

2006



Active Biotech develops innovative drugs that regulate the body's own immune defense. We focus on cancer and inflammatory diseases where there is an extensive medical need for new and more efficient forms of treatment. The majority of our projects are in clinical development.

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Interim report (Q2)	Aug 9, 2007
Interim report (Q3)	Nov 8, 2007
Year-end report for 2007	Feb 14, 2008
Annual report 2007	March 2008

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Information can also be obtained from our website www.activebiotech.com.

Manager Corporate Communication

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Annual General Meeting

The Annual General Meeting of shareholders is to be held on Thursday, April 19, 2007 at 5:00 p.m. at the company's premises at Scheelevägen 22 in Lund, Sweden.

Shareholders who wish to participate in the Meeting must (a) be recorded in the register of shareholders kept by VPC AB on Friday, April 13, 2007 and (b), notify the company of their intention to participate in the Meeting not later than 4:00 p.m. on Friday, April 13, 2007.

Shareholders who have trustee-registered shares must temporarily re-register the shares in their own name with VPC to be entitled to participate in the Meeting. This registration must be completed not later than April 13, 2007. Accordingly, shareholders must inform the trustee of this request in ample time prior to this date.

Notice of participation

Notice of participation can be made in writing to Active Biotech AB (publ), attn. Susanne Jönsson, P.O. Box 724, SE-220 07 Lund, Sweden, by fax +46 (0)46-19 20 50, by telephone +46 (0)46-19 20 00 or by e-mail susanne.jonsson@activebiotech.com. The notice shall include name, personal/corporate identity number, number of shares held, daytime telephone number and, if applicable, the number of advisors (two at the most) that will accompany the shareholder at the Meeting.

The notice of the Annual General Meeting is available in its entirety on the company's web site www.activebiotech.com.



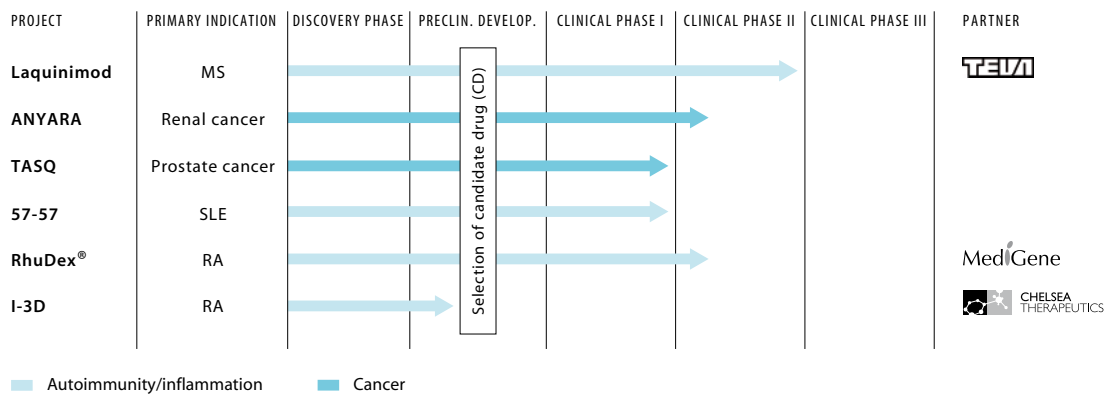
This report contains forward-looking information regarding Active Biotech. Although we believe that our expectations are based on reasonable assumptions, forward-looking assumptions could be affected by factors causing the actual outcome and trend to differ materially from that forecast. The forward-looking 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.

Active Biotech in brief

Active Biotech currently has five projects in clinical phase and focuses on the development of pharmaceuticals within medical areas in which the immune defense is of central significance. The research portfolio comprises projects for the development of drugs against autoimmune/inflammatory diseases and cancer.

- **Laquinimod** is a new compound under development for the treatment of multiple sclerosis (MS). Compared with existing treatment alternatives, laquinimod has the advantage of being orally administered. Active Biotech has signed an agreement with Teva Pharmaceutical Industries Ltd for the development and commercialization of laquinimod.
- **ANYARA** is a compound that makes the treatment of cancer tumor-specific. The development of ANYARA is principally focused on renal cancer.
- With the **TASQ**-project, Active Biotech is developing a so-called antiangiogenic compound that slows down the growth of cancer cells. The development of TASQ is mainly focused on the treatment of prostate cancer.
- **57-57** is a compound for treatment of systemic lupus erythematosus (SLE), a disease that causes inflammation and damage to the connective tissue of many organs in the body with serious secondary symptoms, such as renal failure.
- **RhuDex®** is a compound that is primarily intended to be used as a drug for the treatment of rheumatoid arthritis (RA). Active Biotech has entered into a licensing agreement with MediGene AG, where they have been granted the exclusive right to further develop and market the product.

In addition to the above clinical-phase projects, Active Biotech is working together with the US biotechnology company Chelsea Therapeutics International Ltd in the development and commercialization of I-3D, a group of orally available compounds for treating rheumatoid arthritis (RA). The I-3D project is currently in the preclinical phase.



We are growing in pace with our clinical achievements



Five projects in clinical phase – five successful studies. Active Biotech has developed from an early research operation to a company with a balanced and relatively mature project portfolio.

In 2006, Active Biotech had another year characterized by successful projects. All five projects in clinical phase proceeded according to plan and achieved during the year all set milestones. In our industry, it is unusual to experience a year without any project setbacks. The projects currently in clinical phase have successfully passed many milestones, resulting in a continuous build up of documentation. These achievements mean that Active Biotech is now viewed by the market as a significantly more mature company – the risk level has decreased and we will soon have one project in clinical Phase III trials and four projects in Phase II trials. This also means that we can commence the end stages of development toward registration for projects that have progressed furthest.

Financing

In 2006, the partnership agreement with Teva generated the first milestone payment amounting to SEK 51.2 million for achieved results in the development of our drug against MS. Including this amount, the cooperation with Teva has resulted in payments of approximately SEK 90 million to date.

During the year, we also sold a section of the land attached to our real estate in Lund. This provided us with an additional cash injection of SEK 25 million. The savings program implemented in 2004 liberated some space in the facility that is now being rented out to some other biotechnology companies. We currently have Cartela and MIP Technologies as tenants, together with a number of smaller companies with roots in the operation that was discontinued in conjunction with our reorganization. The rented property contributes both to the innovative climate in the building and to our finances through rental and service revenues.

During the year, Active Biotech was awarded a grant of SEK 5 million from Vinnova's "Research & Grow" program, which aims to strengthen and stimulate research and development in small and medium-sized companies. The grant will be used within a preclinical project for the development of a new generation of drugs against autoimmune/inflammatory diseases based on our knowledge of the so-called quinoline compounds.

To further strengthen the company's financial position, a new share issue was conducted at the beginning of 2007. This was fully underwritten by MGA Holding AB and

Nordstjernan AB and generated approximately SEK 240 million. Hence, Active Biotech is well prepared for the larger, more cost-intensive clinical development phases that the projects will enter into already in 2007. Preclinical activities are also set to increase.

Milestones remain unchanged

In the past year, all planned milestones were achieved. In 2007, the milestones for the development of projects have been expanded with the addition of the I-3D project.

Laquinimod

- Phase III program for the indication MS to commence in Europe/US

ANYARA

- Phase II/III studies in renal cancer patients to continue

TASQ

- Phase II program in prostate cancer patients to commence

57-57

- Phase II studies in lupus patients to commence

RhuDex®

- Phase IIa studies in RA patients to continue

I-3D

- Selection of candidate drug prior to start of clinical Phase I study

Laquinimod in Phase III

In September 2006, our partner Teva successfully concluded an additional Phase II study to establish the optimal dose for pivotal Phase III studies. The study met its primary end-point and demonstrated that treatment with laquinimod significantly reduced the rate of inflammatory disease activity and the number of clinical relapses compared with placebo. Safety and side-effect data confirmed the favorable safety profile that was seen in earlier Phase II studies. Teva will present more detailed data from the study at the conference of the American Academy of Neurology (AAN) at the beginning of May 2007. Clinical Phase III studies in the US and Europe are scheduled to start in 2007 and we are highly impressed by the strong commitment demonstrated by our project partner. The data generated further strengthens the fact that laquinimod has a unique mode of action profile compared with all other drugs in development for the treatment of MS.

ANYARA in Phase II/III

At the end of 2006, a randomized clinical Phase II/III study was initiated of ANYARA in combination with interferon

alpha in patients with advanced renal cancer. The study is being conducted at 45 clinics in Europe. The primary endpoint is survival and it will include a total of approximately 500 patients. An interim analysis based on approximately 200 patients is scheduled for mid-2008. If the results are positive, the study will continue with the same protocol and can then result in the submission of a registration application in 2009/2010. Naturally, a positive interim analysis will lead to an increase in the value of the project and will also facilitate discussions with commercial partners.

TASQ in Phase II

In September 2006, an interim analysis of the TASQ Phase I study was presented, which showed a treatment effect for prostate cancer patients with so-called hormone-refractory prostate cancer. This is an advanced stage of prostate cancer where the tumor cells no longer respond to hormone treatment. The results also showed that treatment with TASQ was well tolerated with only mild and transient side-effects.

Following this analysis, additional patients have been treated with a higher dose and all patients treated with TASQ will be monitored for an extended period. The trend is continuing in a positive direction and we now believe that we have a very solid base to advance in the clinical development. A clinical Phase II study is scheduled to commence before year-end 2007 and in parallel with this, discussions are being actively conducted with potential commercial partners.

57-57 entering Phase II

Market awareness and the need for a drug to treat the disease systematic lupus erythematosus (SLE) has increased. The number of SLE patients is probably equal to the number of MS patients – a fact that indicates a significantly larger market than we previously anticipated. A Phase I study for 57-57, including patients with both SLE and rheumatoid arthritis (RA), has been proceeding according to plan since December 2005. The clinical study will primarily document the candidate drug's safety and pharmacokinetic properties, but it will also register effect parameters. Furthermore, it will study a number of biological markers to determine the effect of 57-57 on disease progression. A clinical Phase II study is scheduled for 2007.

In 2007, Active Biotech will be able to announce which molecule 57-57 binds to, and accordingly, explain the mechanism behind its unique immunomodulatory effect. The fact that we have a compound that is "first in class" for the treatment of this critical disease should attract strong interest from potential partners active within the disease area.

RhuDex® in Phase IIa

In March 2006, MediGene successfully concluded two clinical Phase I studies of RhuDex® in healthy volunteers. The purpose of these studies was to evaluate the compound's safety, tolerability and pharmacokinetic properties, as well as the interaction between RhuDex® and other drugs. A clinical double-blind, Phase IIa, dose-escalation study in RA patients commenced at the beginning of 2007.

I-3D toward Phase I

In May 2006, Active Biotech signed a cooperation agreement with Chelsea Therapeutics International Ltd. The agreement covers the development and commercialization of I-3D, a group of orally active compounds that inhibit the enzyme dihydroorotate dehydrogenase (DHODH) for the treatment of RA. The aim is to select a candidate drug during 2007 and to subsequently commence clinical trials.

Preclinical activities

In March 2006, Active Biotech submitted a patent application for the mode of action of so-called quinoline compounds. The candidate drugs of the laquinimod, TASQ and 57-57 projects all belong to this group of compounds. For these projects, a huge amount of efficacy and safety data have been compiled. However, the mode of action concerning how quinoline compounds function was previously unknown. For the past five years, we have pursued a project aimed at elucidating this mechanism. As mentioned earlier, the project has been successful. This knowledge significantly strengthens the value of all quinoline projects, but naturally, it can also be a starting point for the development of entirely new drugs against autoimmune diseases. Research is currently in progress with partial financing from Vinnova. Together with our partners Lund University and SARomics, we have now formed a base for a completely new research program concerning quinolines.

An exciting year

To summarize, we can look forward to another exciting year for Active Biotech. All five clinical projects are now taking important steps on the path towards finally developed drugs and a sixth is approaching the clinical phase. In addition, we have the new preclinical program based on quinolines in development. In conjunction with scientific advances, we are also rapidly approaching commercial success. The existing cooperation agreements have provided us with a strong commercial base and we expect to secure at least one new partnership agreement in 2007.

Lund, March 2007

Sven Andréasson, President & CEO

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, 2006 to December 31, 2006. 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, and Active Forskaren 1 KB in Lund, which owns the property in which Active Biotech conducts operations. The Group also owns 12.3 percent of shares in 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 autoimmune/ inflammatory diseases. The projects address the indications multiple sclerosis, MS (laquinimod), systemic lupus erythematosus, SLE (57-57) and RhuDex[®] against rheumatoid arthritis, RA, which has been out-licensed to MediGene. The project portfolio also includes two potential drugs for treatment of the indications renal cancer/non-small cell lung cancer (ANYARA) and prostate cancer (TASQ). In addition to these five projects, a partnership agreement was signed with Chelsea Therapeutics in May 2006 concerning the preclinical project I-3D for the indication RA. A candidate drug is expected to be selected for clinical trials in 2007.

Research operations developed very favorably during the year, with positive results for all projects.

Laquinimod, the project that has progressed furthest in the clinical development process, is a new, immunomodulatory, disease-modifying drug in tablet form for the treatment of

MS. In September 2003, Active Biotech completed a Phase II study with positive results. In June 2004, an agreement was signed with Teva regarding the further development and commercialization of laquinimod.

The agreement grants Teva the 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 September 2006, Teva successfully concluded an additional Phase II study to establish the optimal dose for pivotal Phase III studies. The aim of the study was to further evaluate the safety and efficacy of laquinimod and to establish the dose for the subsequent Phase III study. The clinical Phase IIb study was a full-scale, double-blind, placebo-controlled, multi-center study that was performed in nine European countries and comprised slightly more than 200 patients. The study registered the effect of laquinimod, administered once daily in tablet form at dose levels of 0.3 mg or 0.6 mg during nine months, versus placebo.

Teva is currently discussing laquinimod's continued clinical development plan with the regulatory authorities in Europe and the US with the aim of commencing the clinical Phase III program.

ANYARA 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, the ANYARA project now comprises a candidate drug that is designed for an improved anti-tumor effect and lower toxicity, which can therefore be administered at significantly higher doses.

In 2006, three clinical Phase I studies of ANYARA for the treatment of advanced non-small cell lung cancer, renal cancer and pancreatic cancer were successfully concluded. The concluded clinical program comprised a Phase I dose-escalation study with 39 patients performed in the US, Norway and the UK, a Phase I combination study with ANYARA and the cancer drug Taxotere[®] for the treatment of lung cancer with 12 patients performed at clinics in the US, Denmark and Russia, and a PET study (Positron Emission Tomography study) performed in the UK. Taken together, the results mean that ANYARA, as a therapy principle, has now also demonstrated pharmacological proof of concept, since the treatment has shown effects in patients. In addition, the results from the Phase I program prove that ANYARA can be administered in a safe and easy manner.

Active Biotech has chosen to focus the continued clinical development on the indication renal cancer. A combined Phase II/III study for the treatment of renal cancer was initiated prior to year-end 2006 at 45 clinics in Europe. The study is a randomized study of ANYARA in combination

with interferon-alpha, compared with only interferon-alpha, in patients with renal cancer. The primary endpoint for this study is survival and it will include approximately 500 patients. An interim analysis based on approximately 200 patients is scheduled for mid-2008.

In the TASQ (Tumor Angiogenesis Suppression by Quinolines) project, Active Biotech is developing an anti-angiogenic substance for the oral treatment of prostate cancer. An initial clinical Phase I study involving healthy volunteers was concluded in February 2004. The study showed that the TASQ candidate drug can be administered daily at dosage levels expected to have an effect in the treatment of prostate cancer.

In November 2004, a clinical Phase I dose-escalation study in prostate cancer patients commenced, with the purpose of studying the safety of TASQ when the substance is administered in escalating doses. The maximum tolerated dose was reached at 0.5 mg/day. The study is being conducted at the urology clinics of the Sahlgrenska University Hospital in Gothenburg and the University Hospitals in Uppsala, Lund and Malmö.

In September 2006, an interim analysis of the ongoing Phase I study demonstrated a treatment effect for all evaluated prostate cancer patients. The study comprises a total of 24 patients with hormone-refractory prostate cancer. The interim assessment showed that treatment with 0.5 mg TASQ daily led to a reduced rate of increase of the PSA marker for all evaluated patients. In nine out of 10 patients this decrease was larger than 50%. TASQ was well tolerated by all patients with only mild and transient side effects. Patients have continued treatment in a follow-up study that aims to document long-term tolerance and safety.

The objective of the TASQ project is to develop a pharmaceutical product that can be administered orally for the chronic treatment of prostate cancer. Phase II studies are scheduled to commence in 2007.

In the company's fourth project, 57-57, Active Biotech develops a substance for the treatment of SLE. The first clinical Phase I dose-escalation study, comprising 30 healthy volunteers, was started at the Karolinska Hospital in Stockholm in November 2004 and was successfully completed in July 2005.

The results showed that 57-57 is very well tolerated at all of the tested dosage levels in single and repeated doses and that the compound is suitable to be administered as an oral, daily treatment.

The clinical development program continued according to plan when a Phase I study with SLE and RA patients commenced in December 2005. The study primarily documents the candidate drug's safety and pharmacokinetic

properties, but also monitors a number of biological markers to determine the effect of 57-57 on disease progression. This is a multi-center study and is being conducted at three hospitals in Sweden – the Karolinska University Hospital in Stockholm, Uppsala University Hospital, and Lund University Hospital, as well as clinics in Russia. Phase II studies for the 57-57 project are scheduled to commence in 2007.

In March 2006, Active Biotech submitted a patent application pertaining to the mode of action of the so-called quinoline compounds. The candidate drugs within the laquinimod, TASQ and 57-57 projects all belong to this group of compounds. This patent application may form the basis for the development of entirely new drugs against autoimmune diseases. Research is currently in progress with partial financing from Vinnova.

In April 2002, Active Biotech signed a licensing agreement with the British company Avidex Ltd, now a wholly owned subsidiary of MediGene, regarding Active Biotech's patented CD80 antagonists. The agreement grants MediGene the exclusive rights to develop and market the CD80 antagonists. MediGene has been successful in its preclinical development process and in 2004, a candidate drug named RhuDex[®] was selected, which is an orally administered small molecule principally intended for treatment of RA.

Phase I studies of RhuDex[®] commenced during the spring of 2005, which entailed a small milestone payment to Active Biotech and in March 2006, the company could report that RhuDex[®] had successfully concluded two Phase I studies in which safety, tolerability and pharmacokinetic properties were studied in healthy volunteers. A double-blind, Phase IIa, dose-escalation study in RA patients was initiated at the beginning of 2007. 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.

In May 2006, a cooperation agreement was signed with Chelsea Therapeutics pertaining to the development and commercialization of I-3D, a group of orally active compounds that inhibit the enzyme dihydroorotate dehydrogenase (DHODH) for the treatment of RA.

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 Concept stage, meaning that the candidate drug has demonstrated biological activity in humans.

Comments on the Income Statement

The Group's net sales amounted to SEK 66.4 million (9.2). The increase in sales is attributable to the first milestone payment from Teva totaling SEK 51.2 million relating to

the laquinimod project, an initial payment from Chelsea Therapeutics amounting to SEK 7.2 million relating to the I-3D project, and higher service and rental revenues. The preceding year's sales included a small additional milestone payment for the RhuDex® project from MediGene.

The operation's research and administrative costs amounted to SEK 190.9 million (197.1), a decrease in costs of 3 percent. Administrative expenses decreased by SEK 2.4 million to SEK 25.2 million, compared with SEK 27.6 million in 2005. Research and development costs decreased by SEK 3.7 million from SEK 169.5 million to SEK 165.7 million.

At year-end, the clinical development program comprised a total of five projects, of which laquinimod and RhuDex® are financed by partners and the three projects ANYARA, TASQ and 57-57 are financed by Active Biotech. Active Biotech's partner Teva is currently conducting discussions with regulatory authorities concerning laquinimod prior to initiating Phase III studies. At year-end, a Phase II/III study in the ANYARA project for the treatment of renal cancer was initiated. The study will include a total of 500 patients. TASQ and 57-57 are currently in the end stages of Phase I and are expected to commence Phase II trials in 2007. Costs for the ANYARA, TASQ and 57-57 clinical development programs were charged to Active Biotech's earnings.

The consolidated operating loss decreased by SEK 8.7 million to SEK 124.6 million (loss: 133.2). The earnings improvement is principally attributable to higher revenues and a lower cost scenario. Earnings in the preceding year included a capital gain of SEK 54.7 million, with no effect on liquidity, in conjunction with the conclusion of the company's financial lease obligation and the subsequent acquisition of the property in Lund where operations are conducted.

Consolidated net financial items amounted to a loss of SEK 17.3 million (loss: 16.1). The change between the years is mainly attributable to interest expenses totaling SEK 11.5 million (expense: 9.8) relating to the convertible debenture issued in 2004 and interest expenses of SEK 7.2 million (expense 9.8) relating to financing the purchase of the property in which operations are conducted.

The Group's loss after tax amounted to SEK 139.2 million (loss: 135.4).

Comments on the balance sheet

The Group's total assets amounted to SEK 462.4 million (567.9). The change is primarily attributable to the negative cash flow for the year and the related reduction in cash and cash equivalents.

Following the divestment of land in 2006, tangible fixed assets amounted to SEK 347.7 million (376.9) and mainly consisted of the property in which the company conducts operations, amounting to SEK 331.5 million (348.6), and equipment, tools, and fixtures and fittings totaling SEK 16.2 million (28.3). Financial fixed assets amounted to SEK 2.8 million (2.9). At year-end, cash and cash equivalents totaled SEK 97.9 million (178.4).

Comments on the cash-flow statement

The Group's negative cash flow for full-year 2006 amounted to SEK 80.5 million (neg: 36.4). The negative cash flow from operating activities in 2006 decreased by SEK 92.4 million to SEK 100.1 million (neg: 192.5). Cash flow from investing activities amounted to SEK 25.0 million (neg: 15.1) and cash flow from financing activities was negative in the amount of SEK 5.4 million (pos: 171.2). Investments in tangible assets amounted to SEK 0.3 million (5.9), of which SEK 0.3 million (0.7) was financed through financial leasing agreements.

Cash and cash equivalents and financial status

At year-end, cash and cash equivalents amounted to SEK 97.9 million (178.4). This change represents SEK 80.5 million in negative cash flow for 2006, despite a significant improvement in earnings for operating activities. The change between the years is primarily attributable to the preferential rights issue implemented in 2005, which provided the company with a capital infusion of SEK 164.2 million.

The Board of Active Biotech has established a policy for the investment of the Group's cash and cash equivalents, which allows investments 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.

The investment policy limits interest-bearing investments to securities issued by the Swedish government, Swedish mortgage institutions and Swedish banks. Interest-bearing liabilities amounted to SEK 358.7 million (360.5), of which SEK 98.2 million (94.9) resulted from the issue of convertible bonds in December 2004, SEK 256.1 million (260.0) from a property loan and SEK 4.4 million (5.6) from liabilities to leasing companies. At year-end, consolidated shareholders' equity amounted to SEK 60.4 million (176.8). The Group's equity/assets ratio was 13.1 percent at year-end 2006, compared with 31.1 percent at year-end 2005.

Parent Company

The operations of the Parent Company Active Biotech AB comprise Group-coordinative administrative functions. The Parent Company's net sales for the year amounted to SEK 54.7 million (9.0), which included a milestone payment from Teva amounting to SEK 51.2 million. Operating expenses for the year amounted to SEK 32.4 million (expense: 33.4). Net financial items for the period amounted to SEK 27.0 million (3.6), with the difference between the years attributable to higher dividends from subsidiaries, lower interest income and higher interest expenses for the convertible debenture.

Only marginal investments were made during the period. At year-end, the Parent Company's cash and cash equivalents amounted to SEK 88.2 million, compared with SEK 157.4 million at the beginning of the year.

Risk factors

Risks in operations

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 at 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 projects must be weighed against the potential that the projects will result in the development of a drug within the major indication areas addressed by the company.

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 and are expected to enter Phase III in 2007, which means it could take until 2010 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.

Although 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 in 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 compounds, 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.

Both the extent and timing of the Group'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.

Official 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 remain adequate.

Financial risks

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 production of clinical materials. Operating costs amounted to SEK 190.9 million during the fiscal year, of which about 15 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, exchange-rate effects may impact 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 currently engages primarily in research and development. For further information on financial risks, see note 19.

The organization

The average number of employees in the Group amounted to 89 (92), of which 49 (50) were women. The number of employees at December 31, 2006 was unchanged at 87 (87). The average age of employees was 47 (46) with an average employment period of 16.1 years (15.6).

The education level of the personnel is high; 25 hold a PhD and 49 have a university/college education. During the year, the Group had average training costs of SEK 7,995 per employee. The number of employees in research and development amounted to 71. For further information, see note 6.

In 2006, sickness absence amounted to 1.9 percent (1.1). The number of reported work injuries (including travel accidents) totaled 1 (1).

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 shareholders of 2.9 percent. The incentive program is described in greater detail under the section "The share" on page 44 and in note 6.

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

Since the timing for the signing of additional partnership agreements and the receipt of milestone payments from

agreements already entered into is uncertain, no earnings forecast is being issued for fiscal year 2007.

Accounting principles

From January 1, 2005, the consolidated financial accounts are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Commission for application within the European Union. Effective from the same date, the accounts of the Parent Company are prepared in accordance with recommendation RR32, Reporting of Legal Entities, of the Swedish Financial Accounting Standards Council. To achieve comparability with regard to the development and status of the Group and the Parent Company, the comparative year has been restated.

Events after the balance-sheet date

New share issue

In February 2007, the company announced that the preferential rights issue approved by the Board on December 15, 2006 was oversubscribed by 53 percent. Of the offered shares, 99.1 percent were subscribed for with the support of subscription rights. As a result of the new share issue, the number of shares in Active Biotech increased by 4 million shares to 44 million shares.

Early repayment of convertible loan

In addition, the Board resolved to exercise its entitlement to request premature repayment of a convertible loan raised in 2004 through the issuance of the 2004/2009 convertible debentures. The conversion rate, after adjustment for the preferential rights issue in 2007, amounts to SEK 37.42 per debenture. In the event of full conversion, the number of shares in the company will increase by a maximum of 3,352,905 to a total of 47,352,905.

Project results

In March 2007, the company announced that through step-wise dose escalation, TASQ can be administered at a dose of 1 mg/day, which corresponds to a doubling of the previously reported maximum tolerated dose (MTD) level. This dose of 1 mg/day will be administered in future clinical trials.

In March, Active Biotech also announced the conclusion of the first micro-dosing trial for I-3D. The study demonstrated that the selected I-3D compound (ABR-224050) is well suited for once-daily oral administration. However, further comparisons with other compounds in the I-3D portfolio will be conducted prior to continuing Phase I trials, which are scheduled for 2008.

Proposed appropriation of earnings

The Board of Directors and the President & CEO propose that the accumulated loss in the Parent Company of SEK 344,974,512 be dealt with as follows:

Accumulated loss	344,974,512
Carried forward	344,974,512

Lund, March 19, 2007

The Board of Directors of Active Biotech AB (publ)

MATS ARNHÖG
Chairman

SVEN ANDRÉASSON
President & CEO

KLAS KÄRRE

PETER SJÖSTRAND

PETER STRÖM

HANS WÄNNMAN

INGELA FRITZSON

We submitted our Audit Report on March 20, 2007.

KPMG Bohlins AB

STEFAN HOLMSTRÖM
Authorized Public Accountant

Business concept

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

Goals

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

Business strategy

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 cooperation, 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 registration and 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

Summary of financial development

SEK millions	2006	2005	2004	2003	2002
Income statement					
Net sales	66.4	9.2	69.7	0.3	3.8
Operating expenses (of which, depreciation)	-191.0	-142.4	-255.6	-336.8	-345.0
Operating profit/loss	-124.6	-133.2	-185.9	-336.4	-341.1
Participations in the earnings of associated companies	–	-1.1	-2.1	-2.5	-3.0
Net financial items	-17.2	-15.0	16.1	32.0	35.8
Profit/loss before tax	-141.8	-149.3	-171.9	-307.0	-308.3
Tax	2.6	13.9	–	-0.6	9.4
Profit/loss for the year	-139.2	-135.4	-171.9	-307.6	-298.9
Balance sheet					
Tangible fixed assets	347.7	376.9	313.1	50.3	60.2
Financial fixed assets	2.8	2.9	43.4	45.1	47.9
Other current assets	14.0	9.7	15.6	22.5	30.3
Cash and cash equivalents	97.9	178.4	214.8	227.6	329.1
Total assets	462.4	567.9	586.9	345.4	467.5
Shareholders' equity	60.4	176.8	104.1	289.6	380.3
Interest-bearing provisions and liabilities	358.7	360.5	401.1	6.7	29.4
Non interest-bearing provisions and liabilities	43.3	30.6	81.7	49.1	57.8
Total shareholders' equity and liabilities	462.4	567.9	586.9	345.4	467.5
Condensed cash-flow statement					
Cash flow from operating activities before changes in working capital	-117.2	-181.1	-142.7	-288.1	-285.7
Changes in working capital	17.1	-11.4	-1.2	-0.7	-6.0
Cash flow from investing activities	25.0	-15.1	-1.8	-1.1	-1.2
Cash flow from financing activities	-5.4	171.2	132.9	188.5	26.2
Cash flow for the year	-80.5	-36.4	-12.8	-101.4	-266.7
Key figures					
Capital employed (SEK million)	419.1	537.3	505.2	296.3	409.6
Net indebtedness (SEK million)	259.3	180.6	146.3	-260.9	-339.7
Surplus value in short-term investments (SEK million)	–	–	–	29.1	36.4
Return on shareholders' equity (%)	-117	-96	-87	-92	-56
Return on capital employed (%)	-34	-25	-39	-86	-56
Equity/assets ratio (%)	13	31	18	84	81
Proportion of risk-bearing capital (%)	13	31	18	84	81
Net debt/equity ratio (multiple)	4.29	1.02	1.41	-0.90	-0.89
Interest-coverage ratio (multiple)	neg	neg	neg	neg	neg
Research and development expenses (SEK million)	-165.7	-169.5	-224.7	-284.2	-285.2
Average number of employees	89	92	151	179	183
Salary expenses, incl. social security expenses (SEK million)	85.2	84.1	120.5	115.4	112.4
Data per share					
Profit/loss after tax (SEK)	-3.50	-3.70	-4.96	-11.49	-22.76
Shareholders' equity (SEK)	1.52	4.47	3.09	8.58	33.81
Net worth (SEK)	1.52	4.47	3.09	9.45	37.05
Unrestricted liquidity (SEK)	2.46	4.51	6.24	6.66	29.27
Market price of share at year-end (SEK)	78.00	81.75	35.48	59.30	17.05
Dividends (SEK)	0	0	0	0	0
Share price/shareholders' equity (%)	5,132	1,829	1,148	691	50
Share price/net worth (%)	5,132	1,829	1,148	628	46
Number of shares at end of period (000s)	39,795	39,592	33,739	33,739	11,246
Weighted average number of ordinary shares before dilution (000s) ¹⁾	39,755	36,610	34,665	26,778	13,134
Number of shares at end of period including subscription rights (000s)	41,125	40,922	35,069	35,069	12,125

¹⁾ Earlier periods were recalculated with respect to bonus issue components.

Years prior to 2004 were not restated to conform to IFRS.

If IFRS were applied in 2003 and 2002, reporting of the company's sale-leaseback agreement relating to the property in which the company conducts operations would have been changed from an operational lease to a financial lease. This would have entailed lower property expenses and higher interest expenses.

Consolidated income statement

JANUARY 1 – DECEMBER 31

SEK 000s	Note	2006	2005
Net sales	2	66,359	9,152
Administrative expenses	3, 4	-25,217	-27,610
Research and development expenses	3	-165,714	-169,462
Other operating income	5	–	54,679
Operating profit/loss	6	-124,572	-133,241
Financial income		2,375	5,039
Financial expenses		-19,628	-20,090
Participations in the earnings of associated companies		–	-1,051
Net financial income/expense	7	-17,253	-16,102
Profit/loss before tax		-141,825	-149,343
Tax	8	2,645	13,928
Net profit/loss for the year		-139,180	-135,415
Attributable to:			
Parent Company's shareholders		-139,180	-135,415
Minority interests		–	–
Earnings per share	15		
before dilution (SEK)		-3.50	-3.70
after dilution (SEK)		-3.50	-3.70

Consolidated balance sheet

AT DECEMBER 31			
SEK 000s	Note	2006	2005
ASSETS			
Land and buildings	9	331,484	348,584
Equipment, tools, fixtures and fittings	9	16,219	28,315
Participations in associated companies	10	–	1,380
Other long-term securities	11	1,380	–
Long-term receivables	12	1,451	1,518
Total fixed assets		350,534	379,797
Accounts receivable		768	1,537
Tax receivables		3,916	2,287
Other receivables		3,157	2,426
Pre-paid costs and accrued revenues	13	6,140	3,391
Cash and cash equivalents	22	97,886	178,426
Total current assets		111,867	188,067
TOTAL ASSETS		462,401	567,864
SHAREHOLDERS' EQUITY			
Share capital		150,003	395,922
Other capital contributed		1,628,429	1,376,946
Reserves		43,448	36,530
Loss carryforwards including loss for the year		-1,761,522	-1,632,584
Total shareholders' equity	14	60,358	176,814
LIABILITIES			
Convertible debentures	16	–	94,933
Liabilities to credit institutions	16	252,200	256,100
Other long-term liabilities	16	2,657	3,705
Total long-term liabilities		254,857	354,738
Short-term interest-bearing liabilities	16	5,648	5,761
Accounts payable		14,034	7,337
Tax liabilities		87	51
Convertible debentures	16	98,237	–
Other liabilities	17	2,262	2,193
Accrued costs and pre-paid revenues	18	26,918	20,970
Total short-term liabilities		147,186	36,312
TOTAL LIABILITIES		402,043	391,050
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		462,401	567,864

For information pertaining to pledged assets and contingent liabilities, see note 20.

Statement of changes in consolidated equity

SEK 000s	Note 14	Share capital	Other capital contributions	Reserves	Profit/loss brought forward incl. profit/loss for the year	Total shareholders' equity
Opening shareholders' equity, January 1, 2005		337,389	1,265,174	1,178	-1,499,603	104,138
Change in translation reserve for the year		–	–	-464	–	-464
Revaluation of property		–	–	49,744	–	49,744
Tax attributable to items recorded directly against shareholders' equity		–	–	-13,928	–	-13,928
Total changes in net worth reported directly against shareholders' equity, excl. transactions with company owners		–	–	35,352	–	35,352
Profit/loss for the year		–	–	–	-135,415	-135,415
Total changes in net worth excl. transactions with company owners		–	–	35,352	-135,415	-100,063
New share issue		56,234	107,997	–	–	164,231
Conversion		2,299	3,775	–	–	6,074
Share-related remuneration regulated by own capital instrument, IFRS 2		–	–	–	2,434	2,434
Closing shareholders' equity, December 31, 2005		395,922	1,376,946	36,530	-1,632,584	176,814
Opening shareholders' equity, January 1, 2006		395,922	1,376,946	36,530	-1,632,584	176,814
Changes in translation reserve for the year		–	–	98	–	98
Revaluation of property		–	–	15,443	–	15,443
Divestment of site leasehold		–	–	-4,299	4,299	–
Tax attributable to items recorded directly against shareholders' equity		–	–	-4,324	1,672	-2,652
Reduction of share capital		-247,686	247,686	–	–	–
Total changes in net worth reported directly against shareholders' capital, excl. transactions with company owners		-247,686	247,686	6,918	5,971	12,889
Profit/loss for the year		–	–	–	-139,180	-139,180
Total changes in net worth excl. transactions with company owners		-247,686	247,686	6,918	-133,209	-126,291
Conversion		1,767	3,797	–	–	5,564
Share-related remuneration regulated with by capital instrument, IFRS 2		–	–	–	4,271	4,271
Closing shareholders' equity, December 31, 2006		150,003	1,628,429	43,448	-1,761,522	60,358

Consolidated cash-flow statement

JANUARY 1 – DECEMBER 31

SEK 000s	Note 22	2006	2005
<i>Operating activities</i>			
Profit/loss before tax		-141,825	-149,343
Adjustments for items not included in the cash flow		24,580	-31,787
Cash flow from current operations before changes in working capital		-117,245	-181,130
<i>Cash flow from changes in working capital</i>			
Increase(-)/Reduction(+) in current receivables		-4,449	8,849
Increase(+)/Reduction(-) in current liabilities		21,561	-20,229
Cash flow from operating activities		-100,133	-192,510
<i>Investing activities</i>			
Acquisition of subsidiary		–	-8,500
Divestment of tangible fixed assets		25,000	–
Acquisition of tangible fixed assets		-33	-5,226
Acquisition of financial fixed assets		–	-1,333
Cash flow from investing activities		24,967	-15,059
<i>Financing activities</i>			
New share issue		–	168,703
Issue expenses		–	-4,472
Borrowings		–	12,663
Amortization of loan		-3,900	–
Amortization of leasing liabilities		-1,468	-5,736
Cash flow from financing activities		-5,368	171,158
Cash flow for the year		-80,534	-36,411
Cash and cash equivalents, January 1		178,426	214,788
Exchange-rate differences in cash and cash equivalents		-6	49
CASH AND CASH EQUIVALENTS AT YEAR-END		97,886	178,426

Parent Company income statement

JANUARY 1 – DECEMBER 31

SEK 000s	Note	2006	2005
Net sales	2	54,674	8,972
Administrative expenses	3, 4	-32,388	-33,351
Operating profit/loss	6	22,286	-24,379
<i>Profit/loss from financial items:</i>			
Profit from shares in subsidiaries	7	37,000	10,135
Loss from participations in associated companies	7	–	-882
Interest income and similar items	7	1,979	4,182
Interest expense and similar items	7	-11,947	-9,838
Profit/loss after financial items		49,318	-20,782
Profit/loss before tax		49,318	-20,782
Tax	8	–	–
Net profit/loss for the year		49,318	-20,782

Parent Company balance sheet

AT DECEMBER 31

SEK 000s	Note	2006	2005
ASSETS			
Fixed assets			
Equipment, tools, fixtures and fittings	9	359	366
Financial fixed assets			
Shares in Group companies	21	229,400	228,950
Participations in associated companies	10	–	1,380
Other long-term securities	11	1,380	–
Other long-term receivables	12	1,451	1,518
Total financial fixed assets		232,231	231,848
Total fixed assets		232,590	232,214
Current assets			
Short-term receivables			
Accounts receivable		3	–
Receivables from Group companies		69,977	177,368
Tax receivables		1,656	–
Other receivables		8	290
Pre-paid costs and accrued revenues	13	1,289	1,625
Total short-term receivables		72,933	179,283
Cash and bank balances	22	88,167	157,422
Total current assets		161,100	336,705
TOTAL ASSETS		393,690	568,919

AT DECEMBER 31			
SEK 000s	Note	2006	2005
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
<i>Restricted equity</i>			
Share capital		150,003	395,922
Statutory reserve		359,458	111,772
<i>Unrestricted equity</i>			
Share premium reserve		3,797	–
Loss carryforwards		-394,347	-226,904
Profit/Loss for the year		49,318	-20,782
Total shareholders' equity	14	168,229	260,008
Long-term liabilities			
Convertible debenture	16	–	94,933
Total long-term liabilities		–	94,933
Short-term liabilities			
Accounts payable		976	713
Liabilities to Group companies		112,433	201,571
Tax liabilities		71	35
Convertible debenture	16	98,237	–
Other liabilities	17	1,007	950
Accrued costs and prepaid revenues	18	12,737	10,709
Total short-term liabilities		225,461	213,978
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		393,690	568,919

Pledged assets and contingent liabilities for the Parent Company

AT DECEMBER 31			
SEK 000s	Note	2006	2005
Assets pledged	20	–	–
Contingent liabilities	20	8,400	8,579

Statement of changes in Parent Company's equity

SEK 000s	Note 14	Restricted equity			Unrestricted equity		Total Shareholders' equity
		Share capital	Statutory reserve	Share premium reserve	Profit/loss brought forward	Profit/loss for the year	
Opening shareholders' equity, January 1, 2005		337,389	46,868	–	-226,553	140,441	298,145
Group contributions paid		–	–	–	-190,094	–	-190,094
Treatment of profit/loss in preceding year		–	-46,868	–	187,309	-140,441	–
Total changes in net worth reported directly against shareholders' equity excl. transactions with company owners		–	-46,868	–	-2,785	-140,441	-190,094
Profit/loss for the year		–	–	–	–	-20,782	-20,782
Total changes in net worth excl. transactions with company owners		–	-46,868	–	-2,785	-161,223	-210,876
New share issue		56,234	–	107,997	–	–	164,231
Conversion		2,299	–	3,775	–	–	6,074
Share-related remuneration regulated by own capital instrument, IFRS 2		–	–	–	2,434	–	2,434
Transfer of share premium reserve to statutory reserve		–	111,772	-111,772	–	–	–
Closing shareholders' equity, December 31, 2005		395,922	111,772	–	-226,904	-20,782	260,008

SEK 000s	Note 14	Restricted equity			Unrestricted equity		Total Shareholders' equity
		Share capital	Statutory reserve	Share premium reserve	Profit/loss brought forward	Profit/loss for the year	
Opening shareholders' equity, January 1, 2006		395,922	111,772	–	-226,904	-20,782	260,008
Group contributions paid		–	–	–	-150,932	–	-150,932
Treatment of profit/loss in preceding year		–	–	–	-20,782	20,782	–
Total changes in net worth reported directly against shareholders' equity, excl. transactions with company owners		–	–	–	-171,714	20,782	-150,932
Profit/loss for the year		–	–	–	–	49,318	49,318
Total changes in net worth excl. transactions with company		–	–	–	-171,714	70,100	-101,614
Conversion		1,767	–	3,797	–	–	5,564
Share-related remuneration regulated by own capital instrument, IFRS 2		–	–	–	4,271	–	4,271
Reduction of share capital		-247,686	247,686	–	–	–	–
Closing shareholders' equity, December 31, 2006		150,003	359,458	3,797	-394,347	49,318	168,229

Cash-flow statement for the Parent Company

JANUARY 1 – DECEMBER 31

SEK 000s	Note 22	2006	2005
<i>Operating activities</i>			
Profit/loss after financial items		49,318	-20,782
Adjustments for items not included in the cash flow		4,302	2,746
Cash flow from current operations before changes in working capital		53,620	-18,036
<i>Cash flow from changes in working capital</i>			
Increase(-)/reduction(+) in current receivables		106,393	-5,882
Increase(+)/reduction(-) in current liabilities		-89,268	-4,456
Cash flow from operating activities		70,745	-28,374
<i>Investing activities</i>			
Acquisition of financial fixed assets		–	-1,333
Cash flow from investing activities		–	-1,333
<i>Financing activities</i>			
New share issue		–	168,703
Issue expenses		–	-4,472
Group contributions paid		-140,000	-190,000
Cash flow from financing activities		-140,000	-25,769
Cash flow for the year		-69,255	-55,476
Cash and cash equivalents, January 1		157,422	212,898
CASH AND CASH EQUIVALENTS AT YEAR-END		88,167	157,422

Notes to the financial reports

Note 1 Accounting principles

Conformity with standards and legislation

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and interpretations from the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union. In addition, the Group applied the recommendation of the Swedish Financial Accounting Standards Council RR 30:05 Supplementary Accounting Regulations for Groups.

The Parent Company applies the same accounting principles as the Group, except in the instances specified below in the section "Accounting principles of the Parent Company." Those deviations that arise between the accounting principles of the Parent Company and Group are caused by limitations in the possibilities of applying IFRS in the Parent Company due to the Annual Accounts Act and the Act on Safeguarding of Pension Commitments, and in certain cases, because of tax reasons.

The annual accounts and the consolidated accounts were approved for issue by the Board on March 19, 2007. The consolidated income statement and balance sheet and the Parent Company's income statement and balance sheet are subject for adoption by the Annual General Meeting on April 19, 2007.

Assumptions when preparing the Parent Company's and Group's financial statements

The Parent Company's functional currency is Swedish kronor, which is also the reporting currency for the Parent Company and the Group. Accordingly, the financial statements are presented in Swedish kronor, SEK. All amounts, unless otherwise stated, are rounded off to the nearest thousand. Assets and liabilities are reported at the historical acquisition value, except for the Group's property Forskaren 1, which is fair-valued, and certain financial assets and liabilities. Financial assets and liabilities fair-valued comprise financial assets classified as financial assets fair-valued via the income statement.

The preparation of financial reports in accordance with IFRS requires management to make assessments and evaluations that affect the application of the accounting principles and the reported value of assets, liabilities, revenues and expenses. The assessments and assumptions are based on historic experience and a number of other factors which, under the prevailing circumstances, are deemed reasonable. The results of these assessments and assumptions are used to estimate the reported values of assets and liabilities, which are otherwise not clearly apparent from other sources. The actual outcome may deviate from these evaluations and assessments.

The assessments and assumptions are reviewed regularly. Changes to the assessments are reported in the period in which the change is made if it is the only period affected by the change, but if it also affects future periods, it is reported in the period the change is made and the future periods.

Assessments made by management when applying IFRS that may considerably influence the financial statements together with estimates made that may entail significant adjustments to financial statements in forthcoming years are described in more detail in note 23.

The accounting principles for the Group detailed below were applied consistently in all periods presented in the consolidated financial statements, unless otherwise specified below. The Group's accounting principles were applied consistently in the reporting and consolidation of the Parent Company and subsidiaries, and in the inclusion of associated companies in the consolidated accounts.

New IFRS and interpretations not yet applied

One new standard and one amendment to an existing standard, as well as new interpretation statements, take effect for fiscal years beginning on or after January 1, 2007. Accordingly, these were not applied when preparing these financial statements.

IFRS 7 – Financial instruments: Disclosures, together with the related amendment in IAS 1 Presentation of Financial Statements, place demands on information concerning the significance of financial instruments for the company's financial position and earnings, as well as qualitative and quantitative information concerning the scope and nature of risks. IFRS 7 and the related amendment in IAS 1 will entail additional disclosure in the Group's financial reporting for 2007 with regard to the Group's financial instruments and capital.

Segment reporting

In terms of accounting, a segment is an identifiable element of the Group, which either supplies products or services (business sectors), or goods or services within a specified financial area (geographic region) and is exposed to risks and opportunities that differ from other 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. All operations are conducted in Sweden.

Classification, etc.

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

Consolidation principles

Subsidiaries

A subsidiary is a company in which the Parent Company Active Biotech AB has a controlling influence. Controlling influence entails a direct or indirect right to formulate a company's financial and operative strategies with the aim of obtaining financial benefits. When determining if a controlling influence exists, consideration is given to potential shares that carry voting rights, which can be utilized or converted without delay.

Subsidiaries are reported in accordance with the acquisition method. The method entails that the acquisition of a subsidiary is regarded as a transaction whereby the Group indirectly acquires the subsidiary's assets and takes over its liabilities and contingent liabilities. With regard to the Group, the acquisition value is established through an acquisition analysis in connection with the acquisition. In the analysis, the acquisition value is established for the shares or operations, both the fair value on the acquisition date of acquired identifiable assets as well as assumed liabilities and contingent liabilities. The acquisition value for the subsidiary's shares and operations comprises the fair values on the acquisition date for assets, accrued or assumed liabilities and equity instruments issued as payment for the acquired net assets, as well as transaction expenses that are directly attributable to the acquisition. If, in a business acquisition, the acquisition cost exceeds the net value of acquired assets and assumed liabilities and contingent liabilities, the difference is reported as goodwill. When the difference is negative, it is reported in the income statement. The subsidiaries' financial statements are included in the consolidated financial statements from the date of acquisition until the date the controlling influence ceases.

Associated companies

Associated companies are those companies in which the Group exercises a significant influence, but not a controlling influence, over operational and financial control, usually through a participating interest of between 20 and 50 percent of the number of votes. Participations in associated companies are reported using the equity method from the time of acquisition of the significant influence. The equity method entails that the value of holdings in associated companies reported in the consolidated financial statements corresponds to the Group's share in the associated company's equity, as well as consolidated goodwill and any remaining consolidated surplus or deficit value. In the consolidated income statement, "Profit/loss from participations in associated companies" includes the Group's share of net earnings in associated companies after tax and minority interests, adjusted for any amortization, impairment losses or reversals of acquired surplus or deficit values. Dividends received from associated companies reduce the carrying amount of the investment.

When the Group's share of reported losses in the associated company exceeds the carrying amount of shares in the Group, the share's value is reduced to zero. Settlement of losses is also reported against long-term financial transactions with no security, which in its financial implication, comprises a part of the owning company's net investment in associated companies. Ongoing losses are not reported unless the Group has provided guarantees to cover losses that arise in associated companies. The equity method is applied until the time the significant influence ceases.

Transactions to be eliminated at consolidation

Intra-Group receivables and liabilities, revenues and expenses and unrealized gains or losses that arise from transactions between Group companies are eliminated in their entirety when preparing consolidated financial statements.

Foreign currency*Transactions in foreign currency*

Transactions in foreign currency are translated to the functional currency at the exchange rate prevailing on the transaction date. The functional currency is the currency in the primary economic environment in which the company conducts operations. Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate prevailing on the balance-sheet date. Exchange-rate differences that arise in translation are reported in the income statement. Non-monetary assets and liabilities that are reported at the historical acquisition value are translated at the exchange rate prevailing at the time of the transaction. Non-monetary assets and liabilities that are reported at fair value are translated to the functional currency at the exchange rate that prevails at the date of valuation at fair value. Exchange-rate fluctuations are reported in the same way as other value fluctuations with regard to assets or liabilities.

Financial statements of foreign operations

Assets and liabilities in foreign operations, including goodwill and other consolidated surplus or deficit value, are translated from the foreign operation's functional currency to the Group's reporting currency, Swedish kronor, at the exchange rate prevailing on the balance-sheet date. Revenues and expenses in a foreign operation are translated to Swedish kronor at an average exchange rate that represents an approximation of the exchange rates prevailing at the time of each transaction. Translation differences that arise in currency translations of foreign operations are reported directly against shareholders' equity as a translation reserve. When a foreign operation is divested, accumulated translation differences related to it are, after the deduction of any currency hedging, reported in the consolidated income statement.

Reporting of revenues

Active Biotech currently receives revenues for out-licensing of research projects, for invoiced research services and rental income. In the out-licensing of research projects, nonrecurring revenues in connection with contracts are reported on the contract date. Any milestone 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 reported as revenue in the accounting period during which the work was performed. Dividends are recognized as revenue when the right to receive payment is considered secure.

Operating expenses and financial revenues and expenses*Payments pertaining to operational leasing agreements*

Payments pertaining to operational leasing agreements are reported straight-line over the leasing period. Benefits received in connection with the signing of an agreement are reported as part of the total leasing expense in the income statement.

Payments pertaining to financial leases

Minimum lease payments are divided between interest expenses and amortization of the outstanding liability. The interest expense is divided over the leasing period so that each accounting period is charged with an amount that corresponds to a fixed interest rate for the reported liability in each period. Variable fees are expensed in the periods in which they arise.

Financial income and expenses

Financial income and expenses include interest income on bank deposits, receivables and interest-bearing securities, interest expense on loans, income from dividends, exchange-rate differences and unrealized and realized profits on financial investments.

Interest income on receivables and interest expenses on liabilities are calculated using the effective interest method. Effective interest is the interest that makes the current value of all future receipts and payments during the fixed-interest term equal

to the carrying amount of the receivable or liability. The interest component in financial leasing payments is reported in the income statement through the application of the effective interest method. Interest income includes the allocated amounts of transaction expenses and any discounts, premiums and other differences between the original value of the receivable and the amount received at maturity.

Interest expenses include an allocated amount of issue expenses and similar direct transaction expenses required to raise a loan.

Dividend income is reported when the right to receive payments has been secured.

The Group and Parent Company do not capitalize interest in the asset's acquisition value.

Financial instruments

Financial instruments recorded in the asset side of the balance sheet include cash and cash equivalents, trade receivables, shares and other equity instruments, loan receivables and bond receivables. Liabilities and equity include accounts payable (trade), issued debt and equity instruments, as well as loan liabilities.

Recognition in, and derecognition from, the balance sheet

A financial asset or financial liability is recognized in the balance sheet when the company is party to the contractual conditions of the instrument. Trade receivables are reported in the balance sheet when the invoice has been sent. Liabilities are reported when the other contracting party has fulfilled its obligations and payment is due, although the invoice has not yet been received. Accounts payable (trade) are reported when the invoice is received.

A financial asset is derecognized from the balance sheet when the contractual rights are realized, mature or the company loses control over them. The same applies to parts of financial assets. A financial liability is derecognized from the balance sheet when the contractual obligation is met or otherwise ended. This also applies to parts of financial liabilities.

Acquisition and divestment of financial assets are reported at the transaction date, which is the date the company commits to the acquisition or divestment of the asset.

Cash and cash equivalents comprise liquid funds and immediately accessible balances in banks and corresponding institutes, as well as short-term liquid investments that have a maturity of three months or less from the acquisition date, which are exposed to only an insignificant risk of fluctuation in value.

Classification and valuation

Financial instruments are initially recorded at acquisition value representing the fair value of the instrument, with transaction costs added for all financial instruments, except those defined as financial assets and recorded at fair value in the income statement, which are recorded at fair value excluding transaction expenses. Accordingly, the reporting of financial instruments depends on how they have been classified, which is specified below.

Financial assets valued at fair value via the income statement

This category consists of two sub-groups: Financial assets held for trading and other financial assets classified in this category by the company (in accordance with the Fair Value Option). Financial instruments in this category are continuously valued at fair value with changes in value reported in the income statement. The first sub-group comprises derivatives with positive fair values, with the exception of derivatives that are an identified and effective hedging instrument. Depending on the purpose of the holding, financial instruments constitute either financial fixed assets if the duration is longer than one year, or short-term investments, if the duration is shorter than one year. Financial investments comprising shares or interest-bearing securities held for trading are classified in this category.

Loans and receivables

Loans and receivables are financial assets, which do not comprise derivatives, with fixed or determinable payments that are not quoted in an active market. Assets in this category are valued at amortized acquisition value. Amortized acquisition value is based on the effective interest calculated at the date of acquisition. Assets with a short duration are not discounted. This category comprises accounts receivable, long-term receivables and other receivables. Accounts receivable are reported at the amount that is expected to be received, that is, after the deduction of uncertain receivables, which are determined individually. Impairment of accounts receivable

is recognized in operating expenses. Other receivables are classified as long-term receivables if the duration is longer than one year and shorter than other receivables. Any impairment of long-term receivables is recognized as a financial item.

Other financial liabilities

Loans and other financial liabilities, such as accounts payable, are included in this category. Liabilities are valued at amortized acquisition value. Accounts payable have a short expected duration and are valued without discounting the nominal amount. Long-term liabilities have an expected duration of more than one year, while short-term liabilities have a duration of less than one year.

Issued convertible debentures

Convertible debentures can be converted to shares by the counterparty utilizing the option to convert the claim to shares. It is reported as a composite financial instrument divided into a liability portion and an equity portion. The fair value of the liability is calculated by discounting the future cash flow by the current market rate for a similar liability, without conversion rights, at the date of issue. The value of the equity instrument is calculated as the difference between the proceeds of the issue when the convertible debenture was issued and the fair value of the financial liability at the date of issue. Transaction expenses in conjunction with the issue of a composite financial instrument shall be distributed proportionally over the liability portion and the equity portion against how the issue proceeds are distributed. Interest expenses are reported in the income statement and are calculated using the effective interest method.

Tangible fixed assets

Assets owned

The Group values tangible fixed assets using the acquisition method with the exception of the company's property, which is valued using the revaluation method. Tangible fixed assets that are reported using the acquisition method are recognized in the consolidated accounts at acquisition value, less a deduction for accumulated depreciation and any impairment losses. The acquisition value includes the purchase price and expenses directly attributable to the asset to bring the asset to the site and in the working condition for its intended use. Examples of directly attributable expenses included in the acquisition value are delivery and handling costs, installation, acquisition registration, consultancy services and legal services.

The Group's properties are reported at fair value less deductions for accumulated depreciation and adjustments due to revaluation. Revaluation is conducted with the regularity that is required to ensure that the carrying amount shall not significantly deviate from what is established as the fair value on the balance-sheet date. The fair value of properties is based on valuations conducted by independent external appraisers. When an asset's carrying amount increases as a result of a revaluation, the increase is reported directly against shareholders' equity in the "Revaluation reserve." If the increase entails a reversal of the previously reported value impairment with regard to the same asset, the reduction is reported as a reduced expense in the income statement. When the carrying amount of an asset is reduced as a result of a revaluation, the reduction is reported as an expense. If there is a balance in the revaluation reserve attributable to the asset, the reduction is firstly reported directly against the revaluation reserve. The difference between depreciation based on the revaluated value and depreciation using the original acquisition value is transferred from the revaluation reserve to profit/loss brought forward.

Accumulated depreciation at the time of revaluation is eliminated against the asset's acquisition value (or, where appropriate, in the revaluated acquisition value) after which the remaining net amount is adjusted to achieve conformity with the amount to which the asset was re-valued (the asset's fair value).

When an asset is divested, the revaluation reserve is transferred to profit/loss carried forward with no impact on the income statement.

Tangible fixed assets comprising components with varying useful lifetimes are treated as separate components of tangible fixed assets.

The carrying amount for a tangible fixed asset is excluded from the balance sheet when it is disposed of, divested, or when no future financial benefits are expected from the disposal/ divestment of the asset. Profit or loss arising from divestment or disposal comprises the difference between the sale price and the asset's carrying amount, less deductions for direct sales expenses. Profit or loss is recorded as other operating revenues/expenses.

Leased assets

Leases are classified in the consolidated financial statements as either financial leases or operational leases. Financial leases occur when the financial risks and benefits associated with ownership are essentially transferred to the lessee. They are otherwise considered operational leases.

Assets leased through financial leasing agreements are reported as assets in the consolidated balance sheet. The commitment to pay future leasing fees is reported as long-term and short-term liabilities. These assets are subject to straight-line depreciation while leasing fees are reported as interest and amortization of liabilities.

Leasing fees for operational leases are expensed straight-line over the term of the lease based on the value in use, which can differ from that which has actually been paid as a leasing fee during the year.

Additional expenses

Additional expenses are added to the acquisition value only if it is probable that the company will recover the future economic benefits associated with the assets and the acquisition value can be calculated in a reliable manner. All other additional expenses are reported as expenses in the period in which they arise.

Pivotal in the assessments of when an additional expense is added to the acquisition value is whether the expense refers to the replacement of identifiable components or parts thereof, which is when such expenses are capitalized. Expenses are also added to the acquisition value when new components are created. Any undepreciated carrying amounts of replacement components, or parts of components, are disposed of and expensed in connection with the replacement. Repairs are expensed on an ongoing basis.

Depreciation principals

Depreciation is calculated using the straight-line method over the estimated useful life of the assets. The Group applies component depreciation, which means that the estimated useful life of the components is the basis for depreciation.

– Buildings, operating properties	35 – 100 years
– Equipment, tools, fixtures and fittings	3 – 10 years

The operating properties comprise a number of components, whose useful life varies. The main category is land and buildings. No depreciation is reported for the component land, since its useful life has been determined as unlimited. However, a building comprises a number of components whose useful life varies.

The useful life of these components has been estimated to vary between 35 and 100 years.

The following main categories of components have been identified and form the basis for the depreciation of buildings:

– Framework	100 years
– Non-structural elements, interior walls, etc.	50 years
– Glass roof	40 years
– Fire seal	40 years
– Installations; heating, electricity, plumbing, ventilation, etc.	50 years
– Elevators	35 years

Assessment of an asset's residual value and useful life is conducted annually.

Intangible assets

Research and development

Expenses for research with the purpose of acquiring new scientific or technical knowledge are reported as costs when they arise.

Expenses for developments, in which the research result or other knowledge is applied to produce new or improved products or processes, is reported as an asset in the balance sheet, if the product or process is technically and commercially useful and the company has adequate resources to pursue development and thereafter use and sell the intangible asset. Other expenses for development are reported in the income statement as a cost as they arise.

Since the period in which the company's research and development projects are expected to be registered is some way off in the future, there is considerable uncer-

tainty as to when any financial benefits will accrue to the company. Development expenses are capitalized only on the condition that it is technically and financially possible to complete the asset, that the intention is, and the conditions exist, for the asset to be used in operations or sold and that it can be valued in a reliable manner. Expenses pertaining to patents, technology and trademark rights and other similar assets are not capitalized, but are offset against earnings on an ongoing basis.

No assets of this character were acquired.

Impairment

Carrying values of Group assets are tested at each balance-sheet date to establish whether there are any impairment indicators.

Impairment testing of tangible and intangible assets and participations in subsidiaries and associated companies.

If there is an indication that an impairment requirement exists, the asset's recoverable value (see below) is calculated in accordance with IAS 36. If it is not possible to establish fundamentally independent cash flows attributable to a specific asset, when testing for impairment, the assets shall be grouped at the lowest level whereby it is possible to identify fundamentally independent cash flows – a so-called cash-generating unit.

An impairment loss is recognized when an asset's or cash-generating unit's (group of units) carrying amount exceeds the recoverable value. An impairment loss is charged to the income statement. Impairment loss in assets attributable to a cash-generating unit (group of units) is firstly allocated to goodwill. Thereafter, a proportional impairment is conducted of other assets included in the cash-generating unit (group of units).

The recoverable value is the highest of fair value less selling costs and value in use. In calculating value in use, future cash flows are discounted at an interest rate that takes into account the market's assessment of risk-free interest and risk related to the specific asset.

Impairment of financial assets

At each reporting occasion, the company assesses if there is objective evidence that an impairment requirement exists for a financial asset or group of financial assets. Objective evidence comprises observable events that have taken place that have had a negative impact on the prospect of recovering the acquisition value, and a significant or extensive reduction of the fair value of an investment in a financial investment classified as a financial asset for sale.

The recoverable value for assets included in the loans receivable and accounts receivable category, which are recorded at amortized acquisition value, is calculated as the present value of future cash flows discounted by the effective interest rate that applied when the asset was initially recognized. Assets with a short duration are not discounted. Impairment losses are charged to the income statement.

Reversal of impairment

An impairment loss is reversed if there is both an indication that the impairment requirement no longer exists and if there has been a change in the assumptions that formed the basis for the calculation of the recoverable value. However, impairment of goodwill is never reversed. Reversal of impairment is only conducted to the extent that the asset's carrying amount after the reversal does not exceed the carrying amount that would have been reported, less depreciation, where applicable, had no impairment taken place.

Impairment losses of investments held to maturity or loan receivables and accounts receivable that are recognized at amortized acquisition value are reversed if a later increase of the recoverable value can be attributed to an event that occurred after the impairment was conducted.

Employee remuneration

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 remuneration is paid.

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.

Defined-benefit pension plans are secured through insurance with Alecta, which is a defined-benefit plan that covers a number of employers. For the 2005 and 2006 financial years, the company did not have access to information that would make it possible to report this plan as a defined-benefit plan. The pension plan conforming to ITP and secured through an Alecta insurance policy is therefore accounted for as a defined-contribution plan.

Severance compensation

An expense for remuneration in connection with termination of employment of personnel is recognized only if the company is unquestionably obligated, without any realistic possibility of withdrawal, by a formal detailed plan to eliminate a position in advance of when that position would normally expire. When remuneration is paid as an offer to encourage voluntary termination of employment, a cost for this is reported if it is probable that the offer will be accepted and the number of employees that will accept the offer can be reliably estimated.

Current employee remuneration

Current remuneration to employees is calculated without discounting and is recorded as an expense when the related services are received.

A provision is recorded for the anticipated cost for bonus payments when the Group has an applicable legal or informal obligation to make such payments, as a result of services received from employees, and the obligation can be reliably estimated.

Share-related remuneration

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 payment. The options program was reported in accordance with IFRS 2 and URA 46.

An options program allows the employees the opportunity to acquire shares in the company. The fair value of allotted options is reported as a personnel expense with a corresponding increase in the shareholders' equity. The fair value is calculated at the time of the allocation and is distributed across the period of service. The fair value of the allocated options is calculated using the Black & Scholes model, taking into account the terms and conditions that applied at the time of allotment. The amount that is reported as an expense is adjusted to reflect the actual number of earned options.

Social security costs attributable to share-based instruments for employees as remuneration for purchased services are expensed across the periods in which the services were performed. Provisions for social security costs are based on the fair value of the options at the time of reporting. The fair value is calculated with the same valuation model used when the options were allocated.

Reporting of earnings per share

The calculation of earnings per share is based on profit/loss for the year in the Group attributable to the Parent Company's shareholders and on the weighted average number of shares outstanding during the year. When calculating earnings per share after dilution, earnings and the average number of shares are adjusted to take into account the effects of dilutive potential ordinary shares, which during the reported periods, were derived from convertible debentures and options issued to employees. Dilution only occurs when the exercise rate is lower than the trading price, and grows in pace with the increase of the difference between the exercise rate and the trading price. The exercise rate is adjusted by adding the value of future services connected to the equity-regulated employee options program, which was reported as share-related remuneration in accordance with IFRS 2.

Provisions

A provision is reported in the balance sheet when the company has an existing legal or constructive obligation resulting from past events and it is probable that an outflow

of financial resources will be required to settle the obligation and the amount can be reliably estimated. When the effect of the timing of when the payment will be made is significant, provisions are calculated by discounting the anticipated future cash flows to an interest rate before tax that reflects the actual market estimate of the money's value over time and, if applicable, the risks that are associated with the liability.

Taxes

Income taxes comprise current tax and deferred tax. Income taxes are reported in the income statement except where the underlying transaction is reported directly against shareholders' equity, whereby the associated tax effect is reported in shareholders' equity.

Current tax is tax that is to be paid or recovered in relation to the current year, applying tax rates determined or announced at the balance-sheet date. Adjustment to current tax relating to previous periods also belongs here.

Deferred tax is calculated using the balance-sheet method based on the temporary differences between the carrying amount and the value for tax purposes of assets and liabilities. The following temporary differences are not recognized: temporary differences that arise during initial reporting of goodwill, initial reporting of assets and liabilities that do not constitute a business acquisition and at the time of the transaction, do not have an impact on reported or taxable earnings. Furthermore, temporary differences are not recognized that are attributable to shares in subsidiaries and participations in associated companies that are not expected to be reversed in the foreseeable future. Estimates of deferred tax are based on how carrying amounts of assets and liabilities are expected to be realized or settled. Deferred tax is calculated applying tax rates and legislation determined or announced at the balance-sheet date.

Deferred tax receivables pertaining to deductible temporary differences and loss carryforwards are recognized to the extent that it is probable that they will be utilized. The carrying value of deferred tax receivables is reduced when it is no longer judged probable that they will be utilized.

Any additional income tax arising from dividends is reported at the same date as when the dividend was reported as a liability.

Contingent liabilities

A contingent liability is reported 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, or where there is a commitment not recognized as a liability or provision due to the low probability that an outflow of resources will be required.

Parent Company's accounting principles

The Parent Company has prepared its annual financial statements in accordance with the Annual Accounts Act (1995:1554) and the recommendations of the Swedish Financial Accounting Standards Council RR32:05, Accounting for Legal Entities. RR 32:05 entails that in the annual accounts for a legal entity, the Parent Company shall apply all of the IFRS regulations and statements approved by the European Union to as great an extent as possible, within the framework of the Annual Accounts Act and with consideration given to the relationship between accounting and taxation.

The recommendation stipulates what exceptions and additions shall be made from IFRS.

Changed accounting principles

Effective January 1, 2006, the company applies the regulations in Chapter 4, section 14 a-e of the Annual Accounts Act concerning the valuation of certain financial instruments at fair value and hedge accounting, which have entailed a change of accounting principles. This has meant that the Parent Company essentially applies the same accounting principles for financial instruments as those applied in the consolidated accounts. For the Parent Company, the change means that derivative instruments and financial investments shall be recognized at fair value – however, this has not had any effect on the Parent Company's results and status.

Differences between the Group's and the Parent Company's accounting principles

The differences between the Group's and the Parent Company's accounting principles are presented below. The accounting principles presented below for the Parent Company were applied consistently in all periods presented in the Parent Company's financial statements.

Subsidiaries and associated companies

Participations in subsidiaries and associated companies are reported by the Parent Company using the acquisition value method. Only received dividends are reported as revenue, on the condition that these are derived from earnings earned after the acquisition. Dividends that exceed these profits are considered as a repayment of the investment and reduce the participation's carrying amount.

Anticipated dividend

Anticipated dividends from subsidiaries are reported when the Parent Company alone has the right to determine the size of the dividend and the Parent Company has determined the size of the dividend prior to the Parent Company publishing its financial statements.

Financial guarantee contracts

The Parent Company's financial guarantee contracts mainly comprise guarantees for the benefit of subsidiaries, joint ventures and associated companies. Financial guarantees mean that the company has an obligation to compensate the holder of a promissory instrument for losses that it incurs because a specific debtor fails to pay by the due date in accordance with the terms and conditions of the agreement. For reporting of financial guarantee contracts, the Parent Company applies recommendation RR32:06, p 70 of the Swedish Financial Accounting Standards Council, which entails a relaxing of the regulations compared with IAS 39 as regards financial guarantee contracts issued for the benefit of subsidiaries, associated companies and joint ventures. The Parent Company records financial guarantee contracts as a provision in the balance sheet when the company has an obligation for which it is probable that payment will be required to settle the obligation.

Tangible fixed assets

Owned assets

Tangible fixed assets in the Parent Company are reported at acquisition value less deductions for accumulated depreciation and any impairment losses in the same manner as for the Group, but with the addition of any write-ups.

Leased assets

In the Parent Company, all leasing agreements are reported in accordance with the regulations for operational leasing.

Intangible fixed assets

Research and development

In the Parent Company, all expenses for development are reported as expenses in the income statement.

Taxes

Untaxed reserves include deferred tax liabilities when reported in the Parent Company. However, in the consolidated financial statements, untaxed reserves are divided into deferred tax liability and shareholders' equity.

Group contributions and shareholders' contributions for legal entities

The company reports Group contributions and shareholders' contributions in accordance with the statement by the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council. Shareholders' contributions are reported directly against shareholders' equity for the recipient and are capitalized in shares and participations at the contributor to the extent that impairment is not required.

Group contributions are reported in accordance with their financial impact.

This means that Group contributions paid to reduce the total tax of the Group, are reported directly against profit brought forward less deductions for its tax effect.

Group contributions that are comparable to a dividend are reported as a dividend. This means that Group contributions received and the tax effects are reported across the income statement. Group contributions paid and the tax effects are reported directly against profit brought forward.

Group contributions that are comparable to shareholders' contributions are reported by the recipient directly against profit brought forward, taking into account the tax effects. The contributor reports the Group contribution and its tax effect as an investment in participations in Group companies to the extent that impairment is not required.

Note 2 Distribution of Sales

SEK 000s	Group		Parent Company	
	2006	2005	2006	2005
Licensing revenues	58,404	4,528	51,174	4,528
Research services	2,597	1,463	–	–
Rental and service revenue	5,358	1,703	–	–
Administrative services	–	–	3,500	3,500
Other	–	1,458	–	944
Total	66,359	9,152	54,674	8,972

Note 3 Operating expenses distributed by type of cost

SEK 000s	Group		Parent Company	
	2006	2005	2006	2005
Personnel costs ¹⁾	89,354	85,918	22,819	22,154
Depreciation	19,979	20,082	7	120
Impairment	148	–	–	–
Operating expenses	17,181	14,947	3,694	4,146
Property expenses	10,854	13,522	1,018	311
Administrative expenses	2,449	3,076	2,449	3,077
External R&D services	46,471	55,384	–	–
Other external services	4,495	4,143	2,401	3,543
Total	190,931	197,072	32,388	33,351

¹⁾ Personnel costs include costs pertaining to the employee stock options program of SEK 6.314 million (5.565).

Note 4 Auditors' remuneration

SEK 000s	Group and Parent Company	
	2006	2005
KPMG, auditing assignments ¹⁾	595	759
KPMG, other assignments	400	264
PWC, other assignments	34	85

¹⁾ Review of prospectus reported against shareholders' equity, SEK 0 (175,000).

Auditing assignments pertain to the auditing of the annual report and accounts, including the Board's and the President & CEO's administration, other assignments that the company's auditors are required to perform and advice or other support brought about by observations from auditing or conducting similar tasks. Everything else pertains to other assignments.

Note 5 Other operating incomes

Reversal of previously appropriated profit for sale and leaseback transaction, which has now been concluded.

Note 6 Employee and personnel costs, and remuneration to senior management

Costs for remuneration to employees	Group		Parent Company	
	2006	2005	2006	2005
SEK 000s				
Salaries and remuneration, etc.	47,715	47,228	9,778	9,690
Share-related remuneration ¹⁾ (see below)	6,314	5,565	6,314	5,565
Pension costs, defined-benefit plans (see below)	–	–	–	–
Pension costs, defined-contribution plans ^{2) 3)} (see below)	13,490	13,567	3,086	3,163
Social security costs	15,773	15,783	3,204	3,191
Non-monetary remuneration	1,948	1,945	–	–
	85,240	84,088	22,382	21,609

¹⁾ Of which, social security costs totaled SEK 2.043 million (3.131)

²⁾ Of the Parent Company's pension costs, SEK 1.086 million (1.085) pertains to the Board of Directors and President & CEO

³⁾ The Group's pension costs include SEK 5.4 million (5.4) pertaining to the ITP plan financed in Alecta. See the section "Remuneration to employees after the termination of employment" for further information

Average number of employees	2006		2005	
	No. of employees	Of which, women	No. of employees	Of which, women
Parent Company				
Sweden	6	1 (17%)	6	1 (17%)
Total, Parent Company	6	1 (17%)	6	1 (17%)
Subsidiaries				
Sweden	83	48 (58%)	86	49 (57%)
Group total	89	49 (55%)	92	50 (54%)
Gender distribution in management	2006	2005		
	Of which, women %			
Parent Company				
Board of Directors	14%	25%		
Other senior management	0%	0%		
Group total				
Board of Directors	14%	25%		
Other senior management	0%	0%		
Salaries and other remuneration split by country and between Board members, etc. and other employees	2006		2005	
SEK 000s	Board and President	Other employees	Board and President	Other employees
Parent Company				
Sweden	4,223	5,555	4,319	5,371
(of which, bonus and similar)	–	–	–	–
Parent Company, total	4,223	5,555	4,319	5,371
Subsidiaries				
Sweden	–	37,937	–	37,538
(of which, bonus and similar)	–	–	–	–
Group total	4,223	43,492	4,319	42,909
(of which, bonus and similar)	–	–	–	–

Severance pay and salaries to senior management

No agreement exists pertaining to severance pay or loans to Board members.

The company and the President have a mutual termination period of 12 months. No severance pay will be issued and no loans exist. The company and other senior management have a mutual termination period of six months. No severance pay will be issued and no loans exist.

Personnel, sickness absence	2006	2005
	Jan 1-Dec 31	Jan 1-Dec 31
Group total	Sickness absence in percent	
All employees	1.9%	1.1%
Men	1.9%	0.6%
Women	1.9%	1.4%
Employees under 30 years of age	0.0%	0.5%
Employees 30-49 years of age	2.7%	1.2%
Employees over 49 years of age	0.8%	0.8%
Absence of at least 60 days as % of total sickness absence	26.2%	19.0%

Sickness absence in the Parent Company is not reported, since the number of employees is below ten.

Remuneration to employees after the termination of employment

Defined-benefit plans

Retirement pension and family pension obligations for salaried workers in Sweden are secured through insurance with Alecta, which is a multi-employer, defined-benefit plan. For the 2005 and 2006 financial years, the company did not have access to information that would make it possible to report this plan as a defined-benefit plan. Pension plans conforming to ITP and secured through an Alecta insurance policy are therefore reported as a defined-contribution plan. The year's fees for pension insurance subscribed to in Alecta totaled SEK 5.4 million (5.4). Alecta's surplus can be allocated

to the policyholders and/or the insured. At year-end 2006, Alecta's surplus at the collective consolidation level amounted to 143.1 percent (128.5 percent). The collective consolidation level comprises the market value of Alecta's assets as a percent of insurance obligations based on Alecta's actuarial calculations, which do not conform to IAS 19.

Defined-contribution plans

In Sweden, the Group has defined-contribution plans for the employees that are fully paid by the companies. Payment to these plans is conducted on an ongoing basis and in accordance with the regulations for each plan.

Share-related remuneration

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 in connection with the commitments entailed by the employee stock options program to issue a total of at most 1,330,000 options for subscription for new shares to a wholly-owned 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 2.9 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 employee stock options were issued in June 2005 and grant the employees the opportunity to acquire at most 330,000 shares during the period June 1, 2007 to May 31, 2010. Series 3 employee stock options were issued in June 2006 and grant the employees the opportunity to acquire 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 was originally set at SEK 90.70. However, as a consequence of the implementation of the convertible issue in 2004 and the new share issues implemented in 2005 and the beginning of 2007, the exercise price has been recalculated at SEK 84.70 in accordance with the conditions of the options. The exercise price for Series 2 was originally set at SEK 46.90, but as a consequence of the implementation of the new share issues in 2005 and the beginning of 2007, the exercise price has been recalculated at SEK 43.90. The exercise price for Series 3 employee stock options was originally set at SEK 68.80, but as a consequence of the implementation of the new share issue at the beginning of 2007, the exercise price has been recalculated at SEK 67.10.

The employee stock options will be allotted free of charge. 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 employment 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

Connected to 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, 438,900 Series 2 options and 452,200 Series 3 options for subscription for new shares were issued to a wholly owned subsidiary of Active Biotech AB (publ), waiving the rights of existing shareholders. Debentures were issued at a price corresponding to their nominal value without interest and matured 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 a recalculated exercise price of SEK 84.70.

Each Series 2 option entitles the holder to subscribe for one share during the period June 1, 2007 to May 31, 2010 at a recalculated exercise price of SEK 43.90.

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 recalculated exercise price of SEK 67.10.

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 has detached the options and held 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 charges, etc., in connection with the implementation of the employee stock options program.

Date of allocation/personnel category	Number of options	Conditions of entitlement	Duration
Allocation, Dec. 2003/President	11,200	Remains in service	3 years
Allocation, Dec. 2003/Senior Management	22,500	Remains in service	3 years
Allocation, Dec. 2003/Other employees	296,125	Remains in service	3 years
Outstanding at Dec. 31, 2003	329,825		
Forfeited 2004/other employees	-10,375		
Outstanding at Dec. 31, 2004	319,450		
Allocation, June 2005/President	11,200	Remains in service	3 years
Allocation, June 2005/Senior management	60,500	Remains in service	3 years
Allocation, June 2005/Other employees	167,375	Remains in service	3 years
Forfeited 2005/other employees	-8,500		
Outstanding at Dec. 31, 2005	550,025		
Allocation, June 2006/President	11,200	Remains in service	3 years
Allocation, June 2006/Senior management	41,100	Remains in service	3 years
Allocation, June 2006/Other employees	287,700	Remains in service	3 years
Forfeited 2006/other employees	-500		
Outstanding at Dec. 31, 2006	889,525		
Exercisable at Dec. 31, 2006	312,450		

Valuation of options

At the request of the Board, Handelsbanken Capital Markets has valued the options. The fair value of cash-settled options at the time of allotment was calculated using the Black & Scholes model. In the model, the following input was used:

	Series 1	Series 2	Series 3
Share price (SEK)	60.45	39.05	57.30
Exercise price (SEK)	90.70	46.90	68.80
Anticipated volatility (%)	45	42	45
Duration (years)	5.42	5.00	5.00
Risk-free interest (%)	4.34	2.76	3.64
Forecast dividend	–	–	–

The calculation results in a fair value amounting to SEK 21.10 for Series 1 options, SEK 13.50 for Series 2 options and SEK 22.00 for Series 3 options. The volatility assumption is based on forecasts and the historical volatility of the Active Biotech share.

Dilution effect and costs for the program

Full exercise of the proposed options would increase the share capital by at most SEK 5,013,226, 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 2.9 percent. The proposed options cause costs, partly in the form of social security costs (URA 46), of which SEK 2.043 million (3.131) was charged against consolidated earnings in 2006, and partly accounting costs in accordance with IFRS 2, of which SEK 4.271 million (2.434) was charged against consolidated earnings in 2006.

The reasons for the proposal

The reasons for the options program, which involves the waiving of the preferential rights of existing shareholders are as follows: A share-related incentive 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.

Remuneration to senior management*Principles*

Active Biotech shall offer total remuneration at market rates, facilitating the recruitment and retention of qualified senior executives. Remuneration to senior management shall comprise fixed salary, any variable remuneration, pensions and other benefits. If the Board also determines that new share-related incentives should be introduced (e.g. employee options), a proposal concerning this shall be submitted to the Annual General Meeting for approval.

Remuneration and other benefits during the year

SEK 000s	Base salary/ Board fee	Variable remuneration	Other benefits	Pension costs	Financial instruments	Other remuneration	Total
Chairman of the Board; Mats Arnhög ¹⁾	250	–	–	–	–	–	250
Board member; Maria Borelius ^{1,2)}	63	–	–	–	–	–	63
Board member; Klas Kärre ¹⁾	125	–	–	–	–	–	125
Board member; Peter Sjöstrand ¹⁾	125	–	–	–	–	–	125
Board member; Peter Ström ¹⁾	125	–	–	–	–	–	125
President	3,543	–	5	1,086	246	–	4,880
Other senior management (3 individuals)	4,491	–	275	1,352	904	–	7,022

¹⁾ Apart from Board fees, no additional remuneration was paid to Board members.

²⁾ Maria Borelius resigned from the Board on October 9, 2006.

Employee stock options

SEK 000s	Employee stock options Series 1				Employee stock options Series 2				Employee stock options Series 3			
	Acquisition		Remuneration		Acquisition		Remuneration		Acquisition		Remuneration	
Amount	Value	Amount			Value	Amount			Value			
President	11,200	236	–	236	11,200	151	–	151	11,200	246	–	246
Other senior management (3 individuals)	22,500	475	–	475	60,500	817	–	817	41,100	904	–	904
Total	33,700	711	–	711	71,700	968	–	968	52,300	1 150	–	1,150

Note 7 Net financial items

SEK 000s	Group	
	2006	2005
Interest income	2,375	3,760
Exchange-rate fluctuations	–	1,279
Financial revenue	2,375	5,039
Interest expenses	-7,692	-10,234
Interest expenses for convertible debentures	-11,535	-9,836
Exchange-rate fluctuations	-401	-20
Financial expenses	-19,628	-20,090
Participations in the earnings of associated companies	–	-1,051
Net financial items	-17,253	-16,102

Nominal interest for the convertible debenture amounted to SEK 2.666 million (2.815).

Fixed salary

The fixed salary shall take into consideration the individuals' area of responsibility and experience. This shall be reviewed on a yearly basis.

Variable salary

The variable salary shall be dependant on the individuals' fulfillment of quantitative and qualitative goals.

Pension

Pension benefits shall comprise defined-contribution schemes. The retirement age shall be between 60 and 65. The pension premium for the President shall correspond to 30 percent of fixed salary. For other senior management, the pension premium shall correspond to not less than that applicable for the ITP plan and not more than 25 percent of fixed salary.

Severance pay

The company and the President shall have a mutual termination period of 12 months. The company and other senior management shall have a mutual termination period of six months. No severance pay will be issued.

Other remuneration

Senior management may be awarded otherwise customary benefits, such as a company car, company healthcare, etc.

Preparation and approval

The President's remuneration shall be prepared and approved by the Board. Other senior management's remuneration shall be prepared by the President, who shall submit a proposal to the Board for approval. The Board is entitled to deviate from the above principles if it deems that there are particular grounds for doing so in individual cases.

Parent company	Earnings from participations in Group companies		Earnings from participations in associated companies	
	2006	2005	2006	2005
SEK 000s				
Dividends	37,000	10,135	–	–
Impairment losses	–	–	–	-882
	37,000	10,135	–	-882

Parent company	Interest income and similar items	
	2006	2005
SEK 000s		
Interest income from Group companies	–	–
Interest income, other	1,979	3,532
Exchange-rate differences	–	650
	1,979	4,182

Parent company	Interest expense and similar items	
	2006	2005
SEK 000s		
Interest expenses from Group companies	–	–
Interest expenses, other	-83	-2
Interest expenses relating to convertible debenture	-11,535	-9,836
Exchange-rate differences	-329	–
	-11,947	-9,838

Exchange-rate differences affecting earnings	Group		Parent company	
	2006	2005	2006	2005
SEK 000s				
Exchange-rate differences affecting earnings	405	-194	44	-52
Financial exchange-rate differences	-401	1,259	-329	650
	4	1,065	-285	598

Note 8 Taxes

Reported in the income statement	Group		Parent company	
	2006	2005	2006	2005
SEK 000s				
<i>Current tax expenses(-)/tax income(+)</i>				
Tax expenses/tax income for the period	-7	–	–	–
Tax adjustments brought forward from earlier years	–	–	–	–
	-7	–	–	–

<i>Deferred tax expenses(-)/ tax income(+)</i>				
Deferred tax income in tax value capitalized during the year in loss carryforwards	2,652	13,928	–	–
Total reported tax expense/income	2,645	13,928	–	–

SEK 000s	Group		Parent company	
	2006	2005	2006	2005
<i>Reconciliation of effective tax</i>				
Profit/loss before tax	-141,825	-149,343	49,318	-20,782
Tax on the Parent Company according to current rates	39,711	41,816	-13,809	5,819
Effect of other tax rates for foreign subsidiaries	–	2	–	–
Non-deductible expenses	-4,526	-3,697	-4,472	-3,658
Non-taxable revenues	3	5	–	2,648
Increase in loss carryforwards without equivalent capitalization of deferred taxes	-35,195	-38,126	–	-4,809
Revaluation of deferred tax	2,652	13,928	–	–
Utilization of loss carryforwards previously not capitalized	–	–	18,281	–
Reported effective tax	2,645	13,928	–	–

Tax items reported directly against shareholders equity	Group		Parent company	
	2006	2005	2006	2005
SEK 000s				
Deferred tax attributable to revaluation of tangible fixed assets	-2,652	-13,928	–	–

Reported in the balance sheet Deferred tax receivables and liabilities	Deferred tax receivable Group		Deferred tax liability Group		Net Group	
	2006	2005	2006	2005	2006	2005
SEK 000s						
Tangible fixed assets	–	–	-16,580	-13,928	-16,580	-13,928
Loss carryforwards	16,580	13,928	–	–	16,580	13,928
Tax receivables/liabilities	16,580	13,928	-16,580	-13,928	–	–
Offsetting	-16,580	-13,928	16,580	13,928	–	–
Tax receivables/liabilities, net	–	–	–	–	–	–

Due to the Group's activities with considerable research and development costs, the company is not liable for tax. At the end of 2006, the Group's accumulated loss carryforwards amounted to SEK 1,478 million and are attributable to the Group's Swedish companies. Since the time at which the Parent Company and the Swedish subsidiaries may be expected to generate revenues cannot yet be specified, only the portion of the taxable effects of the loss carryforwards corresponding to the deferred tax liability was reported.

Note 9 Tangible fixed assets

Group

SEK 000s	Buildings and land Reported using revaluation method		Equipment, tools, fixtures and fittings Reported using acquisition method		Total
Acquisition value					
Opening balance, January 1, 2005		564		156,572	157,136
Acquired by the company		295,047		–	295,047
Other acquisitions		5,209		667	5,876
Revaluation effect against revaluation reserve		49,744		–	49,744
Divestments		–		-3,760	-3,760
Closing balance, December 31, 2005		350,564		153,479	504,043
Opening balance, January 1, 2006		350,564		153,479	504,043
Other acquisitions		–		340	340
Revaluation effect against revaluation reserve		15,638		–	15,638
Divestments		-25,000		–	-25,000
Closing balance, December 31, 2006		341,202		153,819	495,021
Depreciation and impairment losses					
Opening balance, January 1, 2005		-101		-117,975	-118,076
Depreciation for the year		-1,879		-10,949	-12,828
Divestments		–		3,760	3,760
Closing balance, December 31, 2005		-1,980		-125,164	-127,144
Opening balance, January 1, 2006		-1,980		-125,164	-127,144
Depreciation for the year		-7,543		-12,436	-19,979
Revaluation effect against revaluation reserve		-195		–	-195
Closing balance, December 31, 2006		-9,718		-137,600	-147,318
Carrying amounts					
January 1, 2005		463		38,597	39,060
December 31, 2005		348,584		28,315	376,899
January 1, 2006		348,584		28,315	376,899
December 31, 2006		331,484		16,219	347,703
Tax assessment value					
Group		Dec 31, 2006		Dec 31, 2005	
Tax assessment value, buildings (Forskaren 1, Municipality of Lund)		32,400		32,400	
Tax assessment value, land (Forskaren 1, Municipality of Lund)		6,500		6,500	
Buildings and land reported using the revaluation method					
		Historical carrying amount Dec. 31, 2006		Historical carrying amount Dec. 31, 2005	
Acquisition value		280,316		300,820	350,564
Accumulated depreciation		-8,048		-1,699	-1,980
Carrying amount		272,268		299,121	348,584

Revaluation method

The Group applies the revaluation method with regard to the Group's property in which it conducts operations. At the time of the acquisition, the property was revalued using the revaluation method based on an appraisal conducted by PricewaterhouseCoopers. In conjunction with the divestment of land in April 2006, a new valuation was conducted. The value assessment assumes that Active Biotech utilizes approximately 80 percent of the premises for its own operations. The value of the laboratory equipment and other special premises was not considered in the valuation. The value assessment was conducted using a market simulation via yield-based market value assessment and via the local market price method.

Conditions and assumptions during valuation:

- Inflation assumption of 2.0 percent for the calculation period
- Rental increases for rented premises in accordance with agreed rental terms
- Rental increases for internal premises, 100 percent of CPI
- Annual increase of operation/maintenance, 100 percent of CPI
- Nominal cost of capital, total capital 9.65 percent
- Direct yield last year's net operating income, 7.5 percent

The property's market value, based on the above assumptions, was assessed to be SEK 361 million. Following this, land was divested totaling SEK 25 million.

Financial leasing in the Group

Since 2002, the company leases machines and other technical facilities under various financial leasing agreements in which the main terms of the agreement are as follows: rental period 36-60 months, final residual value 3 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, 2006, the book value of property covered by financial leasing agreements amounted to SEK 2.455 million. See also note 16, Interest-bearing liabilities.

Operational leasing in the Group

The Group has operational leasing agreements for telephone switchboards and photocopying machines. Payments pertaining to these operating agreements are due as follows: Within one year SEK 800 thousands, between one and five years SEK 1.2 million and after 5 years SEK 0.

Parent Company

SEK 000s	Equipment, tools, fixtures and fittings	Total
Acquisition value		
Opening balance, January 1, 2005	1,034	1,034
Other acquisitions	–	–
Divestments	–	–
Closing balance, December 31, 2005	1,034	1,034
Opening balance, January 1, 2006	1,034	1,034
Other acquisitions	–	–
Divestments	–	–
Closing balance, December 31, 2006	1,034	1,034
Depreciation and impairment losses		
Opening balance, January 1, 2005	-548	-548
Depreciation for the year	-120	-120
Divestments	–	–
Closing balance, December 31, 2005	-668	-668
Opening balance, January 1, 2006	-668	-668
Depreciation for the year	-7	-7
Divestments	–	–
Closing balance, December 31, 2006	-675	-675
Carrying amounts		
January 1, 2005	486	486
December 31, 2005	366	366
January 1, 2006	366	366
December 31, 2006	359	359

Note 10 Participations in associated companies

SEK 000s	Group		Parent Company	
	2006	2005	2006	2005
<i>Accumulated acquisition value</i>				
Carrying amount at the beginning of the year	1,380	2,262	11,380	11,380
Share of earnings in associated companies for the year	–	-1,052	–	–
Translation difference for the year	–	170	–	–
Reclassifications	-1,380	–	-11,380	–
	–	1,380	–	11,380
<i>Accumulated impairment losses</i>				
At the beginning of the year	–	–	-10,000	-9,118
Impairment losses for the year	–	–	–	-882
Reclassifications	–	–	10,000	–
	–	–	–	-10,000
Carrying amount at year-end	–	1,380	–	1,380

In 2006, a new share issue was conducted in Isogenica Ltd in which Active Biotech did not participate. Accordingly, Active Biotech's owned share decreased to 12.3 percent and as a result, the company can no longer exercise a significant influence and no longer classifies Isogenica as an associated company. The participation is recorded as other long-term securities.

Parent Company's directly owned holding and Group's holding in associated company

SEK 000s	Corp. Reg. No.	Registered office	Number of shares	Proportion	Nominal value	Book value
Isogenica Ltd., December 31, 2005	3571781	Cambridge	1 749,690	24.3%	723,137 GBP	1,380

Below is a specification of the consolidated worth with regard to the owned share of revenues, earnings, assets, liabilities and shareholders' equity.

2005

SEK 000s	Land	Revenues	Earnings	Assets	Liabilities	Shareholders' equity	Owned share in %
Isogenica Ltd	UK	824	-3,631	9,788	4,110	5,678	24.3

Note 11 Other long-term securities

SEK 000s	Group		Parent Company	
	2006	2005	2006	2005
At the beginning of the year	–	–	–	–
Reclassification	1,380	–	1,380	–
Carrying amount at year-end	1,380	–	1,380	–

Other long-term securities comprise shares in the company Isogenica Ltd, which was classified earlier as an associated company, but following a new share issue in 2006 in which Active Biotech did not participate, it was reclassified to other long-term securities.

Note 12 Long-term receivables

SEK 000s	Group		Parent Company	
	2006	2005	2006	2005
Receivables from Isogenica Ltd	1,349	1,373	1,349	1,373
Other long-term receivables	102	145	102	145
	1,451	1,518	1,451	1,518

Note 13 Pre-paid expenses and accrued revenues

SEK 000s	Group		Parent Company	
	2006	2005	2006	2005
Interest	20	29	20	29
Pre-paid rent	75	47	27	–
Pre-paid insurance	906	754	421	318
Accrued revenues	1,025	866	537	866
Pre-paid clinical trials	1,686	–	–	–
Other pre-paid expenses and accrued revenues	2,428	1,695	284	412
	6,140	3,391	1,289	1,625

Note 14 Shareholders' equity**Group****Specification of shareholders' equity item Reserves****Translation reserve**

SEK 000s	2006	2005
Opening translation reserve	714	1,178
Change in translation reserve for the year	98	-464
Closing translation reserve	812	714

Revaluation reserve

SEK 000s	2006	2005
Opening revaluation reserve	35,816	–
Revaluation of property	15,443	49,744
Taxation effect of revaluation of property	-4,324	-13,928
Transfer to loss carryforwards relating to divestment of site leasehold	-4,299	–
Closing revaluation reserve	42,636	35,816

Total reserves

SEK 000s	2006	2005
Opening reserves	36,530	1,178
Change in reserves for the year:		
Translation reserve	98	-464
Revaluation reserve	6,820	35,816
Closing reserves	43,448	36,530

Share capital**Ordinary shares**

Thousands of shares	2006	2005
Issued at January 1	39,592	33,739
Cash issue	–	5,623
Conversion	203	230
Issued at December 31 – paid	39,795	39,592

At December 31, 2006, the registered share capital comprised 39,795,421 ordinary shares with a par value of SEK 3.77. Holders of ordinary shares are entitled to dividends determined successively and the shareholding entitles the holder to voting rights at the Annual General Meeting of one vote per share.

At the Extraordinary General Meeting on November 8, 2004, it was decided to issue 3,748,764 convertible 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 original conversion rate was SEK 40, but it has been recalculated following the new share issue in 2005 and 2007 to SEK 37.42. In 2006, conversion to shares gave rise to 203,197 new shares (229,922). In a press release dated February 15, 2007, the Board of Active Biotech announced its decision to exercise its entitlement to request premature repayment of the convertible debenture. Over a period of 30 trading days after January 1, 2007, the average of the closing prices listed for the company's shares on the Stockholm Stock Exchange was at least 130 percent of the recalculated conversion price, which means that the formal conditions for premature repayment are fulfilled. In the event of full conversion, the number of shares in the company will increase by a maximum of 3,352,905.

At the Extraordinary General Meeting on December 8, 2003 it was 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 a maximum of 1,000,000 shares in the company. It was also decided in connection with the commitments entailed by the employee stock options program to issue a total of a maximum of 1,330,000 options for subscription for new shares to a wholly owned subsidiary on the same conditions as those applicable to the employee stock options.

Other capital contributions

Refers to shareholders' capital contributed by the owners in addition to share capital. This includes, among other items, share premium reserves transferred to the statutory reserve at December 31, 2005. Effective January 1, 2006 and onward, provisions to the statutory reserve will also be reported as contributed capital.

Reserves*Translation reserve*

The translation reserve includes all exchange-rate differences that arise when translating financial statements from foreign operations that have prepared their financial statements in a currency other than that used in the consolidated financial statements. The Parent Company and Group present their financial statements in Swedish kronor.

Revaluation reserve

The revaluation reserve includes value changes attributable to tangible and intangible fixed assets.

Profit/loss brought forward including profit/loss for the year

Profit/loss brought forward including profit/loss for the year included accumulated earnings in the Parent Company and its subsidiaries and associated companies. Earlier provisions to statutory reserves, excluding transferred share premium reserves, are included in this equity item.

Dividend

The Board of Directors proposes that no dividend be paid for the 2006 fiscal year.

Note 15 Earnings per share

	Before dilution		After dilution	
SEK	2006	2005	2006	2005
Earnings per share	-3.50	-3.70	-3.50	-3.70

Calculation of the numerator and the denominator used in the above calculation of earnings per share is specified below.

Earnings per share before dilution

The calculation of earnings per share in 2006 is based on loss for the year attributable to the Parent Company's ordinary shareholders amounting to SEK 139.180 million (loss: 135.415) and on a weighted average number of outstanding shares during 2006 totaling 39,754,594 (36,609,639). The two components were calculated in the following manner:

Loss attributable to the Parent Company's shareholders, before dilution

SEK 000s	2006	2005
Loss for the year attributable to the Parent Company's shareholders	-139,180	-135,415

Weighted average number of outstanding ordinary shares, before dilution

000s of shares	2006	2005
Total number of ordinary shares at January 1	39,592	33,739
Effect of new share issue in July 2005	–	2,837
Effect of conversions	163	34
Weighted average number of ordinary shares during the year, before dilution	39,755	36,610

Earnings per share after dilution

The calculation of earnings per share in 2006 is based on loss for the year attributable to the Parent Company's shareholders amounting to SEK 127.645 million (loss: 125.579) and on a weighted average number of outstanding shares during 2006 totaling 43,227,360 (40,285,614). The two components were calculated in the following manner:

Loss attributable to the Parent Company's shareholders, after dilution

000s of shares	2006	2005
Loss attributable to the Parent Company's shareholders	-139,180	-135,415
Effect of interest on convertible debentures (after tax)	11,535	9,836
Effect of share warrants	–	–
Loss attributable to the Parent Company's shareholders, after dilution	-127,645	-125,579

Weighted average number of outstanding ordinary shares, after dilution

000s of shares	2006	2005
Weighted average number of ordinary shares during the year, before dilution	39,755	36,610
Effect of convertible debentures	3,472	3,676
Effect of share warrants	–	–
Weighted average number of ordinary shares during the year, after dilution	43,227	40,286

Instruments that can potentially cause a dilution effect and changes after the balance-sheet date

The company's employee stock option program of Series 1 shares resulted in no dilution effect, since the exercise rate exceeded the average rate of ordinary shares.

The exercise rate of the employee stock option program of Series 2 shares, with adjustments for the implementation of new share issues, was less than the average rate of ordinary shares. However, in consideration of remaining unallocated expenses over the earning period, there was no dilution effect.

Note 16 Interest-bearing liabilities

SEK 000s	Group	
	2006	2005
Long-term liabilities		
Bank loan	252,200	256,100
Convertible debentures	–	94,933
Financial leasing liabilities	2,657	3,705
	254,857	354,738
Short-term liabilities		
Short-term portion of bank loan	3,900	3,900
Convertible debentures	98,237	–
Short-term portion of financial leasing liabilities	1,748	1,861
	103,885	5,761

SEK 000s	Group and Parent Company	
	2006	2005
Received after issue of 3,748,764 convertible debentures in 2004	149,951	149,951
Transaction expenses	-9,096	-9,096
Net proceeds	140,855	140,855
Amount classified as shareholders' equity	-46,868	-46,868
Conversions in the preceding year	-6,075	–
Conversions	-5,564	-6,075
Capitalized interest in the preceding year	7,021	–
Capitalized interest	8,868	7,021
Reported liability, December 31	98,237	94,933

At the Extraordinary General Meeting on November 8, 2004, it was decided to issue 3,748,764 convertible 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 was recalculated as SEK 37.42 following the implementation of the new share issue in 2005 and 2007. In 2005, debentures were converted to 229,922 shares, and in 2006, debentures were converted to 203,197 shares. In a press release dated February 15, 2007, the Board of Active Biotech announced its decision to exercise its entitlement to request premature repayment of the convertible debenture. Over a period of 30 trading days after January 1, 2007, the average of the closing prices listed for the company's shares on the Stockholm Stock Exchange was at least 130 percent of the recalculated conversion price, which means that the formal conditions for premature repayment are fulfilled. In the event of full conversion, the number of shares in the company will increase by a maximum of 3,352,905. The convertible debenture, which at December 31, 2006 amounted to SEK 133,319,000, bears a nominal fixed interest of 2 percent. The reported liability is based on a discounting interest of 12 percent.

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

SEK 000s	Amortization	Interest	Total payment
Within one year	–	2,666	2,666
Between one and five years	133,319	3,999	137,318
Later than five years	–	–	–
	133,319	6,665	139,984

Financial leasing

The portion of long-term interest-bearing liabilities that pertains to financial leasing in the Group comprises future leasing fees attributable to agreements under financial leasing. The obligations pertaining to financial leasing mature as follows:

SEK 000s	Amortization	Interest	Total payment
Within one year	1,748	347	2,095
Between one and five years	2,657	489	3,146
Later than five years	–	–	–
	4,405	836	5,241

Amortization that matures within one year is reported as a short-term liability. Interest on financial leasing agreements is linked to the floating market interest rates. For further information concerning interest and maturity structures, see note 19.

Note 17 Other short-term liabilities

SEK 000s	Group		Parent Company	
	2006	2005	2006	2005
Personnel tax at source	1,555	1,479	300	283
Other short-term liabilities	707	714	707	667
	2,262	2,193	1,007	950

Note 18 Accrued expenses and pre-paid revenues

SEK 000s	Group		Parent Company	
	2006	2005	2006	2005
Accrued vacation liability, including social security costs	7,341	7,007	2,551	2,432
Accrued employer's contributions	1,327	1,285	265	265
Accrued employer's contributions for employee stock options program	5,174	3,131	5,174	3,131
Other accrued personnel costs	2,462	2,468	544	548
Accrued interest	3,854	3,523	2,666	2,815
Other items	6,760	3,556	1,537	1,518
	26,918	20,970	12,737	10,709

Note 19 Financial risks and financial policies

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 market prices of financial assets, 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 financing activities. Responsibility for the Group's financial transactions and risks is managed centrally by the Parent Company's finance department. The overriding objective for the finance function is to provide cost-efficient financing and to minimize negative effects on the Group's earnings from market fluctuations.

The Board of Active Biotech has established a policy for the investment of the Group's cash and cash equivalents, which allows cash and cash equivalents 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.

Market risks

Market risks pertain to the risk that the value of a financial instrument may fluctuate because of changes in market prices. As of December 31, the Group had no investments in share-related instruments.

Refinancing risks

Refinancing risks refer to risk that Active Biotech may not be able to meet its obligations because loans are recalled and difficulties arise in securing new loans. Active Biotech has loans that mature at different dates. The liabilities comprise a long-term property loan, a convertible debenture that matures in 2009 and a smaller number of leasing liabilities. The company has no short-term loan financing in the form of overdraft facilities. Active Biotech secures short-term access to funds by having good access to liquid funds.

Interest-rate risks

Interest terms on the Group's financial assets and liabilities are short, since Active Biotech's view is that short interest terms are consistent with the company's operative position with regard to risk. The Group's financing expenses are affected by fluctuations in market interest rates. The Board can choose to extend the period of fixed interest with the aim of limiting the effect of any rise in interest rates.

Active Biotech has made a commitment to the lender of the property loan to ensure that liquidity does not fall below SEK 30 million. If the requirement cannot be fulfilled, Active Biotech shall pledge a commercial paper with a liquidity corresponding to one year's financing and operating costs for the property.

The Group's financing sources mainly comprise shareholders' equity, convertible debentures, bank loans for financing of property holdings and financial leasing commitments. Outstanding interest-bearing liabilities are reported in note 16 and the average interest expense and maturity structure can be seen below.

Financing's maturity structure

	Total	-1 year	2-5 years	5 years and longer
Convertible debentures, fixed interest, nominal 2%, effective 12%	133,319	133,319	–	–
Bank loan, floating interest rate, at December 31, 2006, 3.59%	256,100	3,900	14,300	237,900
Leasing liabilities, floating interest rate, at December 31, 2006, 3-5%	4,405	1,748	2,657	–

The Group's cash and cash equivalents, which totaled SEK 97.886 million at December 31, 2006, were invested with a floating interest rate of 2.8 percent.

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 flows. 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 190.9 million, of which approximately 15 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.

Credit risks

The Group is exposed to the risk of not receiving payment from customers. 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. No credit losses or impairment losses for possible credit losses were charged against earnings for 2006. Credit risks also arise when investing cash and cash equivalents. Cash and cash equivalents are principally invested through well-established banks.

Derivatives

In 2006, the Group did not use futures, options or other derivatives for hedging of financial risks or for other reasons.

Fair value

The fair value of listed financial assets corresponds to the assets' listed purchase rate on the balance-sheet date. The fair value of unlisted financial assets and liabilities is established by using valuation techniques such as recently conducted transactions, the price of similar instruments and discounted cash flow.

SEK 000s	Group				Parent Company			
	2006		2005		2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets								
Long-term receivables	1,451	1,451	1,518	1,518	1,451	1,451	1,518	1,518
Accounts receivable	768	768	1,537	1,537	3	3	–	–
Other receivables	3,157	3,157	2,426	2,426	8	8	290	290
Interest receivables	20	20	29	29	20	20	29	29
Receivables from subsidiaries	–	–	–	–	69,977	69,977	177,368	177,368
Short-term investments	–	–	–	–	–	–	–	–
Cash and cash equivalents	97,886	97,886	178,426	178,426	88,167	88,167	157,422	157,422
	103,282	103,282	183,936	183,936	159,626	159,626	336,627	336,627
Financial liabilities								
Convertible debentures ¹⁾	98,237	98,237	94,933	94,933	98,237	98,237	94,933	94,933
Liabilities to credit institutes	252,200	252,200	256,100	256,100	–	–	–	–
Other long-term liabilities	2,657	2,657	3,705	3,705	–	–	–	–
Short-term interest-bearing liabilities	5,648	5,648	5,761	5,761	–	–	–	–
Accounts payable	14,034	14,034	7,337	7,337	976	976	713	713
Liabilities to subsidiaries	–	–	–	–	112,433	112,433	201,571	201,571
Other liabilities	2,262	2,262	2,193	2,193	1,007	1,007	950	950
Accrued expenses	26,918	26,918	20,970	20,970	12,737	12,737	10,709	10,709
	401,956	401,956	390,999	390,999	225,390	225,390	308,876	308,876

¹⁾ Fair value was established using valuation techniques.

Impairment of financial assets

No impairment losses for financial assets were recognized in 2005 or 2006.

Note 20 Pledged assets, contingent liabilities and contingent assets

Pledged assets	Group		Parent Company	
	2006	2005	2006	2005
SEK 000s				
In the form of assets pledged for own liabilities and provisions				
Property mortgage	256,100	260,000	–	–
Assets with ownership reservation	4,405	5,566	–	–
Total pledged assets	260,505	265,566	–	–
Contingent liabilities	Group		Parent Company	
SEK 000s	2006	2005	2006	2005
Guarantees for the benefit of Group companies	–	–	8,400	8,579
Total contingent liabilities	–	–	8,400	8,579

Note 21 Group companies

Holdings in subsidiaries

December 31, 2006 (SEK 000s)	Corp. Reg. No.	Registered office	No. of shares/percentage	Nominal value	Book value
Active Biotech Research AB	556541-8323	Lund	1,000 / 100%	100	161,900
Active Forskaren 1 KB	969646-4677	Lund			40,000
Actinova Ltd		Cambridge	4,500,000 / 100%	450,000 GBP	0
Actinova AB	556532-8860	Lund	1,000 / 100%	100	100
Active Security Trading AB	556092-7096	Lund	400 / 100%	400	450
Movera Holding AB	556157-8385	Lund	500 / 100%	100	26,950
Transport AB Movera	556256-9441	Lund	45,667,000 / 100%	45,667	
Active i Malmö AB	556254-0947	Lund	1,000 / 100%	100	
					229,400

Change in book value of shares in subsidiaries

SEK 000s	2006	2005
Opening acquisition value	228,950	539,631
Acquisitions	450	100
Reclassifications	–	40,000
Liquidation	–	-350,781
Closing accumulated acquisition value	229,400	228,950
Opening impairment	–	–
Impairment for the year	–	–
Closing accumulated impairment	–	–
Closing book value	229,400	228,950

The acquisition during the year totaling SEK 450 thousands related to an intra-Group transfer of the Active Security Trading AB subsidiary.

Note 22 Supplementary data to the cash-flow statement

SEK 000s	Group		Parent Company	
	2006	2005	2006	2005
Interest paid and dividends received				
Dividends received	–	–	–	–
Interest received	2,384	3,760	1,989	3,532
Interest paid	-10,028	-12,342	-2,898	-2,817
Total	-7,644	-8,582	-909	715
Adjustments for non-cash items				
Depreciation/amortization and impairment of assets	20,129	20,082	7	1,002
Deduction for participations in earnings of associated companies	–	1,051	–	–
Anticipated dividends from subsidiaries	–	–	–	-690
Capital loss attributable to fixed assets	–	-54,679	–	–
Costs for employee stock options program	4,271	2,434	4,271	2,434
Unrealized exchange-rate differences	180	-675	24	–
Total	24,580	-31,787	4,302	2,746
Transactions not involving payment				
Acquisition of assets through financial leasing	308	651		
Acquisition of subsidiaries				
<i>Acquired assets and liabilities:</i>				
Tangible fixed assets	–	295,047		
Financial assets	–	-40,000		
Operating receivables	–	1,347		
Total assets	–	256,394		
Loans	–	247,237		
Operating liabilities	–	657		
Total minority shareholdings, liabilities and provisions	–	247,894		
Purchase price	–	8,500		
Paid purchase price	–	8,500		
Effect on cash and cash equivalents	–	8,500		
Cash and cash equivalents				
Cash and cash equivalents consist of the following components:				
Cash and bank balances	97,886	178,426	88,167	157,422
Total	97,886	178,426	88,167	157,422

Note 23 Important estimates and assessments

Carrying amounts are based partly on assessments and estimates. The area in which estimates and assessments could imply adjustments to carrying values in forthcoming financial years is primarily the valuation of the Forskaren 1 property where the company's operations are conducted. On assignment from the company, PricewaterhouseCoopers performed a valuation of the property (see Note 9) prior to the company's land sale. The estimated market value is based on assumptions on future revenues, expenses, vacancy levels and the value trend of similar properties.

Note 24 Events after the balance-sheet date

In February, 2007, the company concluded the new share issue that was approved in December 2006. As a result of the issue, the number of shares in Active Biotech increases by 4 million to 44 million shares. At the beginning of 2007, the company decided to exercise its entitlement to request premature repayment of the convertible loan 2004/2009. In the event of full conversion, the number of shares in the company will increase by approximately 3.4 million to 47.4 million. In March, positive results were announced for the TASQ prostate cancer project and for the first clinical micro-dosing trial of I-3D, which means that continued clinical Phase I trials for the latter will be initiated in 2008 at the earliest.

Note 25 Transactions with closely related parties

Close relationships

With regard to the Group's and Parent Company's associated companies and subsidiaries, see notes 21 and 10. The composition of the Board and information relating to senior management is presented on pages 49 and 50.

Transactions with closely related parties

During the year, no transactions with shareholders or Members of the Board took place.

For information concerning transactions with key individuals in managerial positions, see note 6.

In 2006, the Parent Company's sales of services to Group companies totaled SEK 3.5 million. The Parent Company's purchases of services from subsidiaries amounted to SEK 872 thousands in 2006. The Parent Company's receivables and liabilities relative to the subsidiaries as per December 31, are presented in the Parent Company's balance sheet. The Group's and Parent Company's receivable relative to associated companies is presented in note 12 and refers to a loan between the Parent Company and associated company. No other transactions with associated companies took place during the year.

Definitions

Capital employed Total assets less non-interest bearing provisions and liabilities.

Earnings per share after tax Reported consolidated earnings, divided by the average number of shares.

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

Interest-coverage ratio Operating profit/loss after financial items plus financial expenses, divided by financial expenses.

Net debt/equity ratio Net interest-bearing liabilities divided by shareholders' equity, including minority interests.

Net indebtedness Net interest-bearing liabilities, that is, interest-bearing liabilities and provisions less cash and cash equivalents, short-term investments and other interest-bearing long-term holdings of securities.

Net worth per share Shareholders' equity and surplus values in short-term investments, divided by the number of shares at year-end.

Proportion of risk-bearing capital Shareholders' equity plus minority interests and deferred tax liabilities as a percentage of the total assets.

Return on capital employed Operating profit/loss after net financial items plus financial expenses, as a percentage of average capital employed.

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

Shareholders' equity per share Reported consolidated shareholders' equity, divided by the number of shares at year-end.

Surplus value in short-term investments The difference between the market value of short-term investments and the book value. Due to the Group's tax situation, no deduction was made for deferred tax.

Unrestricted liquidity per share Cash and cash equivalents and short-term investments, divided by the number of shares at year-end.

Audit Report

To the Annual General Meeting of shareholders of
Active Biotech AB (publ)
Corporate Registration 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 2006. The company's annual accounts are included in the printed version of this document on pages 6-42. The Board of Directors and the President & CEO are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards, IFRS, as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. 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 high, but not absolute, 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 and significant estimates made by the Board of Directors and the President & CEO when preparing the annual accounts and consolidated accounts 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 have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRS as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the loss of the Parent Company be treated in accordance with the proposal in the administration's report and that the members of the Board of Directors and the President & CEO be discharged from liability for the financial year.

Lund, March 20, 2007
KPMG Bohlins AB

Stefan Holmström
Authorized Public Accountant

The share

General information about the Active Biotech share

Shares in Active Biotech AB are listed on the Stockholm Stock Exchange (Nordic list, Mid Cap). The share was listed on December 1, 1986, on what was then known as the O-list of the Stockholm Stock Exchange, and was subsequently converted into a dedicated biotechnology company in 1997. The latest price information is available on the Stockholm Stock Exchange's website under the symbol ACTI, in the Reuter system under the symbol ACTI.SS and in the Bloomberg system under ACTI.ST. The shares are traded in lots of 200. The Active Biotech share is included in the Nordic List's Mid Cap index, the Pharmaceuticals & Biotech index and in the Stockholm Stock Exchange's Healthcare and Biotechnology sector index.

The diagram on the next page shows the price trend for the Active Biotech share for the period January 2002 – January 2007

Share capital

The company's share capital is quoted in SEK and distributed among the shares issued by the company with a par value that is also quoted in SEK. In January 2007, the share capital in Active Biotech amounted to approximately SEK 150,773,706 distributed among 40,000 shares. Accordingly, the share's par value is SEK 3.77. Following the share issue concluded in February 2007, the share capital will amount to approximately SEK 165,851,077 distributed among 44,000,000 shares. In addition, the share capital and number of shares may increase through the exercise of options and conversions in a manner that is described below under the headings "Employee stock options" and "Convertible debenture loan 2004/2009," respectively.

Employee stock options

An Extraordinary General Meeting of shareholders on December 8, 2003 decided on the introduction of an employee stock option program, according to which all employees in the Active Biotech Group are issued with employee stock options at no charge in accordance with a separate plan. The program covers a maximum of 1,000,000 stock options in total, with each option carrying an entitlement to purchase one share. To secure the undertakings pursuant to the employee stock option program, it was decided to issue to a wholly owned subsidiary of Active Biotech, a debenture with a nominal value of SEK 1,330 attached to a maximum of 1,330,000 warrants for subscription for shares on conditions corresponding to those applying to the employee stock options (see below). Upon full exercise of the outstanding warrants, the share capital will increase by SEK 5,013,226

and the number of shares by 1,330,000, corresponding to a dilution effect of approximately 2.9 percent of the total number of votes and capital in the company after the new share issue in February.

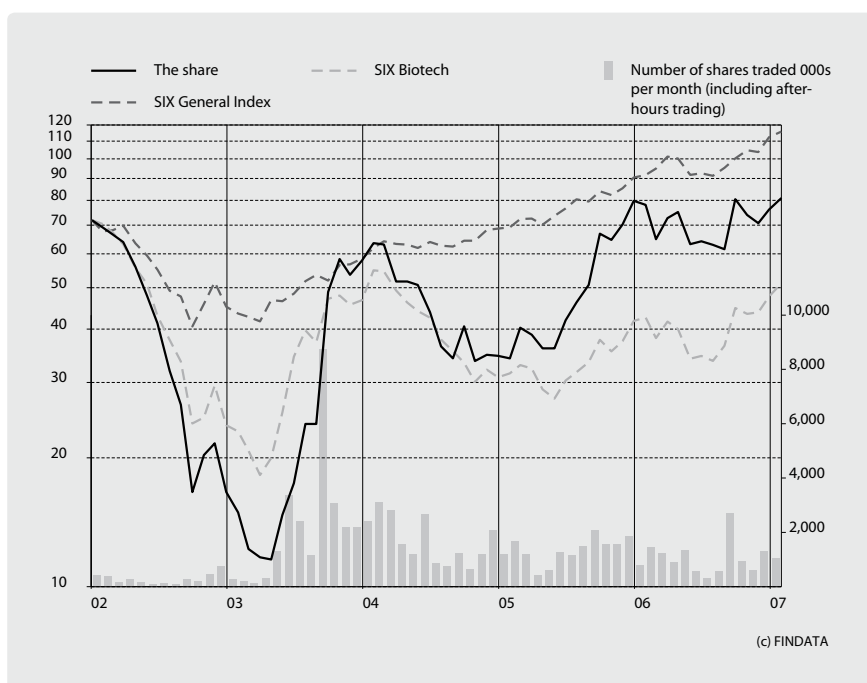
The options were allotted on three occasions: Series 1 encompassing 329,825 options was allotted in December 2003, Series 2 encompassing 239,075 options was allotted in June 2005 and Series 3 encompassing 340,000 was allotted in June 2006. Each Series 1 option entitles the holder to subscribe for one share during the period June 1, 2006 to May 31, 2009 at a recalculated price of SEK 84.70. Each Series 2 option entitles the holder to subscribe for one share during the period June 1, 2007 to May 31, 2010 at a recalculated price of SEK 43.90. Each Series 3 option entitles the holder to subscribe for one share during the period June 1, 2008 to May 31, 2011 at a price of SEK 67.10.

From June 1, 2006 until December 31, 2006, no Series 1 options were exercised.

Convertible debenture loan 2004/2009

On November 8, 2004, an Extraordinary General Meeting of Active Biotech approved the issue of 3,748,764 convertible debentures with preferential rights for existing shareholders, whereby nine existing shares entitled the owner to subscribe for one convertible debenture at a nominal amount of SEK 40. The issue price amounted to the nominal amount, SEK 40. The issue was fully subscribed and convertible debentures were issued for a total nominal amount of SEK 149,950,560. The debenture loan applies with 2 percent annual interest from January 1, 2005 and matures for payment on June 30, 2009. Active Biotech reserves the right, as stated in the conditions of the debenture loan, to repay the loan prior to maturity after January 1, 2007, on the condition that the average closing price for the company's share on the Stockholm Stock Exchange, during a period of 30 trading days, amounts to at least 130 percent of the recalculated conversion price. Holders are entitled to request conversion during the period until June 15, 2009. Following recalculation as a result of the share issue in 2005 and 2007, the conversion price is SEK 37.42.

On January 8, 2007, the liability outstanding amounted to SEK 125,465,686.49. Full conversion of convertible debentures outstanding entails an increase in share capital of SEK 12,318,912.89 and an increase in the number of shares of 3,268,186, corresponding to a dilution of about 8 percent of the total number of votes and shares prior to the proposed issue. The issue conducted in February will result in a recalculation of the conversion price, and consequently, the number of shares that may be added through conversion may increase.



Share performance January 2002 through January 2007

Price trend

On December 31, 2005, the share price was SEK 81.75, at the same date in 2006, it was SEK 78.00. The highest price paid for the share during the year was SEK 100.00 (September 5)

Change in share capital

The table on the next page shows the changes in Active Biotech's share capital from 2000 to December 31, 2006 and the changes resulting from conversions in 2007 and forthcoming changes resulting from the current new share issue.

Dividend policy

In view of Active Biotech's financial position and negative earnings, the Board of Directors does not intend to propose that any dividends be paid for the next few years. The company's financial assets will be principally used to finance existing and new research programs.

Swedish analysts covering Active Biotech

- ABG Sundal Collier
- Alfred Berg ABN Amro
- Carnegie
- Enskilda Securities
- Handelsbanken
- Kaupthing Bank
- Redeye

Active Biotech share

SEK	2006	2005
Profit/loss after full tax	-3.50	-3.70
Adjusted equity	1.52	4.47
Share price at year-end	78.00	81.75

Shareholders

On January 31, 2007, the number of shareholders in Active Biotech amounted to SEK 9,034. The table below shows the company's ten largest shareholders at January 31, 2007.

Shareholders

The following reflects circumstances as known to the company at January 31, 2007.

Owner	No. of shares	Holding, %
MGA Holding AB	10,981,019	27.5
Nordstjernan AB	4,258,653	10.6
Merrill Lynch Pierce Fenner & Smith	2,715,840	6.8
Catella funds	2,461,000	6.2
Swedbank Robur funds	1,398,019	3.5
Brummer & Partners	1,193,200	3.0
JP Morgan Bank	842,752	2.1
Fourth Swedish National Pension Fund	634,800	1.6
Borgelin and companies	570,000	1.4
Futuris	515,900	1.3
Total, 10 largest	25,571,183	69.9
Other	14,428,817	36.1
Total	40,000,000	100.0

Shareholder statistics, January 31, 2007

Shareholding interval	No. of shareholders	% of all shareholders	No. of shares	% of share capital	Average per shareholder
1–1,000	7,625	84.4	1,945,074	4.9	255
1,001–10,000	1,226	13.6	3,353,372	8.4	2,735
10,001–100,000	143	1.6	3,835,618	9.6	26,823
100,001–	40	0.4	30,865,936	77.2	771,648
Total	9,034	100.0	40,000,000	100.0	4,428

Trend in share capital

Year	Transaction	Change in number of shares	Change in share capital, SEK	Total no. of shares Class A shares	Total no. of shares Class B shares	Total share capital, SEK	Par value, SEK
	Opening balance			1,963,745	9,282,547	281,157,300	25.00
2000	Reclassification A as B	0	0	1,287,531	9,958,761	281,157,300	25.00
2001	Reclassification A as B	0	0	1,169,691	10,076,601	281,157,300	25.00
2002	Reclassification A as B	0	0	1,145,024	10,101,268	281,157,300	25.00
2003	Reduction of share capital (June)	0	-168,694,380	1,145,024	10,101,268	112,462,920	10.00
2003	Rights issue (June)	22,492,584	224,925,840	1,145,024	32,593,852	337,388,760	10.00
2003	Reclassification A as B	0	0	1,128,174	32,610,702	337,388,760	10.00
2003	Reorganization as a single share class (Dec.)	0	0		33,738,876	337,388,760	10.00
2005	Conversion (Jan.-/May)	1,681	16,810		33,740,557	337,405,570	10.00
2005	Rights issue (June/July)	5,623,426	56,234,260	39,363,983		393,639,830	10.00
2005	Conversion (Aug./Sept.)	228,241	2,282,410	39,592,224		395,922,240	10.00
2006	Conversion (Jan.-/May)	160,644	1,606,440	39,752,868		397,528,680	10.00
2006	Reduction of share capital (May)	0	-247,686,499	39,752,868		149,842,181	3.77
2006	Conversion (up to and including Nov.)	42,553	160,397	39,795,421		150,002,578	3.77
2007	Conversion (Jan. prior to current new share issue)	204,579	771,128	40,000,000		150,773,706	3.77
2007	Current issue	4,000,000	15,077,371	44,000,000		165,851,077	3.77

Intellectual property rights

A key aspect of Active Biotech's strategy is to protect its knowledge through strong patents. The patent protection covers inventions of chemical compounds, biotechnological structures, target organs, methods and processes related to the company's operation in key markets.

Active Biotech has built up its position in the area of patents through strategically defined patent families, primarily in the areas of autoimmunity/inflammation and cancer.

Patents and patent applications refer primarily to such commercially important markets as Europe, the US and Japan.

As a natural consequence of the earlier changed strategic focus, the patent portfolio has been adjusted downward for previous projects, whereas the positions for the main projects have been moved forward by a number of granted patents.

Number of patent families

Active Biotech holder of patent or patent application	Laquinimod, TASQ, 57-57, ANYARA, CD80/RhuDex® and I-3D	17
	Other projects	8
Total		25
Of which, out-licensed	Laquinimod, CD80 och I-3D	8
	Other	0
Total		8
Active Biotech licensee	ANYARA	2
	Other	0
Total		2

Patent protection for laquinimod

(out-licensed to Teva)

Patent family Type of protection	Priority area	Status	Year of expiry
"product"	Europe	Granted	2019
	US	Granted	2019
	Japan	In progress	2019
"method"	US	Granted	2023
	Europe	In progress	2023
	Japan	In progress	2023
"product and method"	Europe	In progress	2025
	US	In progress	2025
	Japan	In progress	2025

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"	US	Granted	2023
	Europe	In progress	2023
	Japan	In progress	2023

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
"method"	US	Granted	2020
	Europe	In progress	2020
	Japan	In progress	2020

Patent protection for I-3D

(Jointly developed with partner Chelsea Therapeutics)

Patent family Type of protection	Priority area	Status	Year of expiry
"product"	Europe	In progress	2025
	US	In progress	2025
	Japan	In progress	2025

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
	Japan	Granted	2011
	US	Granted	2016
"product"	Europe	Granted	2015
	Japan	In progress	2015
	US	In progress	2018
"product"	Europe	Granted	2017
	US	Granted	2016
	Japan	In progress	2017
"product and method"	Europe	In progress	2018
	US	In progress	2018
	Japan	In progress	2018
"product"	US	Granted	2022
	Europe	In progress	2022
	Japan	In progress	2022
"method"	Europe	In progress	2024
	US	In progress	2024
	Japan	In progress	2024

Patent protection for CD80/RhuDex®

(out-licensed to MediGene)

Patent family Type of protection	Priority area	Status	Year of expiry
"product"	Europe	Granted	2022
	US	Granted	2022
	Japan	In progress	2022
"product"	Europe	In progress	2023
	US	In progress	2023
	Japan	In progress	2023
"product"	Europe	In progress	2023
	US	In progress	2023
	Japan	In progress	2023

Governance of Active Biotech

The Annual General Meeting (AGM) is Active Biotech's highest decision-making body. At the AGM, 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. Each year, two employee representatives and two deputies are appointed prior to the AGM through decisions made by the trade-union organizations at the company.

The work of the Board

The Board works in accordance with an established formal work plan, which describes the minimum number of Board meetings to be held each year, routines for the preparation of the agenda and minutes of the meeting as well as the distribution of material. One section of the formal work plan regulates the division of duties in the Board and describes the responsibilities of the Board, the Chairman and the President.

The Board shall principally devote itself to overall and long-term issues as well as to issues of a material nature or of otherwise substantial importance. The Chairman directs the work of the Board and represents the Board both externally and internally. The formal work plan also identifies the Board members who, in accordance with specific decisions, have been appointed as the management's contacts in the event of a crisis. At each scheduled Board meeting, the President and senior management shall report on operations. The report shall comprise information on project development, plans and progress in research activities, financial reporting with forecasts as well as business development. The Board decides on issues in which the Swedish Companies Act and the Articles of Association require the Board's decision as well as on such issues as policy matters, strategy, business decisions (such as research plans), budget and key agreements.

The AGM for the 2005 financial year was held on April 26, 2006, 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). During the year, one Board member resigned. The Board is presented on page 49. Of the members elected by the AGM, 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 2006, eight meetings were held, for which minutes were kept. Key issues dealt with by the Board included the development of the research projects, business-development projects, partnership strategy and information pertaining to the annual accounts and budget and financing matters.

Election Committee

The process of nominating Board members entails the three largest shareholders each appointing a representative by December 31 of each 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 AGM for decision. On January 10, 2007, it was announced that the three largest owners in the company had appointed their representatives in the Election Committee. MGA Holding AB is represented by Johnny Sommarlund, Nordstjernan AB is represented by Tomas Billing and the Catella funds are represented by Ulf Strömsten. The Election Committee is headed by the Chairman of the Board, Mats Arnhög. The Election Committee will present its proposal for the composition of the Board to the AGM on April 19, 2007.

Remuneration and Audit Committee

At the AGM on April 21, 2004, it was decided that the company shall not have separate committees for remuneration and audit matters, based on the company's size and the operation's complexity, and that these matters shall instead be dealt with by the Board in its entirety. Salaries, remuneration, terms and conditions of employment and so forth, for the Board, President and company management are detailed in note 6.

Auditors

At least one and at most two auditors and at most two deputy auditors are appointed by the AGM for a period of four years. The auditors and deputy auditors appointed shall be authorized auditors or a registered firm of auditors. At the AGM in 2005, the KPMG Bohlins AB firm of auditors was elected with authorized auditor Stefan Holmström as auditor-in-charge for the period until 2009.

President and management group

The President & CEO of Active Biotech AB leads the daily 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 2006, the management group consisted of three people in addition to the President & CEO. A more detailed description of the management group is presented on page 50.

Board of Directors and Auditors



Mats Arnhög

Born 1951
Board Member since 2000.
MSc Stockholm School of Economics, owner of MGA Holding AB, Chairman of the Board.
Other Board assignments: Chairman of MGA Holding AB with subsidiaries. Chairman of Situation Stockholm AB, Sturehof AB and Föreningen Carlssons skola. Board member of Nordstjernan AB, Brofågel Support AB, Advisory Board Stockholm School of Economics.
Holding: 14,196,492 shares through companies (after completed share issue and conversion of convertible debentures)



Sven Andréasson

Born 1952
Board member since 1999.
MSc Stockholm School of Economics, President & CEO Active Biotech AB.
Other Board assignments: Chairman of Operations Leadership Oil AB and Board member of TiGenix N.V. (Leuven, Belgium).
Holding: 230,770 shares and 33,600 employee stock options



Klas Kärre

Born 1954
Board member since 2003.
Professor of Molecular immunology at the Karolinska Institute in Stockholm.
Other Board assignments: Board member of Accuro Immunology AB and Kalmar University.
Holding: 6,486 shares



Peter Sjöstrand

Born 1946
Board member since 2000.
BSc Stockholm School of Economics, Medical doctor.
Other Board assignments: Chairman of Meda AB, Gambro AB, Microdrug AG, Innate Pharmaceuticals AB and Byggnads AB S:t Erik. Board member of Aleris Holding AB, Peter Lind AB, Peter Sjöstrand AB, Ringens Varv AB and Ringens Varv i Marstrand AB.
Holding: 0



Peter Ström

Born 1952
Board member since 2003.
MSc Stockholm School of Economics,
Other Board assignments: Chairman of Peridoc AB and Board member of Comax AB, Oasmia AB and Puls AB.
Holding: 17,892 shares



Ingela Fritzon

Born 1964
Employee representative since 2004.
Employed since 1987.
BSc Chemical Engineering. R&D Laboratories.
Holding: 100 shares and 5,825 employee stock options



Hans Wännman

Born 1959
Employee representative since 1999.
Employed since 1980.
BSc Chemical Engineering. R&D Laboratories.
Holding: 9,350 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: 230,770 shares, 33,600 employee stock options.

Sven Andréasson has been President & CEO and a Board Member of Active Biotech since 1999. He has longstanding experience in the international pharmaceutical 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: 7,187 shares, 24,550 employee stock options.

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: 75,000 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

Vice President Regulatory & Quality Affairs

Born 1943

Holding: 1,409 shares, 24,550 employee stock options.

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.

Autoimmunity: When the body's immune system reacts against structures in the body itself. Autoimmune diseases arise when the immune system combats the body itself, despite it being otherwise healthy.

Candidate Drug (CD): A specific substance selected during the preclinical phase. The candidate drug is the substance, which will continue on to clinical testing in humans.

Chelsea Therapeutics: Chelsea Therapeutics International Ltd., Active Biotech's partner for I-3D.

Clinical studies: Studies of the effects of a drug on human beings.

FDA: Food and Drug Administration, the US pharmaceuticals authority.

Flare-up: Sudden outbreak or new episode of recurrent or chronic disease.

IND: Investigational New Drug. The application, submitted to the pharmaceutical authority, for permission to commence pharmaceutical studies in humans.

Inflammation: The body's response to localized damage.

MediGene: MediGene AG, Active Biotech's partner for RhuDex®.

MS: Multiple sclerosis, a chronic autoimmune disease.

NCE: New Chemical Entity – a new chemical molecule from the first stage in pharmaceutical development.

Patent: Exclusive rights to a discovery or invention.

Pharmacokinetics: Study of how drugs change in the body from absorption to excretion; studies how and when the drug is distributed to the target organ and how it is absorbed there.

Pharmacology: The study of pharmaceuticals.

Phase I studies: The first studies on humans are carried out on a small group, normally 20–80 healthy volunteers. The purpose of these studies is mainly to show that the compound is safe for humans.

Phase II studies: Phase II studies test the compound on patients suffering from the disease that the potential drug is designed to treat. Tests are normally conducted on 100–300 patients. The primary aim of a Phase II study is to show that the compound has the intended medical effect and determine an optimal dosage.

Phase III studies: In Phase III, the compound is tested on a large number of patients, often between 1,000 and 3,000 patients. The primary aim of Phase III studies is to show that a new drug is at least as good or better than previously approved treatments for the specific disease.

Placebo: A substance with no effect, a "sugar pill". Used for comparative purposes, for example when studying the effect of a new drug.

Preclinical: The part of drug development that takes place prior to the drug being tested on human beings.

Proof of Concept: When a candidate drug has a proven biological effect in humans.

PSA: Prostate-Specific Antigen, a biomarker used to diagnose prostate cancer.

RA: Rheumatoid Arthritis

SLE: Systemic lupus erythematosus. A life-threatening autoimmune disease.

TASQ: Tumor Angiogenesis Suppression by Quinolines. Active Biotech's prostate cancer project.

Teva: Teva Pharmaceutical Industries Ltd. Active Biotech's partner for laquinimod.

T-lymphocyte: A type of white blood cell. 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.



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