent liabilities</i>				
Guarantees for the benefit of Group companies	-	-	7,854	7,575
Guarantee commitments	40,000	40,000	40,000	40,000
	40,000	40,000	47,854	47,575
<b>Total pledged assets and contingent liabilities</b>	<b>44,653</b>	<b>43,000</b>	<b>52,507</b>	<b>50,575</b>
<i>Pledged assets for liabilities to credit institutions</i>				
Blocked bank balance	4,653	3,000	4,653	3,000

**Note 24 Supplementary data to the cash-flow statement**

SEK thousands	Group		Parent Company	
	2004	2003	2004	2003
<b>Interest paid and dividends received</b>				
Dividends received	14,672	26,002	14,672	26,002
Interest received	4,002	4,788	3,774	4,356
Interest paid	-656	-783	-190	-400
<b>Total</b>	<b>18,018</b>	<b>30,007</b>	<b>18,256</b>	<b>29,958</b>
<b>Adjustments for items not included in the cash flow</b>				
Depreciation and write-down of assets	15,675	15,485	4,810	2,911
Deduction for participations in earnings of associated companies	2,148	2,501	-	-
Anticipated dividends from subsidiaries	-	-	-72,410	-
Unrealized exchange-rate differences	73	871	-	-
<b>Total</b>	<b>17,896</b>	<b>18,857</b>	<b>-67,600</b>	<b>2,911</b>
<b>Transactions not involving payment</b>				
Acquisition of assets through financial leasing	1,777	5,525		
<b>Liquid funds</b>				
Liquid funds consist of the following components:				
Cash and bank balances	210,614	45,293	208,724	34,734
Current investments classifiable as liquid funds	4,174	182,272	4,174	182,272
<b>Total</b>	<b>214,788</b>	<b>227,565</b>	<b>212,898</b>	<b>217,006</b>

The above items have been classified as liquid funds based on the fact that:

- They are subject to insignificant risk for value fluctuations.
- They are easily converted to cash (with the exception of an amount of SEK 4.7 million, which is not available for use).
- They have a maturity of at most three months from the time of acquisition.

## *Proposed appropriation of earnings*

The Board of Directors and the President & CEO propose that the balanced loss in the Parent Company of SEK 86,112,389 be dealt with as follows:

Balanced loss	86,112,389
Withdrawn to statutory reserve	<u>-46,868,064</u>
Carried forward	39,244,325

According to the consolidated balance sheets, the Group's balanced loss amounted to SEK 223,472,860. It is proposed that no transfer to restricted shareholders' equity be made in the Group.

Lund, March 14, 2005

The Board of Directors of Active Biotech AB (publ)

MATS ARNHÖG  
Chairman

SVEN ANDRÉASSON  
President & CEO

MARIA BORELIUS

KLAS KÄRRE

PETER SJÖSTRAND

PETER STRÖM

HANS WÄNNMAN

INGELA FRITZSON

We have submitted our audit report on March 14, 2005.

KPMG Bohlins AB

STEFAN HOLMSTRÖM  
Authorized Public Accountant

This annual report is subject to adoption by the Annual General Meeting on April 21, 2005.

# Audit Report

To the general meeting of the shareholders of  
Active Biotech AB (publ)  
Corporate identity number 556223-9227

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President & CEO of Active Biotech AB for the year 2004. These accounts and the administration of the company are the responsibility of the Board of Directors and the President & CEO. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts 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 annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President & CEO, as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the President & CEO. We also examined whether

any board member or the President & CEO has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the company's and the group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other portions of the annual accounts and the consolidated accounts.

We recommend to the general meeting of shareholders that the income statements and balance sheets of the parent company and the Group be adopted, that the loss for the parent company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the President & CEO be discharged from liability for the financial year.

Lund, March 14, 2005  
KPMG Bohlins AB

Stefan Holmström  
Authorized Public Accountant

# Corporate governance

The Annual General Meeting is Active Biotech's highest decision-making body. At the Annual General Meeting, which is held not more than six months after the close of the fiscal year, the annual accounts for the preceding year are approved, the Board of Directors is elected, auditors are elected when necessary and statutory matters are addressed. Between General Meetings, the Board of Directors is the company's highest decision-making body. The Board appoints a President to head the management of the company. In accordance with Active Biotech's Articles of Association, the Board shall comprise between three and nine members with at most nine deputies. The President is a member of the Board.

The Annual General Meeting for 2003 was held on April 21, 2004, at which time the Meeting appointed six members of the Board, the remaining two members were appointed by the employees through the two union organizations SIF (the Swedish Union of Clerical and Technical Employees in Industry) and CF (the Swedish Association of Graduate Engineers). The Board is presented on page 59. Of the members elected by the Annual General Meeting, all except the Chairman of the Board, Mats Arnhög, and the President & CEO of the company, Sven Andréasson, are independent in relation to both the owners of the company and the company itself.

During 2004, ten meetings were held, for which minutes were kept, compared with nine such meetings in 2003. Key issues dealt with by the Board include the development of the research projects, business-development projects, partnership strategy and partnership discussions on matters such as laquinimod and Teva, the company's new strategic focus on projects in clinical development, information pertaining to the annual accounts and budget and financing matters.

## Nominations Committee

The process of nominating Board members entails the three largest shareholders each appointing a representative during the fourth quarter of the year. Under the direction of the Chairman of the Board, this group formulates a proposal for the composition of the Board, which is presented to the Annual General Meeting for decision.

On December 20, 2004, the three largest owners in the company, MGA Holding AB, Nordstjernan AB and Catella AB appointed their representatives in the Nominations Committee. MGA Holding is represented by Johnny Sommarlund, Nordstjernan is represented by Viveca Ax:son Johnson and the Catella funds are represented by Ulf Strömsten. The Nominations Committee is headed by the Chairman of the Board, Mats Arnhög. The Nominations Committee will present its proposal for the composition of the Board to the Annual General Meeting on April 21, 2005.

## Remunerations and Audit Committee

At the Annual General Meeting on April 21, 2004, it was decided that the company shall not have separate committees for remuneration and audit matters and that these matters shall instead be dealt with by the Board in its entirety. The salaries, remunerations, conditions of employment, etc. for Board members, the President and the management group are detailed in Note 4 on page 45.

## Auditors

At least one and at most two auditors and at most two deputy auditors are appointed by the Annual General Meeting for a period of four years. The auditors and deputy auditors appointed shall be authorized auditors or a registered firm of auditors.

At the Annual General Meeting in 2001, the KPMG Bohlins AB firm of auditors was elected with authorized auditor Stefan Holmström primarily responsible.

## President and management group

The President of Active Biotech AB, who is also the company's CEO, leads the day-to-day operations of the company and is responsible for ensuring that the Board receives information and the data it needs on which to base its decisions. The management group comprises the individuals appointed by the President & CEO as responsible for business or staff functions. During 2004, the management group, which is presented in more detail on page 60, consisted of three people in addition to the President.

# Board of Directors, President and Auditors



## Sven Andréasson

Born 1952, Board member since 1999  
MSc Stockholm School of Economics,  
President & CEO Active Biotech AB  
Holding: 40,000 shares, 175,000 call options,  
11,200 employee stock options, SEK 177,760 convertible debentures  
Other Board assignments: TiGenix BV, Leuven, Belgium



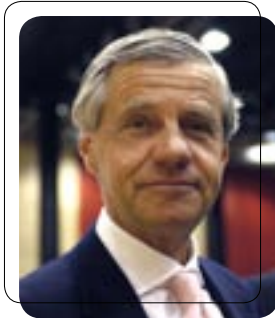
## Mats Arnhög

Born 1951, Board Member since 2000  
MSc Stockholm School of Economics, owner of MGA Holding AB,  
Chairman of the Board  
Holding: 9,756,028 shares, through companies and SEK 83,032,200  
convertible debentures  
Other Board assignments: MGA Holding Group, North Trade  
Stockholm AB, Nordstjernan AB, Situation Stockholm AB



## Maria Borelius

Born 1960, Board member since 2000  
BSc Biology, MSc Scientific Journalism,  
Scientific journalist, author, columnist in Swedish financial daily  
Dagens Industri  
Holding: 2,000 shares, SEK 8,880 convertible debentures  
Other Board assignments: SWECO AB (publ), Telelogic AB (publ)



## Peter Sjöstrand

Born 1946, Board member since 2000  
BSc Economics, MD, former Executive Vice President, Astra AB  
Holding: 0  
Other Board assignments: Chairman, Meda AB (publ),  
Chairman, Innate Pharmaceuticals AB (publ)



## Klas Kärre

Born 1954, Board member since 2003  
Professor of Molecular immunology at the Karolinska Institute  
in Stockholm  
Holding: 4,000 shares, SEK 17,760 convertible debentures  
Other Board assignments: Accuro Immunology AB,  
Karolinska Institute, Kalmar University



## Peter Ström

Born 1952, Board member since 2003  
MSc Stockholm School of Economics, Vice President IMS Health  
Holding: 11,000 shares, SEK 40,000 convertible debentures  
Other Board assignments: Comax AB



## Employee representatives

### Hans Wännman

Born 1959, employed since 1980, Board member since 1999  
Chemical Engineer, R&D Laboratories Pharmacy  
Holding: 2,500 employee stock options



### Ingela Fritzson

Born 1964, employed since 1987, Board member since 2004  
Engineer Chemical Engineering, R&D Laboratories Pharmacy  
Holding: 1,375 employee stock options



## Auditors

KPMG Bohlins AB with **Stefan Holmström** as principle auditor  
Born 1949, company auditor at Active Biotech AB since 2001  
Authorized Public Accountant KPMG

## Management group



### Sven Andréasson

President & CEO

Born 1952

Holding: 40,000 shares, 175,000 call options, 11,200 employee stock options, SEK 177,760 convertible debentures

Sven Andréasson has been President & CEO and a Board Member of Active Biotech since 1999. He has longstanding experience in the international pharmaceuticals industry, including time spent as President and Vice President of mainly Swedish, French and German companies within the Pharmacia Corporation.



### Hans Kolam

Chief Financial Officer

Born 1951

Holding: 5,000 shares, 7,500 employee stock options, SEK 22,200 convertible debentures

Hans Kolam has worked for Active Biotech since 2000. He has more than 20 years of experience in the pharmaceuticals industry, having held different positions in Pharmacia's financial organization, most recently as Vice President of Finance, Europe.



### Tomas Leanderson

Chief Scientific Officer

Born 1956

Holding: 7,500 employee stock options

Tomas Leanderson has been employed at Active Biotech since 1999. He has held a number of academic research positions both in Sweden and internationally. In 1990, Tomas Leanderson was appointed Professor of Immunology at Lund University.



### Lars M Nilsson

VP Regulatory & Quality Affairs

Born 1943

Holding: 1,000 shares, 7,500 employee stock options, SEK 4,440 convertible debentures

Lars M Nilsson has been employed at Active Biotech since 2001. He has a veterinary degree and has longstanding experience in the international pharmaceutical industry. His most recent position was as head of registration and quality assurance at Pharmacia Consumer Health Care.

# Glossary

**Angiogenesis** the formation of new blood vessels

**Antigen** a molecule capable of activating the immune defense

**Antibody** a protein secreted by a certain type of cell in the immune defense and which recognizes a specific antigen

**Autoimmunity** when the body's immune system reacts against structures in the body itself. Autoimmune diseases arise when the immune system attacks healthy tissue in the body

**Blockbuster** a drug that achieves sales of at least USD 1 billion annually

**Burn rate** how much capital used during the year on research and development and any other expenses

**Clinical studies** studies of the effects of a drug on human beings

**Cytokines** signal substances used by various cells in the immune system. These can, for example, stimulate cells into being more aggressive and kill tumor cells

**Cytostatic drugs** cell toxins

**EMA** European Agency for the Evaluation of Medical Products. The corresponding agency in the US is the FDA (Food and Drug Administration)

**Fast Track** the faster development procedure the FDA can approve for a drug that is in significant medical demand

**FDA** the US Food and Drug Administration

**Flare-up** new episode of recurrent or chronic disease

**Inflammation** the body's response to localized damage

**Infusion** a pharmaceutical preparation administered by intravenous drip

**Lead** chemical compound that binds to the target molecule, a possible candidate drug, also known as a model compound

**Lupus** an incurable rheumatic illness, see also SLE

**Metastases** secondary tumors in cancer diseases

**MS** multiple sclerosis, a chronic autoimmune disease

**Myelin** a fatty substance that surrounds the nerve fibers in the brain and other places

**NSAIDs** non-steroidal anti-inflammatory, pain-relieving and fever-reducing drugs

**Oral** by mouth

**Patent** exclusive rights to a discovery or invention

**Pharmacology** the science of the properties of drugs and their effects on the body

**Pharmacokinetics** study of how drugs are handled by the body from absorption to excretion; studies how and when the drug is distributed to the target organ and how it is absorbed there

**Phase (I, II and III)** the various stages in the study of a drug's effect on humans

**Pre-clinical** the part of drug development that takes place prior to the drug being tested on human beings

**Proof of principle** when a candidate drug has an effect on a biomarker, that is, a measurable parameter predicting the effect on a certain disease

**RA** Rheumatoid Arthritis

**RRMS** Relapsing Remitting MS, the most common type of MS where the illness develops in flares

**SLE** Systemic Lupus Erythematosus, a life-threatening autoimmune disease

**Superantigen** a protein that is 10,000 times better than a regular antigen at activating the body's immune system

**Synthesize** to produce in a synthetic manner or to produce a substance that does not occur in nature

**Target molecule** see Lead

**TASQ** tumor angiogenesis suppression, quinolines. Active Biotech's prostate cancer project

**T-cell (T-lymphocyte)** a type of white blood cell; lymphocyte. Is the cause of transplant rejection, influences the formation of antibodies and the body's best defense against, for example, viruses and parasitic infections

**Toxicology** the study of poisons or toxins and toxicity

**Tumor cell** a cell that divides uncontrollably

**TTS** tumor targeted superantigens, Active Biotech's method of treating cancer



Active  
Biotech 

**Active Biotech AB (publ)**

*Address* Scheelevägen 22  
P.O. Box 724  
SE-220 07 Lund, Sweden

*Telephone* +46 46-19 20 00

*Fax* +46 46-19 20 50

*Internet* [www.activebiotech.com](http://www.activebiotech.com)