

Annual Report 2007



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Financial information

Interim report (Q1)	April 24, 2008
Annual General Meeting	May 7, 2008
Interim report (Q2)	Aug 6, 2008
Interim report (Q3)	Nov 14, 2008
Year-end report for 2008	Feb 12, 2009
Annual Report 2008	April 2009

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Manager Corporate Communication

Cecilia Hofvander, +46 (0)46-19 11 22, cecilia.hofvander@activebiotech.com

This annual 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 the 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.

Annual General Meeting

The Annual General Meeting is to be held on Wednesday, May 7, 2008 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 Wednesday, April 30, 2008 and (b), notify the company of their intention to participate in the Meeting not later than 4:00 p.m. on Wednesday, April 30, 2008.

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 Wednesday, April 30, 2008. 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, PO 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 registration number, number of shares held, daytime telephone number and, if applicable, the number of assistants (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 website www.activebiotech.com.

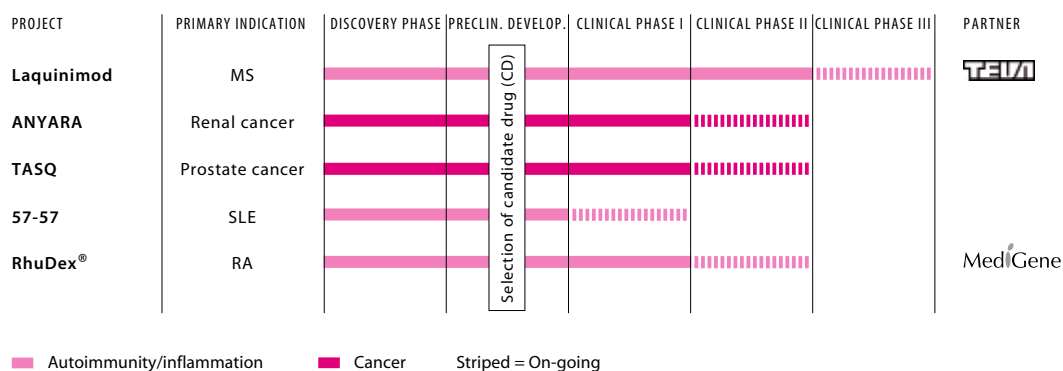


Active Biotech in brief

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

- **Laquinimod** is a 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 the Israeli company Teva Pharmaceutical Industries Ltd for the development and commercialization of laquinimod. Clinical Phase III trials were initiated in the autumn of 2007.
- **ANYARA** is a compound that makes the treatment of cancer tumor-specific. The development of ANYARA is principally focused on renal cancer. The compound is currently undergoing Phase II/III clinical trials.
- With the **TASQ**-project, Active Biotech is developing a so-called antiangiogenic compound that slows the growth of cancer cells. The development of TASQ is mainly focused on the treatment of prostate cancer. At present, TASQ is in Phase II clinical trials.
- **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. Phase II clinical trials are planned to commence around year-end 2008.
- **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 the German pharmaceutical company MediGene AG, which grants MediGene the exclusive right to further develop and market the product. RhuDex[®] is currently undergoing Phase II clinical trials.

In addition, Active Biotech is conducting studies to explain the mode of action and target molecules for the company's so-called quinoline compounds (encompassing the laquinimod, TASQ and 57-57 projects), which opens possibilities for the development of new drugs.



A balanced and mature project portfolio

During the year, the US and European regulatory authorities approved the MS project laquinimod for the start of Phase III and the enrolment of patients could commence. Consequently, we passed an important milestone in the development of a safe and effective product. Together with four additional products in clinical phase, we thus consolidated Active Biotech's position as a company with a balanced and mature project portfolio.

Operational goals for 2008

Laquinimod

- Phase III program for relapsing MS to continue in Europe/US/Israel

ANYARA

- Interim analysis of Phase II/III study in renal cancer patients to be performed

TASQ

- Phase II program in prostate cancer patients to continue

57-57

- Phase II/III studies in lupus patients to commence during the year

RhuDex®

- Phase IIb studies in RA patients to commence

Preclinical projects

- Focus on immunomodulatory compounds

Largest Phase III study

The initiation of Phase III studies of laquinimod for the treatment of MS has maybe not received the attention it deserves. During the year, the US (FDA) and European (EMA) regulatory authorities reviewed all documentation and established that laquinimod is effective and safe and can proceed in the clinical development. Accordingly, Teva Pharmaceutical's application to launch two global Phase III studies with the product was also approved. This will, to the best of my knowledge, be the largest Phase III program conducted by a Swedish company outside the Astra/Pharmacia sphere. The global Phase III program will run for two years at 175 MS centers and encompass approximately 2,200 patients. Teva is managing the laquinimod project and is financing all development expenses. To date, nearly 500 patients have been treated with the product in Phase I-II studies. The challenge is to rapidly enroll patients to the two Phase III studies "Allegro" and "Bravo" and no one is better suited to this task than our partner Teva.



Teva has, in principle, a presence in nearly all MS centers globally and has shown itself to be unmatched in the past with respect to designing and implementing successful clinical studies.

When we see how the Phase III program is progressing, we can also be more exact in our assessment of when a registration application for laquinimod can be submitted to the authorities. The financial upside is enormous and we estimate that the product has the potential to sell for more than USD 1 billion annually. If our assumptions are correct, this means continuous annual royalty revenues in the range of SEK 1 billion when the product is established in the market.

Decisive studies for ANYARA

For ANYARA against renal cancer, 2008 will be a decisive year. In mid-2008, we will perform an interim analysis of the ongoing Phase II/III study and if these results are positive, the study will make the transition to a pivotal Phase III study, which means that we will then have two projects in Phase III. Exceptional circumstances notwithstanding, the transition from Phase II to Phase III would be relatively uncomplicated in this study, since the same protocol applies and the same clinics will continue to enroll patients. Provided that the interim results are positive, we are planning to expand the trial to include a total of 500 patients and subsequently allow the study to make the transition into Phase III.

In July, the EMA's (European Medicines Agency) expert committee granted ANYARA Orphan Drug Status. The decision provides a variety of incentives for us, including a simplified process when compiling the registration application and market exclusivity for up to ten years following registration approval of the product. We have great trust that we will succeed in the project. We have made a sizable investment over a prolonged period in the ANYARA project in terms of financial and personnel resources and the interim analysis will therefore be the most important event to date for the project.

TASQ moves forward

With regard to TASQ and prostate cancer, there has been considerable attention surrounding the subject in the media during the year. The Board of Directors recently decided to pursue the project in clinical development on a proprietary basis. We are currently at the beginning of a Phase II study involving 200 patients that will take place in the US, Canada and Sweden. The study, which is being performed under an IND (Investigational New Drug) application, is placebo controlled and we expect to obtain data during the second half of 2009.

TASQ provides renewed hope and enhanced quality of life for men with hormone-resistant prostate cancer. It implies a new approach for the treatment of prostate cancer in the stage between hormone treatment and cytotoxic/surgical treatment. We have seen that our product delays disease progression and it can thus be envisaged that patients will want to receive treatment with TASQ as early as possible – an aspect that would naturally influence the potential size of the market.

57-57 progresses toward Phase II/III

The Phase I study of 57-57 against SLE has taken longer than we originally planned as it was possible to increase the treatment doses over the course of the study to a level that was higher than we anticipated at the outset of the study. However, we will be able to make up for this delay in future development. We have now commenced treatment of a patient group with the highest dose projected by the study protocol. Results of this study will be presented during the year and we plan to subsequently continue to the next clinical phase. We are discussing further development of the compound with the regulatory authorities with the aim of launching a Phase II/III program at the earliest possible date.

RhuDex® advances toward Phase IIb

The clinical development of RhuDex® is being conducted by our partner MediGene, which also carries the related costs. The project, which is focused on developing an oral treatment for rheumatoid arthritis (RA), is one of projects conducted by MediGene with the highest priority. A report on a completed Phase IIa study will be presented shortly and the launch of a Phase IIb study is subsequently planned to take place during the year. The aim of this study is to provide proof of concept to proceed toward Phase III.

Preclinical projects

We have decided not to pursue the I-3D preclinical project, which we have conducted in cooperation with our partner Chelsea Therapeutics. We will instead follow a strategy that further focuses on our unique quinoline-based technology platform of immunomodulatory compounds.

Having now defined a target molecule for this compound family, the logical next step is to focus on the development of new, patentable candidate drugs that bind to this molecule. These candidate drugs will then be developed to treat disease indications for which quinolines have demonstrated favorable treatment effects in experimental models or patients. Publishing of our scientific results will take place when the submission of all main patent applications has been completed. We hope to be able to publish results in a scientific journal during 2008.

Owners with a long-term view

We are privileged to have owners with a long-term view and financial resources, knowledge and patience. At the beginning of 2007, the company received a capital infusion of SEK 234 million through a new share issue that was fully guaranteed by our principal owners MGA Holding and Nordstjernan. At year-end, the company's cash and cash equivalents totaled SEK 139 million.

A guaranteed preferential rights issue amounting to a maximum of SEK 160 million will be proposed at the 2008 Annual General Meeting. The value creation in the three clinical projects being managed and financed on a proprietary basis entail rising costs attributable to an increase in the number of patients and clinics. The studies are also becoming more complex in character as they are intended to provide pivotal data for registration.

The company spirit has been positively influenced by the successes in our projects. Employees have combined forces and the interaction between the company's commercial activities, financing and research results is clear for all to see. We have a strong common corporate culture and now look forward to another successful year for our projects and for Active Biotech.

Lund, April 2008

Sven Andréasson, President and CEO

Directors' report

The Board of Directors and 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, 2007 to December 31, 2007. 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 in medical fields in which the immune system plays a central role. The company's research portfolio primarily includes projects for 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 13.5 percent of shares in Isogenica Ltd of the UK, which was founded in 2001 to develop molecular biology technologies.

Active Biotech's research operations

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 the development of 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 rheumatoid arthritis, RA (RhuDex®). The project portfolio also includes two potential drugs for treatment of the indications renal cancer (ANYARA) and prostate cancer (TASQ). In addition to these five clinical projects, the preclinical project I-3D has been conducted in cooperation with Chelsea Therapeutics International Ltd (Chelsea Therapeutics). In general, research operations developed very favorably during the year.

Development in brief for each project

Laquinimod is the project that has progressed furthest in the clinical development process. It is a new, immunomodulatory, disease-modifying drug in tablet form for the treatment of MS. Following the completion of Phase I and Phase II trials by Active Biotech on a proprietary basis, an agreement was signed with Teva Pharmaceutical Industries Ltd (Teva) covering the development and commercialization of laquinimod in June 2004.

According to the agreement, Teva performs and bears the costs of the continued development of laquinimod. If all the milestones in the clinical development are achieved, Teva will pay USD 92 million to Active Biotech, USD 12 million of which has been received to date. Active Biotech will also receive tiered double-digit royalty payments on future sales.

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 trial to establish the optimal dose for pivotal Phase III trials. The aim was to further evaluate the safety and efficacy of laquinimod and to establish the clinical dose for Phase III trials.

On November 7, 2007, Active Biotech and Teva could announce the start of enrolment to the Phase III study Allegro (assessment of oral laquinimod in preventing progression of multiple sclerosis). Allegro is a global, pivotal, 24/30-month, double-blind, clinical Phase III trial designed to evaluate the efficacy, safety and tolerability of laquinimod versus placebo in the treatment of relapsing-remitting multiple sclerosis (RRMS). The study will enroll approximately 1,000 patients with RRMS.

Efficacy, safety and tolerability in laquinimod will also be studied in a complementary Phase III study focused on RRMS, Bravo (benefit-risk assessment of Avonex® and laquinimod), the recruitment of patients to which is expected to commence in the first quarter of 2008. This trial is a global, multi-center, randomized, placebo-controlled trial with parallel groups, in which the effects of laquinimod is compared with placebo. The study will also generate data that assesses the risk-benefit benefits with once-daily administered laquinimod compared with an injectable product presently established in the market (Avonex®). The study will encompass approximately 1,200 patients who will be monitored for 24 months.

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 to provide 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 (NSCLC), renal cell carcinoma (RCC) and pancreatic cancer (PC) 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, and a Phase I combination study with ANYARA and the chemotherapeutic drug Taxotere® for the treatment of lung cancer with 12 patients performed at clinics in the US, Denmark and Russia. Furthermore a PET study (Positron Emission

Tomography study) was performed in the UK.

Taken together, the results mean that ANYARA, as a therapy principle, has now demonstrated pharmacological proof of concept, meaning that 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 uncomplicated manner.

Since 2006, Active Biotech has chosen to focus the continued clinical development on the indication renal cancer. A combined Phase II/III trial for the treatment of renal cancer was initiated prior to year-end 2006 at 45 clinics in Europe. The trial 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. Expected survival with conventional treatments for these patients is 10-15 months and the length of the study will depend on the patients' disease progression. An interim analysis based on data when approximately 200 patients have been enrolled is scheduled for mid-2008.

In July 2007, ANYARA was granted Orphan Drug Status for treating renal cancer patients by the EMEA's (European Medicines Agency) expert committee. The EMEA's decision to grant Orphan Drug Status was an important step in the development of ANYARA and provides a variety of incentives, including market exclusivity for up to ten years following registration approval.

In the TASQ (Tumor Angiogenesis Suppression by Quinolines) project, Active Biotech is developing an antiangiogenic substance that can be administered orally for the chronic 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. In September 2006, an interim analysis of the ongoing Phase I study demonstrated a treatment effect for all evaluated prostate cancer patients. The study comprised a total of 24 patients with hormone-refractory prostate cancer. The interim assessment showed that daily treatment with 0.5 mg TASQ reduced the rate of PSA increase for all evaluated patients. In nine out of ten patients this decrease was larger than 50 percent. TASQ was well tolerated by all patients with only mild and transient side effects. Patients continued treatment in a follow-up study that aimed to document long-term tolerance and safety.

The US Food and Drug Administration's review of the IND (Investigational New Drug) application was completed in August 2007. A Phase II proof of concept study was initiated during the latter part of the year. This is a randomized, placebo-controlled, double-blind Phase II study of 1 mg/day

of TASQ versus placebo in 200 patients. The study comprises symptom-free patients with metastatic, hormone-resistant, prostate cancer. The primary endpoint of the study is to measure the proportion of patients that do not display disease progression after six months of TASQ therapy compared with placebo. Secondary clinical endpoints of importance for this group of patients include time to clinical progression and initiation of treatment with cytostatics. The study is being performed as a multi-center study in the US and Europe.

In the company's 57-57 project, Active Biotech is developing a compound for the treatment of SLE. The first clinical Phase I dose-escalation study, comprising 30 healthy volunteers, was started at the Karolinska University 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 with a Phase I study with SLE and RA patients, which commenced in December 2005. The study primarily documents 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.

A clinical Phase II/III program for the 57-57 project is scheduled to commence around year-end 2008.

RhuDex[®] is a novel, orally available compound for the treatment of rheumatoid arthritis, originating from Active Biotech's patented CD80 antagonists, out-licensed in 2002 to MediGene AG's (MediGene) subsidiary Avidex Ltd. Following successful preclinical development work, a candidate drug was selected in 2004 by the name of RhuDex[®], an orally administered small molecule primarily intended for the 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 Phase IIa dose-escalation study in 35 RA patients was initiated in January 2007 and a report of the clinical results is expected in the first six months of 2008. Later in the development work, an additional Phase II study with more than 200 patients is scheduled for 2008. MediGene is responsible for the clinical program and carries the related costs.

If the project continues to market launch, milestone revenues may amount to a total of GBP 5.8 million. In addition, Active Biotech will receive royalties on future sales. A cooperation agreement 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 was further developed during the year.

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

Mode of action of the quinoline (Q) compounds

Over the past number of years, Active Biotech has conducted studies to explain the mode of action and target molecules that lie behind the pharmacological effects of the Q compounds that are under clinical development. Such a program is also the first step in the development of new, patentable compounds against the same target molecule. During the year, this activity continued and, among other developments, antibodies against the target molecule were produced that bind to the same part of the molecule as the Q compounds. These results mean that the application for patent protection for the target molecule can be strengthened, which is a priority at present. The results will subsequently be published in scientific journals, with the intention to do so during 2008.

Comments on the Income Statement

The Group's net sales amounted to SEK 12.1 million (66.4) and comprised SEK 8.8 million (8.0) in service and rental revenues and SEK 3.3 million (0.0) of a research grant from Vinnova. In addition to service and rental revenues, net sales for the corresponding period in the preceding year included a milestone payment of SEK 51.2 million from Teva Pharmaceutical Industries (Teva) relating to laquinimod and an initial payment from Chelsea Therapeutics of SEK 7.2 million pertaining to the joint development of the I-3D project.

The operation's research and administrative costs amounted to SEK 214.7 million (190.9), corresponding to a 12-percent increase in costs. Research and development costs increased by SEK 24 million from SEK 165.7 million to SEK 189.7 million. The increase in costs is attributable to intensified clinical research activities and more extensive trials in later clinical phase, particularly the ongoing Phase II/III study for the ANYARA project, and the Phase II study for TASQ that was initiated during the third quarter. Administrative expenses declined marginally during the year from SEK 25.2 million to SEK 25.0 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. At year-end 2006, a Phase II/III study in the ANYARA project for the treatment of renal cancer commenced. The study will include a total of about 500 patients. In the TASQ project, a Phase II study commenced that will include approximately 200 patients. The 57-57 project is currently in the end stages of

Phase I and is expected to commence clinical Phase II trials around year-end 2008.

In addition to the clinical development program, Active Biotech has, in conjunction with Chelsea Therapeutics, pursued the preclinical development of the I-3D project. Evaluation of preclinical data is in progress in order to make a strategic decision regarding further development.

The consolidated operating loss amounted to SEK 202.7 million (loss: 124.6). The weaker result is attributable to the increase in clinical project activities and the inclusion in the results for 2006 of SEK 58.4 million in partner revenues.

Consolidated net financial items amounted to a loss of SEK 5.0 million (loss: 17.3). The improvement in net financial items is mainly due to higher interest income totaling SEK 6.8 million (2.4) and lower interest expenses, as a result of the early redemption during the second quarter of the convertible debentures issued in 2004. Interest expenses totaled SEK 11.8 million (19.2), of which convertible debentures accounted for SEK 2.4 million (11.5), the property loan for SEK 9.0 million (7.2) and other interest expenses for SEK 0.4 million (0.4). Exchange-rate differences in net financial items amounted to SEK 0.0 million (expense: 0.4).

The Group's loss after tax amounted to SEK 207.7 million (loss: 139.2).

Comments on the balance sheet

The Group's total assets amounted to SEK 489.5 million (462.4). The change is primarily attributable to the positive cash flow for the year, SEK 40.7 million, which was a result of the new share issue conducted in the first quarter that provided SEK 234.4 million in liquidity.

Tangible fixed assets amounted to SEK 329.7 million (347.7) and mainly consisted of the property in which the company conducts operations, amounting to SEK 324.0 million (331.5), and equipment, tools, and fixtures and fittings totaling SEK 5.7 million (16.2). Financial fixed assets amounted to SEK 2.5 million (2.8). At year-end, cash and cash equivalents totaled SEK 138.6 million (97.9).

Comments on the cash-flow statement

The Group's positive cash flow for full-year 2007 amounted to SEK 40.7 million (neg: 80.5). The negative cash flow from operating activities amounted to SEK 186.7 million (neg: 100.1). Cash flow from investing activities was positive in the amount of SEK 0.2 million (pos: 25.0) and the positive cash flow from financing activities amounted to SEK 227.2 million (neg: 5.4). Investments in tangible assets amounted to SEK 0.9 million (0.3), of which SEK 0.8 million (0.3) was financed through financial leasing agreements.

Cash and cash equivalents and financial status

At year-end, cash and cash equivalents amounted to SEK 138.6 million (97.9), which represented a positive cash flow of SEK 40.7 million for 2007. The change between the years is primarily attributable to the preferential rights issue imple-

mented in 2007, which provided the company with a capital infusion of SEK 234.4 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 fixed-income 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 256.1 million (358.7), of which SEK 252.2 million (256.1) resulted from a property loan, SEK 3.9 million (4.4) from liabilities to leasing companies and 0.0 (98.2) from convertible loans. The convertible debenture issued in December 2004 was redeemed prematurely during the second quarter of 2007.

At year-end, consolidated shareholders' equity amounted to SEK 189.6 million (60.4). The Group's equity/assets ratio was 38.7 percent at year-end 2007, compared with 13.1 percent at year-end 2006.

The Active Biotech share

Share capital and ownership structure

In January 2008, Active Biotech AB's share capital amounted to SEK 178.3 million, distributed among 47,300,115 shares. The company has one class of share. All shares carry equal rights to participation in the company's assets and dividends. For further information regarding shareholders, see page 47.

Corporate governance

Active Biotech AB's Articles of Association stipulate that the election of the Board shall always take place at the Annual General Meeting. Apart from this, the Articles of Association do not contain any stipulations governing how Board members are appointed or dismissed, or regarding changes to the Articles of Association. A shareholder can vote for the full number of shares he or she holds or represents at the Annual General Meeting of Active Biotech. Shares that have been issued are freely transferable without restrictions pursuant to legislation or Active Biotech's Articles of Association. The company is not aware of any agreements that can entail restrictions to the entitlement to transfer shares in the company. For a more detailed description of how Active Biotech manages corporate governance issues, refer to the Corporate Governance Report on pages 49–52.

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 6.8 million (54.7). The preceding year included a milestone payment from Teva amounting to SEK 51.2 million.

Operating expenses for the year amounted to SEK 30.7 million (expense: 32.4). Net financial items for the period amounted to an expense of SEK 4.1 million (income: 27.0), with the difference between the years attributable to lower dividends from subsidiaries. Only marginal investments were made during the period. At year-end, the Parent Company's cash and cash equivalents amounted to SEK 122.9 million, compared with SEK 88.2 million at the beginning of the year.

Risk factors

A research company such as Active Biotech is characterized by a high operational and financial risk, since the projects in which the company is involved are 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 entered Phase III trials in 2007, which means it could take until 2011 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.

Risks in operations

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.

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 214.8 million during the fiscal year, of which about 17 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 (89), of which 51 (50) were women. The average age of employees was 48 (47) with an average employment period of 16.3 years (16.1). The education level of the personnel is high; 26 hold a PhD and 49 have a university/college education. During the year, the Group had average educational costs of SEK 7,871 per employee. The number of employees in research and development amounted to 72. For further information, see note 5.

In 2006, sickness absence amounted to 1.4 percent (1.9). 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, combined with the hedging of future social-security costs, comprises a total of 1,330,000 options, entailing a maximum dilution for existing shareholders of 2.7 percent. The incentive program is described in greater detail under the section "The share" on page 45 and in Note 5.

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.

Proposed appropriation of earnings

The Board of Directors and the President & CEO propose that no dividend be paid for the 2007 financial year. The proposed appropriation of the company's earnings is detailed on page 12.

Report on the work of the Board

The Board decides on the Group's overall strategy, the Group's organization and management in accordance with the Swedish Companies Act. At year-end, the Board comprised six members elected by the Annual General Meeting and two employee representatives. Other white-collar employees in the company participate when required to report to the Board or in administrative functions.

During the year, eight meetings were held at which minutes were taken. The President & CEO continuously informed the Chairman of the Board and the other Board members of developments in the company. Important issues addressed by the Board included:

- Development of research projects
- Business development projects
- Strategic focus
- Information concerning financial statements
- Budgets and forecasts for the operation
- Partnership strategy and partnership discussions

The work of the Board and how Active Biotech is governed is described in detail in the section "Corporate Governance Report," on pages 49-52. With regard to the Group's and Parent Company's results and financial position, see the subsequent income statements and balance sheets with the accompanying notes to the financial statements.

The Board's proposal for guidelines for remuneration to senior executives

The Board proposes that the Annual General Meeting decides on the following guidelines for remuneration to senior executives. These guidelines essentially conform to those that have been applied to date within the Company. Senior executives relates to the President & CEO and other members of Group management. The guidelines shall apply to employment contracts entered into subsequent to the Board's decision on guidelines and in those instances amendments are made in existing terms and conditions following the Board's decision.

Active Biotech shall offer total remuneration on market terms, facilitating the recruitment and retention of qualified senior executives. Remuneration to senior management shall comprise fixed salary, any variable salary, 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.

A description of the guidelines applied in 2007 and remunerations are described in Note 5 on page 30.

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 depend on the individuals' fulfillment of quantitative and qualitative goals. For the President & CEO, the variable salary shall amount to not more than 30 percent of fixed salary. For other senior executives, the variable salary shall amount to not more than 25 percent of fixed salary, whereby the highest level shall be based on such factors as the position held by the specific individual.

Pension

Pension benefits shall comprise defined-contribution schemes. The retirement age shall be between 60 and 65. The pension premium for the President & CEO shall correspond to 30 percent of fixed salary. For other senior executives, 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 & CEO 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 executives may be awarded otherwise customary benefits, such as a company car, company healthcare, etc.

Drafting and approval

The President's remuneration shall be drafted and approved by the Board. Other senior management's remuneration shall be drafted by the President & CEO, 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.

Earlier adopted remuneration packages

There are no earlier adopted remuneration packages that have not fallen due for payment. However, the company's outstanding employee stock options may entail costs for the company (social-security costs) in accordance with those presented in the annual report.

Events after the balance-sheet date

In April 2008, a decision was taken to prioritize the company's research resources on immunomodulatory compounds, which entailed the conclusion of the collaboration with Chelsea Therapeutics relating to the I-3D project.

The Board of Directors proposes that the Annual General Meeting on May 7, 2008 resolves to approve a preferential rights issue for a maximum of SEK 160 million to strengthen the company's financial position and drive development of the company's clinical portfolio. It is proposed that the issue shall entitle existing shareholders with preferential rights to subscribe for one new share for each twelve shares held at an issue price of SEK 40 per share.

The principal owners, MGA Holding AB (30.01 percent) and Nordstjernan AB (14.98 percent), have undertaken to subscribe for the full amount of shares corresponding to their preferential rights. In addition, Nordstjernan AB has undertaken, if the issue is not fully subscribed, to subscribe for any additional shares that are not subscribed for with preferential rights. Accordingly, the issue is guaranteed in its entirety.

Outlook for 2008

Against the background of the continued positive development of the project portfolio, the Board of Directors has determined that available liquidity, revenues from existing partnership agreements and liquidity from the rights issue proposed by the Board totaling a maximum of SEK 160 million will provide sufficient financial resources to finance the company's operations during 2008.

In 2008, the company expects to report a strong news flow. Interim data for the ongoing Phase II/III study for ANYARA for the treatment of renal cancer will be presented. Furthermore, the initiation of Phase II/III studies for the SLE project 57-57 is planned for the latter part of the year.

Since the timing for the signing of additional partnership agreements and the receipt of milestone payments from existing agreements is uncertain, no earnings forecast is being issued for fiscal year 2008.

Proposed appropriation of earnings

The Board of Directors and the President & CEO propose that the accumulated loss in the Parent Company of SEK 240,587,615 be dealt with as follows:

Accumulated loss	240,587,615
Utilization of statutory reserve	240,587,615
Carried forward to new account	0

Approval and adoption

The annual report and the consolidated financial statements have been approved for issue by the Board of Directors on April 7, 2008. 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 May 7, 2008.

Statement by the Board of Directors

The annual report has been prepared with good auditing practice in Sweden and the consolidated accounts and annual accounts have been prepared in accordance with the international accounting standards in Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards. The consolidated accounts and annual accounts gives a true and fair view of the Group's and Parent Company's financial position and results of operations.

The Directors Report for the Group and the Parent Company gives a true and fair view of the Group's and the Parent Company's operations, position and results, and describes significant risks and uncertainty factors that the Parent Company and Group companies face.

Lund, April 7, 2008

The Board of Directors of Active Biotech AB (publ)

MATS ARNHÖG
Chairman

MAGNHILD SANDBERG-WOLLHEIM

SVEN ANDRÉASSON
President & CEO

KLAS KÄRRE

PETER SJÖSTRAND

PETER STRÖM

HANS WÄNNMAN

KERSTIN ANDERSSON

We submitted our Audit Report on April 8, 2008.

KPMG Bohlins AB

STEFAN HOLMSTRÖM
Authorized Public Accountant

The character of the information in this Annual Report is such that it shall be disclosed by Active Biotech in accordance with the Swedish Securities Markets Act. The information was disclosed publicly on April 23 at 8:30 am.

Consolidated income statement

JANUARY 1 – DECEMBER 31

SEK thousands	Note	2007	2006
Net sales	2	12 077	66 359
Administrative expenses	3, 4	-25 019	-25 217
Research and development expenses	3	-189 747	-165 714
Operating profit/loss	5	-202 689	-124 572
Financial income		6 803	2 375
Financial expenses		-11 832	-19 628
Net financial income/expense	6	-5 029	-17 253
Profit/loss before tax		-207 718	-141 825
Tax	7	–	2 645
Net profit/loss for the year		-207 718	-139 180
Attributable to:			
Parent Company's shareholders		-207 718	-139 180
Minority interests		–	–
Earnings per share	14		
before dilution (SEK)		-4.47	-3.50
after dilution (SEK)		-4.47	-3.50

Consolidated balance sheet

AT DECEMBER 31

SEK thousands	Note	2007	2006
ASSETS			
Land and buildings	8	324 025	331 484
Equipment, tools, fixtures and fittings	8	5 675	16 219
Other long-term securities	10	2 453	1 380
Long-term receivables	11	–	1 451
Total fixed assets		332 153	350 534
Accounts receivable		1 586	768
Tax receivables		3 897	3 916
Other receivables		3 621	3 157
Pre-paid costs and accrued revenues	12	9 674	6 140
Cash and cash equivalents	22	138 613	97 886
Total current assets		157 391	111 867
TOTAL ASSETS		489 544	462 401
SHAREHOLDERS' EQUITY			
Share capital		178 290	150 003
Other capital contributed		1 933 194	1 628 429
Reserves		42 326	43 448
Loss carryforwards including loss for the year		-1 964 240	-1 761 522
Total shareholders' equity	13	189 570	60 358
LIABILITIES			
Liabilities to credit institutions	15	248 417	252 200
Other long-term liabilities	15	2 215	2 657
Total long-term liabilities		250 632	254 857
Short-term interest-bearing liabilities	15	5 508	5 648
Accounts payable		10 432	14 034
Tax liabilities		16	87
Convertible debentures	15	–	98 237
Other liabilities	16	1 804	2 262
Accrued costs and pre-paid revenues	17	31 582	26 918
Total short-term liabilities		49 342	147 186
TOTAL LIABILITIES		299 974	402 043
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		489 544	462 401

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

Statement of changes in consolidated equity

SEK thousands	Note 13	Share capital	Other capital contributions	Reserves	Profit/loss brought forward incl. profit/loss for the year	Total shareholders' equity
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' equity, 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 by own 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
Opening shareholders' equity, January 1, 2007		150 003	1 628 429	43 448	-1 761 522	60 358
Change in translation reserve for the year		–	–	-173	–	-173
Change in revaluation reserve for the year		–	–	-949	949	–
Total changes in net worth reported directly against shareholders' equity, excl. transactions with company owners		–	–	-1 122	949	-173
Profit/loss for the year		–	–	–	-207 718	-207 718
Total changes in net worth excl. transactions with company owners		–	–	-1 122	-206 769	-207 891
New share issue		15 077	219 339	–	–	234 416
Conversion		13 210	85 426	–	–	98 636
Share-related remuneration regulated by own capital instrument, IFRS 2		–	–	–	4 051	4 051
Closing shareholders' equity, December 31, 2007		178 290	1 933 194	42 326	-1 964 240	189 570

Consolidated cash-flow statement

JANUARY 1 – DECEMBER 31

SEK thousands	Note 22	2007	2006
<i>Operating activities</i>			
Profit/loss before tax		-207 718	-141 825
Adjustments for items not included in the cash flow		23 548	24 580
Cash flow from operating activities before changes in working capital		-184 170	-117 245
<i>Cash flow from changes in working capital</i>			
Increase(-)/Reduction(+) in operating receivables		-5 440	-4 449
Increase(+)/Reduction(-) in operating liabilities		2 906	21 561
Cash flow from operating activities		-186 704	-100 133
<i>Investing activities</i>			
Divestment of tangible fixed assets		–	25 000
Acquisition of tangible fixed assets		-91	-33
Reduction in financial fixed assets		276	–
Cash flow from investing activities		185	24 967
<i>Financing activities</i>			
New share issue		240 000	–
Issue expenses		-5 584	–
Early redemption of convertible loan		-1 975	–
Amortization of loan		-3 900	-3 900
Amortization of leasing liabilities		-1 297	-1 468
Cash flow from financing activities		227 244	-5 368
Cash flow for the year		40 725	-80 534
Cash and cash equivalents, January 1		97 886	178 426
Exchange-rate differences in cash and cash equivalents		2	-6
CASH AND CASH EQUIVALENTS AT YEAR-END		138 613	97 886

Parent Company income statement

JANUARY 1 – DECEMBER 31

SEK thousands	Note	2007	2006
Net sales	2	6 833	54 674
Administrative expenses	3, 4	-30 734	-32 388
Operating profit/loss	5	-23 901	22 286
<i>Profit/loss from financial items:</i>			
Profit/loss from participations in Group companies	6	-8 003	37 000
Interest income and similar items	6	6 332	1 979
Interest expense and similar items	6	-2 384	-11 947
Profit/loss after financial items		-27 956	49 318
Profit/loss before tax		-27 956	49 318
Tax	7	–	–
Net profit/loss for the year		-27 956	49 318

Parent Company balance sheet

AT DECEMBER 31

SEK thousands	Note	2007	2006
ASSETS			
Fixed assets			
Equipment, tools, fixtures and fittings	8	355	359
Financial fixed assets			
Participations in Group companies	21	229 400	229 400
Other long-term securities	10	2 453	1 380
Other long-term receivables	11	–	1 451
Total financial fixed assets		231 853	232 231
Total fixed assets		232 208	232 590
Current assets			
Short-term receivables			
Accounts receivable		–	3
Receivables from Group companies		63 553	69 977
Tax receivables		1 638	1 656
Other receivables		199	8
Pre-paid costs and accrued revenues	12	1 372	1 289
Total short-term receivables		66 762	72 933
Short-term investments	22	99 479	–
Cash and bank balances	22	23 378	88 167
Total current assets		189 619	161 100
TOTAL ASSETS		421 827	393 690

AT DECEMBER 31			
SEK thousands	Note	2007	2006
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
<i>Restricted equity</i>			
Share capital		178 290	150 003
Statutory reserve		359 458	359 458
<i>Unrestricted equity</i>			
Share premium reserve		308 562	3 797
Loss carryforwards		-521 193	-394 347
Profit/Loss for the year		-27 956	49 318
Total shareholders' equity	13	297 161	168 229
Short-term liabilities			
Accounts payable		771	976
Liabilities to Group companies		112 433	112 433
Tax liabilities		–	71
Convertible debenture	15	–	98 237
Other liabilities	16	687	1 007
Accrued costs and prepaid revenues	17	10 775	12 737
Total short-term liabilities		124 666	225 461
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		421 827	393 690

Pledged assets and contingent liabilities for the Parent Company

AT DECEMBER 31			
SEK thousands	Note	2007	2006
Assets pledged	20	1 270	–
Contingent liabilities	20	252 200	264 500

Statement of changes in Parent Company's equity

SEK thousands	Note 13	Restricted equity		Unrestricted equity			Total share- holders' 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 owners		–	–	–	-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
Opening shareholders' equity, January 1, 2007		150 003	359 458	3 797	-394 347	49 318	168 229
Group contributions paid		–	–	–	-180 215	–	-180 215
Treatment of profit/loss in preceding year		–	–	–	49 318	-49 318	–
Total changes in net worth reported directly against shareholders' equity, excl. transactions with company owners		–	–	–	-130 897	-49 318	-180 215
Profit/loss for the year		–	–	–	–	-27 956	-27 956
Total changes in net worth excl. transactions with company owners		–	–	–	-130 897	-77 274	-208 171
New share issue		15 077	–	219 339	–	–	234 416
Conversion		13 210	–	85 426	–	–	98 636
Share-related remuneration regulated by own capital instrument, IFRS 2		–	–	–	4 051	–	4 051
Closing shareholders' equity, December 31, 2007		178 290	359 458	308 562	-521 193	-27 956	297 161

Cash-flow statement for the Parent Company

JANUARY 1 – DECEMBER 31			
SEK thousands	Note 22	2007	2006
<i>Operating activities</i>			
Profit/loss after financial items		-27 956	49 318
Adjustments for items not included in the cash flow		4 054	4 302
Cash flow from operating activities before changes in working capital		-23 902	53 620
<i>Cash flow from changes in working capital</i>			
Increase(-)/Reduction(+) in operating receivables		6 274	106 393
Increase(+)/Reduction(-) in operating liabilities		-399	-89 268
Cash flow from operating activities		-18 027	70 745
<i>Investing activities</i>			
Reduction in financial fixed assets		276	–
Cash flow from investing activities		276	–
<i>Financing activities</i>			
New share issue		240 000	–
Issue expenses		-5 584	–
Early redemption of convertible loan		-1 975	–
Group contributions paid		-180 000	-140 000
Cash flow from financing activities		52 441	-140 000
Cash flow for the year		34 690	-69 255
Cash and cash equivalents, January 1		88 167	157 422
CASH AND CASH EQUIVALENTS AT YEAR-END		122 857	88 167

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 exist between the accounting principles of the Parent Company and Group are due to 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, for tax reasons.

The annual accounts and the consolidated accounts were approved for issue by the Board on April 7, 2008. 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 May 7, 2008.

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 (cost), except for the Group's property Forskaren 1, which is fair-valued, and certain financial assets and liabilities. Financial assets and liabilities carried at fair-value 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.

Changed accounting principles

The new standard detailed below was applied in the preparation of the financial report for 2007.

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

The standard did not entail any change of accounting principles, but only changes to the disclosure requirements with respect to financial instruments.

New IFRS and interpretations that have not yet taken effect

IFRIC 11 IFRS 2: Group and Treasury Share Transactions. The interpretation clarifies how a transaction settled using own equity instruments shall be accounted for in the

company that receives services from employees. The interpretation took effect on March 1, 2007 and is not deemed to have a significant impact on the Group's financial reporting.

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. Nonmonetary assets and liabilities that are reported at the historical acquisition value are translated at the exchange rate prevailing at the time of the transaction. Nonmonetary 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 certain.

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

present 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 removed 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 removed 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 removed 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.

Loan and accounts receivables

Loan and accounts 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 doubtful 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.

Financial assets available for sale

The category financial assets available for sale includes financial assets that have not been classified in any other category or financial assets that the company initially chose to classify in this category. Holdings of shares and participations not reported as subsidiaries, associated companies or joint ventures are reported under this heading. Assets in this category are valued at fair value on a continuous basis with value fluctuations recorded against shareholders' equity, however, not those attributable to impairment losses (see the accounting principle on the next page) or interest on receivable instruments and dividend income as well as exchange-rate differences on monetary items, which are recognized in the income statement. In connection with divestment of the asset, the accumulated gain/loss, which was previously recognized in shareholders equity, is recorded in the income statement.

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 to 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 of 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 uncertainty 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 amounts 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 first 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

Post-retirement benefits

Both defined-benefit and defined-contribution pension plans exist within the Group. For defined-benefit plans, remuneration 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 2006 and 2007 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 remuneration

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-based payments

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 over 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 amount 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 arising 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 RR32:06, Accounting for Legal Entities. Statements issued by the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council concerning listed companies were also applied. RR 32:06 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 dividends

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 thousands	Group		Parent Company	
	2007	2006	2007	2006
Licensing revenues	–	58 404	–	51 174
Research services	3 164	2 597	–	–
Rental and service revenue	5 555	5 358	–	–
Administrative services	–	–	3 500	3 500
Government grant, Vinnova	3 333	–	3 333	–
Other	25	–	–	–
Total	12 077	66 359	6 833	54 674

Note 3 Operating expenses distributed by type of cost

SEK thousands	Group		Parent Company	
	2007	2006	2007	2006
Personnel costs ¹⁾	87 798	89 354	21 657	22 819
Depreciation	18 926	19 979	4	7
Impairment	745	148	–	–
Operating expenses	16 066	17 181	3 860	3 694
Property expenses	13 631	10 854	1 018	1 018
Administrative expenses	1 887	2 449	1 887	2 449
External R&D services	72 097	46 471	–	–
Other external services	3 616	4 495	2 308	2 401
Total	214 766	190 931	30 734	32 388

¹⁾ Personnel costs include costs pertaining to the employee stock options program of SEK 4.867 million (6.314).

Note 4 Auditors' remuneration

SEK thousands	Group and Parent Company	
	2007	2006
KPMG, auditing assignments ¹⁾	684	595
KPMG, other assignments	67	400
PWC, other assignments	–	34

¹⁾ Review of prospectus reported against shareholders' equity, SEK 158 thousand (0).

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 Employee and personnel costs, and remuneration to senior executives

Costs for remuneration to employees	Group		Parent Company	
	2007	2006	2007	2006
SEK thousands				
Salaries and remuneration, etc.	48 460	47 715	9 853	9 778
Share-related remuneration ¹⁾ (see below)	4 867	6 314	4 867	6 314
Pension costs, defined-benefit plans (see below)	–	–	–	–
Pension costs, defined-contribution plans ²⁾³⁾ (see below)	10 095	10 589	2 378	2 246
Social security costs	18 905	18 674	4 082	4 044
Non-monetary remuneration	2 048	1 948	–	–
Total	84 375	85 240	21 180	22 382

¹⁾ Of which, social security costs totaled SEK 816 thousand (SEK 2.043 million)

²⁾ Of the Parent Company's pension costs, SEK 1.094 million (1.086) pertains to the Board of Directors and President & CEO

³⁾ The Group's pension costs include SEK 4.3 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	2007		2006	
	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	51 (61%)	83	48 (58%)
Group total	89	52 (58%)	89	49 (55%)

Gender distribution in management	2007	2006
	Of which, women	
Parent Company		
Board of Directors	25%	14%
Other senior executives	0%	0%
Group total		
Board of Directors	25%	14%
Other senior executives	0%	0%

Salaries and other remuneration subdivided by country and between senior executives and other employees

SEK thousands	2007		2006	
	Senior executives	Other employees	Senior executives	Other employees
Parent Company				
Sweden	8 850	1 003	8 793	985
(of which, bonus and similar)	–	–	–	–
Parent Company, total	8 850	1 003	8 793	985
Subsidiaries				
Sweden	–	38 607	–	37 937
(of which, bonus and similar)	–	–	–	–
Group total	8 850	39 610	8 793	38 922
(of which, bonus and similar)	–	–	–	–

Severance pay and salaries to senior executives

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

The company and the President & CEO have a mutual termination period of 12 months. No severance pay will be issued and no loans exist.

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

Personnel, sickness absence	2007	2006
	Sickness absence in percent	
Group total		
All employees	1.4%	1.9%
Men	0.3%	1.9%
Women	2.2%	1.9%
Employees under 30 years of age	0.5%	0.0%
Employees 30-49 years of age	1.7%	2.7%
Employees over 49 years of age	0.9%	0.8%
Absence of at least 60 days as % of total sickness absence	0.0%	26.2%

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

Post-retirement benefits

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 2006 and 2007 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. This year's fees for pension insurance subscribed to in Alecta totaled SEK 4.3 million (5.4). Alecta's surplus can be allocated to the policyholders and/or the insured. At year-end 2007, Alecta's surplus at the collective consolidation level amounted to 152 percent (143.1 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-based payments

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 2.7 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 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 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 in 2007, the exercise price has been recalculated at SEK 67.10.

The employee stock options are 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 1.07 shares 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 1.07 shares 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 1.07 shares 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 & CEO	11 200	Remains in service	3 years
Allocation, Dec. 2003/Other senior executives	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 & CEO	11 200	Remains in service	3 years
Allocation, June 2005/Other senior executives	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 & CEO	11 200	Remains in service	3 years
Allocation, June 2006/Other senior executives	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		
Forfeited 2007/other employees	-15 975		
Outstanding at Dec. 31, 2007	873 550		
Exercisable at Dec. 31, 2007	542 775		

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 2.7 percent. The proposed options cause costs, partly in the form of social security costs (URA 46), of which SEK 816 thousand (SEK 2.043 million) was charged against consolidated earnings in 2007, and partly accounting costs in accordance with IFRS 2, of which SEK 4.051 million (4.271) was charged against consolidated earnings in 2007.

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 executives*Guidelines*

Active Biotech shall offer total remuneration on market terms, facilitating the recruitment and retention of qualified senior executives. Remuneration to senior executives shall comprise fixed salary, any variable salary, 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 thousands	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; Magnhild Sandberg-Wollheim ¹⁾	125	–	–	–	–	–	125
Board member; Klas Kärre ¹⁾	125	–	–	–	–	–	125
Board member; Peter Sjöstrand ¹⁾	125	–	–	–	–	–	125
Board member; Peter Ström ¹⁾	125	–	–	–	–	–	125
President & CEO	3 427	–	6	978	–	–	4 411
Other senior executives (3 individuals)	4 673	–	249	1 212	–	–	6 134

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

Employee stock options

SEK thousands	Employee stock options Series 1				Employee stock options Series 2				Employee stock options Series 3			
	Amount	Value	Acquisition price	Remuneration	Amount	Value	Acquisition price	Remuneration	Amount	Value	Acquisition price	Remuneration
President & CEO	11 200	236	–	236	11 200	151	–	151	11 200	246	–	246
Other senior executives (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

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 dependent 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 & CEO shall correspond to 30 percent of fixed salary. For other senior executives, 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 & CEO shall have a mutual termination period of 12 months. The company and other senior executives 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 & CEO remuneration shall be prepared and approved by the Board. Other senior management's remuneration shall be prepared by the President & CEO, 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.

Note 6 Net financial items

	Group	
SEK thousands	2007	2006
Interest income	6 762	2 375
Exchange-rate fluctuations	41	–
Financial revenue	6 803	2 375
Interest expenses	-9 448	-7 692
Interest expenses for convertible debentures	-2 384	-11 535
Exchange-rate fluctuations	–	-401
Financial expenses	-11 832	-19 628
Net financial items	-5 029	-17 253

Nominal interest for the convertible debenture amounted to SEK 0 million (2.666).

Parent Company	Earnings from participations in Group companies	
SEK thousands	2007	2006
Dividends	–	37 000
Impairment losses	-8 003	–
Total	-8 003	37 000

Parent Company	Interest income and similar items	
SEK thousands	2007	2006
Interest income from Group companies	–	–
Interest income, other	6 329	1 979
Exchange-rate differences	3	–
Total	6 332	1 979

Parent Company	Interest expense and similar items	
SEK thousands	2007	2006
Interest expenses from Group companies	–	–
Interest expenses, other	–	-83
Interest expenses relating to convertible debenture	-2 384	-11 535
Exchange-rate differences	–	-329
Total	-2 384	-11 947

Exchange-rate differences affecting earnings	Group		Parent Company	
SEK thousands	2007	2006	2007	2006
Exchange-rate differences affecting earnings	180	405	-3	44
Financial exchange-rate differences	41	-401	3	-329
Total	221	4	–	-285

Note 7 Taxes

Reported in the income statement	Group		Parent Company	
SEK thousands	2007	2006	2007	2006
<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 expense as a result of utilization of loss carryforwards previously capitalized	-368	–	–	–
Deferred tax income in tax value capitalized during the year in loss carryforwards	–	2 652	–	–
Deferred tax income attributable to depreciation of revaluation of property	368	–	–	–
Total reported tax expense/income	–	2 645	–	–

	Group		Parent Company	
SEK thousands	2007	2006	2007	2006
<i>Reconciliation of effective tax</i>				
Profit/loss before tax	-207 718	-141 825	-27 956	49 318
Tax on the Parent Company according to current rates	58 161	39 711	7 828	-13 809
Non-deductible expenses	-2 481	-4 526	-4 476	-4 472
Non-taxable revenues	17	3	7	–
Increase in loss carryforwards without equivalent capitalization of deferred taxes	-55 697	-35 195	-3 359	–
Revaluation of deferred tax	–	2 652	–	–
Utilization of loss carryforwards previously not capitalized	–	–	–	18 281
Reported effective tax	–	2 645	–	–

Tax items reported directly against shareholders equity	Group		Parent Company	
SEK thousands	2007	2006	2007	2006
Deferred tax attributable to revaluation of tangible fixed assets	–	-2 652	–	–

Reported in the balance sheet Deferred tax receivables and liabilities	Deferred tax receivable Group		Deferred tax liability Group		Net Group	
	2007	2006	2007	2006	2007	2006
SEK thousands						
Tangible fixed assets	–	–	-16 212	-16 580	-16 212	-16 580
Loss carryforwards	16 212	16 580	–	–	16 212	16 580
Tax receivables/liabilities	16 212	16 580	-16 212	-16 580	–	–
Offsetting	-16 212	-16 580	16 212	16 580	–	–
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 2007, the Group's accumulated loss carryforwards amounted to SEK 1,684 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 8 Tangible fixed assets

Group

SEK thousands	Buildings and land		Equipment, tools, fixtures and fittings		Total
	Reported using revaluation method		Reported using acquisition method		
Acquisition value					
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
Opening balance, January 1, 2007		341 202		153 819	495 021
Other acquisitions		–		923	923
Divestments		–		-391	-391
Closing balance, December 31, 2007		341 202		154 351	495 553
Depreciation and impairment losses					
Opening balance, January 1, 2006		-1 980		-125 164	-127 144
Depreciation for the year		-7 543		-12 436	-19 979
Recalculation effect against revaluation reserve		-195		–	-195
Closing balance, December 31, 2006		-9 718		-137 600	-147 318
Opening balance, January 1, 2007		-9 718		-137 600	-147 318
Depreciation for the year		-7 459		-11 467	-18 926
Divestments		–		391	391
Closing balance, December 31, 2007		-17 177		-148 676	-165 853
Carrying amounts					
January 1, 2006		348 584		28 315	376 899
December 31, 2006		331 484		16 219	347 703
January 1, 2007		331 484		16 219	347 703
December 31, 2007		324 025		5 675	329 700
Tax assessment value					
Group		Dec 31, 2007		Dec 31, 2006	
Tax assessment value, buildings (Forskaren 1, Municipality of Lund)		74 000		32 400	
Tax assessment value, land (Forskaren 1, Municipality of Lund)		8 191		6 500	
Buildings and land reported using the revaluation method					
		Historical carrying amount Dec. 31, 2007		Historical carrying amount Dec. 31, 2006	
Acquisition value		280 316	341 202	280 316	341 202
Accumulated depreciation		-14 292	-17 177	-8 048	-9 718
Carrying amount		266 024	324 025	272 268	331 484

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 conditions on the local property market have not changed in a decisive manner, which is why the valuation of the property conducted in 2006 remains valid. The property's market value, based on the above assumptions, was assessed to be SEK 361 million in 2006. 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 3-10 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, 2007, the book value of property covered by financial leasing agreements amounted to SEK 1.689 million. See also note 15, 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 650 thousand between one and five years SEK 1.300 million and after 5 years SEK 0.

Parent Company		
SEK thousands	Equipment, tools, fixtures and fittings	Total
Acquisition value		
Opening balance, January 1, 2006	1 034	1 034
Other acquisitions	–	–
Divestments	–	–
Closing balance, December 31, 2006	1 034	1 034
Opening balance, January 1, 2007	1 034	1 034
Other acquisitions	–	–
Divestments	–	–
Closing balance, December 31, 2007	1 034	1 034
Depreciation and impairment losses		
Opening balance, January 1, 2006	-668	-668
Depreciation for the year	-7	-7
Divestments	–	–
Closing balance, December 31, 2006	-675	-675
Opening balance, January 1, 2007	-675	-675
Depreciation for the year	-4	-4
Divestments	–	–
Closing balance, December 31, 2007	-679	-679
Carrying amounts		
January 1, 2006	366	366
December 31, 2006	359	359
January 1, 2007	359	359
December 31, 2007	355	355

Note 9 Participations in associated companies

SEK thousands	Group		Parent Company	
	2007	2006	2007	2006
<i>Accumulated acquisition value</i>				
Carrying amount at the beginning of the year	–	1 380	–	11 380
Share of earnings in associated companies for the year	–	–	–	–
Translation difference for the year	–	–	–	–
Reclassifications	–	-1 380	–	-11 380
<i>Accumulated impairment losses</i>				
At the beginning of the year	–	–	–	-10 000
Impairment losses for the year	–	–	–	–
Reclassifications	–	–	–	10 000
Carrying amount at year-end	–	–	–	–

In 2006, a new share issue was conducted in Isogenica Ltd in which Active Biotech did not participate. Accordingly, Active Biotech's ownership share declined to 12.3 percent and as a result, Isogenica Ltd was reclassified as a long-term securities holding instead of an associated company. In 2007, Active Biotech converted a loan to shares in the company, which meant that the ownership share increased to 13.5 percent. In January 2008, Isogenica conducted a private placement to the Finnish company KC Holding 3 Ltd, entailing a decrease in Active Biotech's ownership share to 10.7 percent.

Note 10 Other long-term securities

SEK thousands	Group		Parent Company	
	2007	2006	2007	2006
At the beginning of the year	1 380	–	1 380	–
Reclassification	–	1 380	–	1 380
Acquisitions	1 073	–	1 073	–
Carrying amount at year-end	2 453	1 380	2 453	1 380

Other long-term securities comprise participations 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. Acquisitions in 2007 relate to Active Biotech's conversion of a loan to shares in Isogenica Ltd.

Note 11 Long-term receivables

SEK thousands	Group		Parent Company	
	2007	2006	2007	2006
Receivables from Isogenica Ltd	–	1 349	–	1 349
Other long-term receivables	–	102	–	102
Total	–	1 451	–	1 451

Note 12 Pre-paid expenses and accrued revenues

SEK thousands	Group		Parent Company	
	2007	2006	2007	2006
Interest	367	20	–	20
Pre-paid rent	75	75	27	27
Pre-paid insurance	755	906	385	421
Accrued revenues	675	1 025	586	537
Pre-paid clinical trials	5 320	1 686	–	–
Other pre-paid expenses and accrued revenues	2 482	2 428	374	284
Total	9 674	6 140	1 372	1 289

Note 13 Shareholders' equity

Group

Specification of shareholders' equity item Reserves

Translation reserve

SEK thousands	2007	2006
Opening translation reserve	812	714
Less exchange-rate differences attributable to divested/wound-up operations	-173	–
Change in translation reserve for the year	–	98
Closing translation reserve	639	812

Revaluation reserve

SEK thousands	2007	2006
Opening revaluation reserve	42 636	35 816
Revaluation of property	–	15 443
Taxation effect of revaluation of property	–	-4 324
Transfer to loss carryforwards	-949	-4 299
Closing revaluation reserve	41 687	42 636

Total reserves

SEK thousands	2007	2006
Opening reserves	43 448	36 530
Change in reserves for the year:		
Translation reserve	-173	98
Revaluation reserve	-949	6 820
Closing reserves	42 326	43 448

Share capital

	Ordinary shares	
Thousands of shares	2007	2006
Issued at January 1	39 795	39 592
Cash issue	4 000	–
Conversion	3 505	203
Issued at December 31 – paid	47 300	39 795

At December 31, 2007, the registered share capital comprised 47,300,115 common 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. In 2007, the company exercised its right to request premature payment of the convertible loan, which meant that convertible debentures were converted to 3,504,694 new shares. 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' equity 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 2007 fiscal year.

Capital management

In accordance with the Board's policy, the Group's financial objective is to maintain a good capital structure and financial stability, thereby retaining the confidence of investors and credit providers in the market, and to function as a platform for the continued development of the business operation. Capital is defined as total equity. With reference to the focus of the operation, no specific target for debt/equity has been defined.

Note 14 Earnings per share

SEK	Before dilution		After dilution	
	2007	2006	2007	2006
Earnings per share	-4.47	-3.50	-4.47	-3.50

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 2007 is based on loss for the year attributable to the Parent Company's ordinary shareholders amounting to SEK 207.718 million (loss: 139.180) and on a weighted average number of shares outstanding during 2007 totaling 46,426,946 (39,754,594). The two components were calculated in the following manner:

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

SEK thousands	2007	2006
Loss for the year attributable to the Parent Company's shareholders	-207 718	-139 180

Weighted average number of outstanding common shares, before dilution

thousands of shares	2007	2006
Total number of common shares at January 1	39 795	39 592
Effect of new share issue	3 661	–
Effect of conversions	2 971	163
Weighted average number of ordinary shares during the year, before dilution	46 427	39 755

Earnings per share after dilution

The calculation of earnings per share in 2007 is based on loss for the year attributable to the Parent Company's shareholders amounting to SEK 207.718 million (loss: 127.645) and on a weighted average number of outstanding shares during 2007 totaling 46,426,946 (43,227,360). The two components were calculated in the following manner:

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

SEK thousands	2007	2006
Loss attributable to the Parent Company's shareholders	-207 718	-139 180
Effect of interest on convertible debentures (after tax)	–	11 535
Effect of share warrants	–	–
Loss attributable to the Parent Company's shareholders, after dilution	-207 718	-127 645

Weighted average number of outstanding common shares, after dilution

thousands of shares	2007	2006
Weighted average number of common shares during the year, before dilution	46 427	39 755
Effect of convertible debentures	–	3 472
Effect of share warrants	–	–
Weighted average number of common shares during the year, after dilution	46 427	43 227

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 common shares. The exercise rate of the employee stock option program of Series 2 shares was less than the average rate of common shares, but resulted in no dilution effect, since it entailed an improvement in earnings per share. The exercise rate of the employee stock option program of Series 3 shares was less than the average rate of common shares. However, in consideration of remaining unallocated expenses over the earning period, there was no dilution effect.

Note 15 Interest-bearing liabilities

SEK thousands	Group	
	2007	2006
Long-term liabilities		
Bank loan	248 417	252 200
Financial leasing liabilities	2 215	2 657
Total	250 632	254 857
Short-term liabilities		
Short-term portion of bank loan	3 783	3 900
Convertible debentures	–	98 237
Short-term portion of financial leasing liabilities	1 725	1 748
Total	5 508	103 885

SEK thousands	Group and Parent Company	
	2007	2006
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	-11 639	-6 075
Conversions	-98 636	-5 564
Capitalized interest in the preceding year	15 889	7 021
Capitalized interest	2 374	8 868
Repayment of convertible loan	-1 975	–
Reported liability, December 31	–	98 237

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 were 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, in 2006, debentures were converted to 203,197 shares, and in 2007, debentures were converted to 3,504,694 shares. On February 15, 2007, the Board of Active Biotech announced its decision to exercise its entitlement to request premature repayment of the convertible debenture, which was implemented during the year.

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 thousands	Amortization	Interest	Total payment
Within one year	1 725	212	1 937
Between one and five years	2 215	252	2 467
Later than five years	–	–	–
	3 940	464	4 404

Amortization due 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 16 Other short-term liabilities

SEK thousands	Group		Parent Company	
	2007	2006	2007	2006
Personnel tax at source	1 323	1 555	208	300
Other short-term liabilities	481	707	479	707
Total	1 804	2 262	687	1 007

Note 17 Accrued expenses and pre-paid revenues

SEK thousands	Group		Parent Company	
	2007	2006	2007	2006
Accrued vacation liability, including social-security costs	6 916	7 341	2 143	2 551
Accrued employer's contributions	1 270	1 327	256	265
Accrued employer's contributions for employee stock options program	5 990	5 174	5 990	5 174
Other accrued personnel costs	2 400	2 462	579	544
Accrued interest	1 535	3 854	–	2 666
Other items	13 471	6 760	1 807	1 537
Total	31 582	26 918	10 775	12 737

Note 18 Valuation of financial assets and liabilities to fair value

The fair values and carrying amounts are reported in the balance sheet below:

Group 2007

SEK thousands	Accounts and loans receivable	Derivatives used in hedge accounting	Investments held to maturity	Financial assets available for sale	Other liabilities	Total carrying amount	Fair value
Other long-term securities	–	–	–	2 453	–	2 453	2 453
Accounts receivable	1 586	–	–	–	–	1 586	1 586
Interest-rate swaps	–	367	–	–	–	367	367
Cash and cash equivalents	39 134	–	99 479	–	–	138 613	138 613
Total	40 720	367	99 479	2 453	–	143 019	143 019
Long-term interest-bearing liabilities	–	–	–	–	250 632	250 632	250 632
Short-term interest-bearing liabilities	–	–	–	–	5 508	5 508	5 508
Accounts payable	–	–	–	–	10 432	10 432	10 432
Other liabilities	–	–	–	–	1 535	1 535	1 535
Total	–	–	–	–	268 107	268 107	268 107

Group 2006

SEK thousands	Accounts and loans receivable	Derivatives used in hedge accounting	Investments held to maturity	Financial assets available for sale	Other liabilities	Total carrying amount	Fair value
Other long-term securities	–	–	–	2 831	–	2 831	2 831
Accounts receivable	768	–	–	–	–	768	768
Other receivables	20	–	–	–	–	20	20
Cash and cash equivalents	97 886	–	–	–	–	97 886	97 886
Total	98 674	–	–	2 831	–	101 505	101 505
Long-term interest-bearing liabilities	–	–	–	–	254 857	254 857	254 857
Short-term interest-bearing liabilities	–	–	–	–	103 885	103 885	103 885
Accounts payable	–	–	–	–	14 034	14 034	14 034
Other liabilities	–	–	–	–	3 854	3 854	3 854
Total	–	–	–	–	376 630	376 630	376 630

Parent Company 2007

SEK thousands	Accounts and loans receivable	Investments held to maturity	Financial assets available for sale	Other liabilities	Total carrying amount	Fair value
Long-term receivables	–	–	2 453	–	2 453	2 453
Short-term investments	–	99 479	–	–	99 479	99 479
Cash and bank balances	23 378	–	–	–	23 378	23 378
Total	23 378	99 479	2 453	–	125 310	125 310
Accounts payable	–	–	–	771	771	771
Total	–	–	–	771	771	771

Parent Company 2006

SEK thousands	Accounts and loans receivable	Investments held to maturity	Financial assets available for sale	Other liabilities	Total carrying amount	Fair value
Long-term receivables	–	–	2 831	–	2 831	2 831
Accounts receivable	3	–	–	–	3	3
Other receivables	20	–	–	–	20	20
Short-term investments	88 167	–	–	–	88 167	88 167
Total	88 190	–	2 831	–	91 021	91 021
Short-term interest-bearing liabilities	–	–	–	98 237	98 237	98 237
Accounts payable	–	–	–	976	976	976
Other liabilities	–	–	–	2 666	2 666	2 666
Total	–	–	–	101 879	101 879	101 879

The following text summarizes the methods and assumptions primarily used to establish the fair value of the financial instruments entered in the table above.

Securities

For listed securities, the determination of fair value is based on the asset's buying rate on the balance-sheet date, excluding transaction expenses at the time of acquisition. Furthermore, potential transaction expenses in connection with the divestment of an asset are disregarded.

The comparative valuation is conducted by applying relevant multiples to the key figures of the relevant company, with deductions for individually determined adjustments as a result of, for example, the difference in size between the company in question and a comparable company. Another factor considered in the valuation assessment is the value of any completed transactions in the company in question and any external valuations that have been conducted.

Derivative instruments

The fair value of interest-rate swaps is based on the valuation of the intermediary credit institution, the fairness of which is tested by discounting estimated future cash flows in accordance with the terms and maturities of the contract and based on the market rate for similar instruments on the balance-sheet date.

Interest-bearing liabilities

The calculation of fair value of financial liabilities that do not constitute derivative instruments is based on future cash flows of principal and interest discounted to the prevailing market rate on the balance-sheet date.

Convertible debentures

The fair value of the liability portion in convertible debentures is calculated by discounting future cash flows of principle and interest discounted using a market rate of similar liabilities with a conversion option.

Financial leasing liabilities

Fair value is based on the present value of future cash flows discounted to the market rate for similar leasing agreements.

Accounts receivable and accounts payable

For accounts receivable and accounts payable with a remaining economic life of less than six months, the carrying amount is deemed to reflect the fair value.

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 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 permits investments to be made at low risk in Swedish and foreign shares, interest-bearing securities denominated in Swedish kronor and interest and equity funds. The proportion of shares, including equity funds, may not exceed 40 percent of the total portfolio and the proportion of equity hedge funds may not exceed 50 percent of the total share portfolio. Interest-bearing investments are limited to securities issued by the Swedish government, Swedish mortgage institutions and Swedish banks.

Interest-rate risks relating to cash and cash equivalents and borrowings

The interest-rate risk relates to the risk that Active Biotech's exposure to fluctuations in market rates can have a negative impact on net earnings. The fixed-interest term on the Group's financial assets and liabilities are the most significant factors that influence the interest-rate risk. Active Biotech's view is that a short fixed-interest term is, in term of risk, consistent with the company's operative position. However, the Board can choose to extend the period of fixed interest with the aim of limiting the effect of any rise in interest rates.

The Group's financing sources mainly comprise shareholders' equity, bank loans for financing of property holdings and financial leasing commitments. Outstanding interest-bearing liabilities are reported in Note 15 and the maturity structure of liabilities is presented below.

Group 2007

SEK thousands	Nominal amount, original currency	Total	Within 1 month	1-3 months	3 months – 1 year	1–5 years	5 years and longer
Bank loans, SEK		252 200	–	946	2 837	11 349	237 068
Convertible debentures, SEK		–	–	–	–	–	–
Financial leasing liabilities, SEK		3 940	144	288	1 293	2 215	–
Accounts payable, SEK		7 139	6 185	954	–	–	–
Accounts payable, EUR	56	530	530	–	–	–	–
Accounts payable, GBP	13	170	170	–	–	–	–
Accounts payable, NOK	136	162	162	–	–	–	–
Accounts payable, USD	376	2 431	1 651	780	–	–	–
Total		266 572	8 842	2 968	4 130	13 564	237 068

Group 2006

Bank loans, SEK		256 100	–	975	2 925	14 300	237 900
Convertible debentures, SEK		133 319	–	133 319	–	–	–
Financial leasing liabilities, SEK		4 405	146	291	1 311	2 657	–
Accounts payable, SEK		8 084	7 523	561	–	–	–
Accounts payable, EUR	464	4 202	4 169	33	–	–	–
Accounts payable, GBP	60	814	814	–	–	–	–
Accounts payable, USD	136	934	934	–	–	–	–
Total		407 858	13 586	135 179	4 236	16 957	237 900

Financing risk

Financing risk relates to the risk that financing of Active Biotech's capital requirements and refinancing of loans outstanding may be made more difficult or more expensive. Since Active Biotech has loans that mature on different dates, the financing risk can be reduced. The liabilities comprise a long-term property loan and a smaller number of financial 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 in relation to cash and cash equivalents

The Group's cash and cash equivalents, which totaled SEK 138.613 million at December 31, 2007, were invested with a floating interest rate, which during 2007, fluctuated between 2.5 – 4.5 percent.

Liquidity risk

Liquidity risk relates to the risk that the Group can encounter difficulties in fulfilling its commitments that are associated with financial liabilities. For short-term purposes, the Group has a rolling 12-month liquidity plan that is updated on a continuous basis. For medium-term planning, future revenue and cash flows are forecast continuously based on the projects' anticipated development phase. The long-term liquidity forecast is presented on a regular basis to the Board.

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, 2007, the Group had no investments in share-related instruments.

Currency risks

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

The Group has a relatively limited currency exposure, since operations are primarily conducted within Sweden. Earnings are exposed to fluctuations in exchange rates in the procurement of clinical trials, research services and clinical materials. Operating costs for the fiscal year amounted to SEK 214.7 million, of which approximately 17 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. Credit losses or impairment losses for possible credit losses were charged against earnings for 2007 in the amount of SEK 0.7 million.

Credit risks also arise when investing cash and cash equivalents. Cash and cash equivalents are principally invested through well-established banks.

Maturity analysis, accounts receivable that have matured, but are unimpaired

SEK thousands	2007		2006	
	Carrying amount, unimpaired receivable	Collateral	Carrying amount, unimpaired receivable	Collateral
Accounts receivable, not matured	1 310	–	685	–
Accounts receivable, matured > 30 days – 90 days	276	–	–	–
Accounts receivable, matured > 90 days – 180 days	–	–	83	–
	1 586	–	768	–

Derivatives

Through a combination of loans with short fixed-interest terms and the utilization of interest-rate derivatives, a considerable degree of flexibility can be attained and the fixed-interest term can be adapted so that the goals for the financing operation can be achieved. Active Biotech has entered into a closable swap of SEK 230 million to offset increasing interest expenses on underlying loans. The bank can close the swap each quarter. Active Biotech pays a predetermined interest sum each quarter and receives interest corresponding to 3 months Stibor.

Note 20 Pledged assets, contingent liabilities and contingent assets

Pledged assets	Group		Parent Company	
	2007	2006	2007	2006
SEK thousands				
In the form of assets pledged for own liabilities and provisions				
Property mortgage	260 000	260 000	–	–
Assets with ownership reservation	5 210	4 405	1 270	–
Total pledged assets	265 210	264 405	1 270	–
Contingent liabilities				
SEK thousands	2007	2006	2007	2006
Guarantees for the benefit of Group companies	–	–	252 200	264 500
Total contingent liabilities	–	–	252 200	264 500

Note 21 Group companies

Holdings in subsidiaries

December 31, 2007 (SEK thousands)	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 AB	556532-8860	Lund	1 000 / 100%	100	100
Active Security Trading AB	556092-7096	Lund	400 / 100%	400	450
Actinova Ltd		Cambridge	4 500 000/100%	450 000 GBP	0
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	
Total					229 400

Change in book value of shares in subsidiaries

SEK thousands	2007	2006
Opening acquisition value	229 400	228 950
Acquisitions	–	450
Closing accumulated acquisition value	229 400	229 400
Closing book value	229 400	229 400

Note 22 Supplementary data to the cash-flow statement

SEK thousands	Group		Parent Company	
	2007	2006	2007	2006
Interest paid and dividends received				
Interest received	6 415	2 384	6 349	1 989
Interest paid	-11 777	-10 028	-2 676	-2 898
Total	-5 362	-7 644	3 673	-909
Adjustments for non-cash items				
Depreciation/amortization and impairment of assets	19 671	20 129	4	7
Costs for employee stock options program	4 050	4 271	4 050	4 271
Unrealized exchange-rate differences	-173	180	–	24
Total	23 548	24 580	4 054	4 302
Transactions not involving payment				
Acquisition of assets through financial leasing	832	308		
Cash and cash equivalents				
Cash and cash equivalents consist of the following components:				
Cash and bank balances	39 134	97 886	23 378	88 167
Short-term investments	99 479	–	99 479	–
Total	138 613	97 886	122 857	88 167

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. In 2006, on assignment from the company, PricewaterhouseCoopers performed a valuation of the property (see Note 8) 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. The conditions of the local property market have not changed in a decisive manner, which is why the valuation of the property conducted in 2006 stands firm.

Note 24 Events after the balance-sheet date

In April 2008, a decision was taken to prioritize the company's research resources on immunomodulatory compounds, which entailed the conclusion of the collaboration with Chelsea Therapeutics Ltd. relating to the I-3D project.

The Board of Directors proposes that the Annual General Meeting on May 7, 2008 resolves to approve a preferential rights issue for approximately SEK 160 million to strengthen the company's financial position and drive development of the company's clinical portfolio. It is proposed that the issue shall entitle existing shareholders with preferential rights to subscribe for one new share for each twelve shares held at an issue price of SEK 40 per share.

The principal owners, MGA Holding AB (30.01 percent) and Nordstjernan AB (14.98 percent), have undertaken to subscribe for the full amount of shares corresponding to their preferential rights. In addition, Nordstjernan AB has undertaken, if the issue is not fully subscribed, to subscribe for any additional shares that are not subscribed for with preferential rights. Accordingly, the issue is guaranteed in its entirety.

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 9.

The composition of the Board and information relating to senior executives is presented on pages 53 and 54.

Transactions with closely related parties

During the year, no transactions with shareholders or Members of the Board took place, with the exception of payment to MGA Holding AB and Nordstjernan AB relating to the guarantee provision for the new share issue in 2007.

For information concerning transactions with key individuals in managerial positions, see note 5.

In 2007, the Parent Company's sales of services to Group companies totaled SEK 3.500 million. The Parent Company's purchases of services from subsidiaries amounted to SEK 893 thousands in 2007.

The Parent Company's receivables and liabilities relative to the subsidiaries as per December 31 are presented in the Parent Company's balance sheet.

Note 26 Information relating to the Parent Company

Active Biotech AB is a Swedish-registered limited-liability company with its registered office in Lund, Sweden. The Parent Company's shares are listed on the OMX Nordic Exchange Stockholm. The address to the head office is Scheelevägen 22, Lund, Sweden. The consolidated accounts for fiscal 2007 comprise the Parent Company and its subsidiaries, referred to together as the Group.

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 2007. 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 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.

The information included in this annual report is such information that Active Biotech AB is obligated to publish in accordance with the Swedish Securities Market Act. This information was provided to the media for publication on April 23, at 8:30 a.m.

Lund, April 8, 2008
KPMG Bohlins AB

Stefan Holmström
Authorized Public Accountant

Summary of financial development

SEK millions	2007	2006	2005	2004	2003
Income statement					
Net sales	12.1	66.4	9.2	69.7	0.3
Operating expenses (of which, depreciation)	-214.8	-191.0	-142.4	-255.6	-336.8
Operating profit/loss	-202.7	-124.6	-133.2	-185.9	-336.4
Participations in the earnings of associated companies	–	–	-1.1	-2.1	-2.5
Net financial items	-5.0	-17.2	-15.0	16.1	32.0
Profit/loss before tax	-207.7	-141.8	-149.3	-171.9	-307.0
Tax	–	2.6	13.9	–	-0.6
Profit/loss for the year	-207.7	-139.2	-135.4	-171.9	-307.6
Balance sheet					
Tangible fixed assets	329.7	347.7	376.9	313.1	50.3
Financial fixed assets	2.5	2.8	2.9	43.4	45.1
Other current assets	18.7	14.0	9.7	15.6	22.5
Cash and cash equivalents	138.6	97.9	178.4	214.8	227.6
Total assets	489.5	462.4	567.9	586.9	345.4
Shareholders' equity	189.6	60.4	176.8	104.1	289.6
Interest-bearing provisions and liabilities	256.1	358.7	360.5	401.1	6.7
Non interest-bearing provisions and liabilities	43.8	43.3	30.6	81.7	49.1
Total shareholders' equity and liabilities	489.5	462.4	567.9	586.9	345.4
Condensed cash-flow statement					
Cash flow from operating activities before changes in working capital	-184.2	-117.2	-181.1	-142.7	-288.1
Changes in working capital	-2.5	17.1	-11.4	-1.2	-0.7
Cash flow from investing activities	0.2	25.0	-15.1	-1.8	-1.1
Cash flow from financing activities	227.2	-5.4	171.2	132.9	188.5
Cash flow for the year	40.7	-80.5	-36.4	-12.8	-101.4
Key figures					
Capital employed (SEK million)	445.7	419.1	537.3	505.2	296.3
Net indebtedness (SEK million)	117.5	259.3	180.6	146.3	-260.9
Surplus value in short-term investments (SEK million)	–	–	–	–	29.1
Return on shareholders' equity (%)	-166	-117	-96	-87	-92
Return on capital employed (%)	-45	-26	-25	-39	-86
Equity/assets ratio (%)	39	13	31	18	84
Proportion of risk-bearing capital (%)	39	13	31	18	84
Net debt/equity ratio (multiple)	0.62	4.29	1.02	1.41	-0.90
Interest-coverage ratio (multiple)	neg	neg	neg	neg	neg
Research and development expenses (SEK million)	-189.7	-165.7	-169.5	-224.7	-284.2
Average number of employees	89	89	92	151	179
Salary expenses, incl. social security expenses (SEK million)	84.4	85.2	84.1	120.5	115.4
Data per share					
Profit/loss after tax (SEK)	-4.47	-3.50	-3.70	-4.96	-11.49
Shareholders' equity (SEK)	4.01	1.52	4.47	3.09	8.58
Net worth (SEK)	4.01	1.52	4.47	3.09	9.45
Unrestricted liquidity (SEK)	2.93	2.46	4.51	6.24	6.66
Market price of share at year-end (SEK)	58.75	78.00	81.75	35.48	59.30
Dividends (SEK)	0	0	0	0	0
Share price/shareholders' equity (%)	1 465	5 132	1 829	1 148	691
Share price/net worth (%)	1 465	5 132	1 829	1 148	628
Number of shares at end of period (thousands)	47 300	39 795	39 592	33 739	33 739
Weighted average number of ordinary shares before dilution (thousands) ¹⁾	46 427	39 755	36 610	34 665	26 778
Number of shares at end of period including subscription rights (thousands)	48 630	41 125	40 922	35 069	35 069

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, 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.

General information about the Active Biotech share

Shares in Active Biotech AB are listed on the OMX Nordic Exchange Stockholm (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. The company was converted into a dedicated biotechnology company in 1997. The latest price information is available on the OMX Nordic Exchange Stockholm's website under the symbol ACTI, and in the Bloomberg system under ACTI.SS. 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 OMX Nordic Exchange Stockholm's Healthcare and Biotechnology sector index.

The diagram in this section shows the price trend for the Active Biotech share for the period January 2003 – January 2008.

Share capital

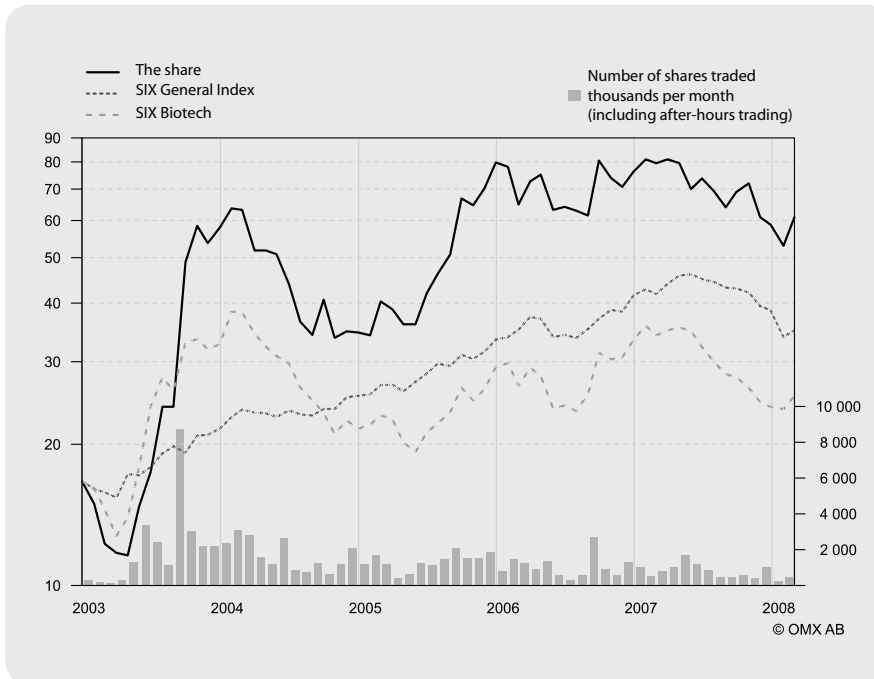
The company's share capital is quoted in SEK and distributed among the shares issued by the company with a par value that is also quoted in SEK. In January 2008, the share capital in Active Biotech amounted to approximately SEK 178,290,341 distributed among 47,300,115 shares. Accordingly, the share's par value is SEK 3.77. In addition, the share capital and number of shares may increase through the exercise of options in a manner that is described under the heading "Employee stock options." In the event these options are exercised, the number of shares in Active Biotech will increase to a maximum of approximately 48.6 million shares.

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 2.7 percent of the total number of votes and capital in the company.

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 1.07 shares 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 1.07 shares 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 1.07 shares during the period June 1, 2008 to May 31, 2011 at a recalculated price of SEK 67.10.

From June 1, 2006 until December 31, 2007, no Series 1 or 2 options were exercised.



Price trend

On December 31, 2006, the share price was SEK 78.00, at the same date in 2007, it was SEK 58.75. The highest price paid for the share during the year was SEK 84.00 (February 14, 2007)

Change in share capital

The table on the next page shows the changes in Active Biotech's share capital from 2000 to December 31, 2007.

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
- Carnegie
- Enskilda Securities
- Handelsbanken
- Kaupthing Bank
- Redeye

Shareholders

On January 31, 2008, the number of shareholders in Active Biotech amounted to 8,715. The table on the next page shows the company's ten largest shareholders at January 31, 2008.

Shareholders

The following reflects circumstances as known to the company at January 31, 2008.

Owner	No. of shares	Holding, %
MGA Holding AB	14 196 492	30,0
Nordstjernan AB	7 087 546	15,0
Catella funds	2 619 420	5,5
Brummer & Partners	2 345 600	5,0
JP Morgan Bank	991 271	2,1
Swedbank Robur funds	794 285	1,7
Merrill Lynch, Pierce, Fenner & Smith	767 740	1,6
Studentförlaget Borgelin KB/Borgelin	631 000	1,3
R.Sand/Förv. AB Sandhög	595 000	1,3
Futuris	567 945	1,2
Total, 10 largest	30 596 299	64,7
Other	16 703 816	35,3
Total	47 300 115	100,0

Shareholder statistics, January 31, 2008

Shareholding interval	No. of shareholders	% of all shareholders	No. of shares	% of share capital	Average per shareholder
1–1,000	7 174	82,3	1 689 219	3,6	235
1,001–10,000	1 348	15,5	3 662 197	7,7	2 717
10,001–100,000	153	1,8	4 419 811	9,3	28 888
100,001–	40	0,5	37 528 888	79,3	938 222
Total	8 715	100,0	47 300 115	100,0	5 427

Trend in share capital

Year	Transaction	Change in number of shares	Change in share capital, SEK	Total no. of shares		Total share capital, SEK	Par value SEK
				Class A shares	Class B shares		
	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 (June-Dec.)	42 553	160 397	39 795 421		150 002 578	3.77
2007	Conversion (Jan.)	204 579	771 128	40 000 000		150 773 706	3.77
2007	Rights issue (Feb.)	4 000 000	15 077 371	44 000 000		165 851 077	3.77
2007	Conversion (Mar.)	3 300 115	12 439 264	47 300 115		178 290 341	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.

During the year, several patents have been granted in all of these markets.

Number of patent families

Active Biotech holder of patent or patent application	Laquinimod, TASQ, 57-57, ANYARA, CD80/RhuDex® and I-3D	19
	Other projects	8
Total		27
Of which, out-licensed	Laquinimod, CD80 and 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	Granted	2019
"method"	US	Granted	2023
	Europe	Granted	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	Granted	2019
"method"	US	Granted	2023
	Europe	Granted	2023
	Japan	In progress	2023

Patentskydd för TASQ

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

Patent protection for I-3D

(Jointly developed with partner Chelsea Therapeutics)

Patent family Type of protection	Priority area	Status	Year of expiry
	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	Granted	2018
	US	In progress	2018
	Japan	In progress	2018
"product"	US	Granted	2022
	Europe	In progress	2022
"method"	Japan	In progress	2022
	Europe	In progress	2024
	US	In progress	2024
"product"	Japan	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	Granted	2023
	US	Granted	2023
	Japan	In progress	2023
"product"	Europe	In progress	2023
	US	In progress	2023
	Japan	In progress	2023

Corporate Governance Report 2007

Active Biotech AB (publ) 556223-9227 shall, in accordance with its Articles of Association, engage in research, development, production, marketing and sales of medical, chemical and biotechnology products, conduct administrative services for the Group, own and manage properties, and undertake any other operations compatible therewith.

The company has 8,715 shareholders, the majority of which hold fewer than 500 shares. The company's shares entitle the holder to one vote per share.

The Swedish Code of Corporate Governance – application of the code

Since 2007, Active Biotech, Active Biotech's Board and Election Committee apply the Swedish Code of Corporate Governance (the "Code"). The Corporate Governance Report describes how the Code is applied. Deviations from the Code were made in connection with the following: Remuneration and Audit Committees – 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. Furthermore, the Chairman of the Board is also the Chairman of the Election Committee.

The Corporate Governance Report, with the Board's report on internal control, has not been reviewed by the company's auditors.

Annual General Meeting

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 & CEO 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 & CEO 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.

Election Committee

The 2007 Annual General Meeting assigned the Chairman of the Board the task of convening an Election Committee, in consultation with the company's major shareholders, prior to the 2008 Annual General Meeting. According to

the decision, the Election Committee shall comprise representatives of each of the three largest shareholders in the Company based on the ownership structure at October 31, and the Chairman of the Board. The Election Committee's task is to submit proposals regarding the Chairman of the Annual General Meeting, the Chairman of the Board and other Board members, Board fees, and proposals, where applicable, concerning auditors and auditors' fees. The members of the Election Committee receive no remuneration for their work.

The tasks of the Election Committee include:

- Evaluation of the Board's composition and work
- Drafting of proposals to the AGM regarding election of Board members and Chairman of the Board
- Drafting of proposals to the AGM concerning the Chairman of the Meeting.

The composition of the Election Committee was announced on November 22, 2007. The Election Committee was convened on one occasion ahead of the 2008 AGM.

Members	Represents	Board member or not
Mats Arnhög	Chairman of the Board	Chairman
Johnny Sommarlund	MGA Holding AB	Not a member
Tomas Billing	Nordstjernan AB	Not a member
Ulf Strömsten	Catella fonder	Not a member

Board of Directors

In accordance with Active Biotech's Articles of Association, the Board shall comprise between three and nine members with at most nine deputies. The 2007 AGM elected the current Board, which consists of six ordinary member with no deputies. Mats Arnhög was elected Chairman of the Board.

The AGM decided that remuneration to the Board's ordinary members shall be paid in the amount of SEK 125,000 per member and year (with the exception of Active Biotech's President & CEO), while remuneration to the Chairman of the Board shall be paid in the amount of SEK 250,000 per year. For a more detailed presentation of the Board members, see page 53 in this Annual Report.

Of the Board members elected by the AGM, all are independent in relation to the company's owners and the company, with the exception of the Chairman of the Board Mats Arnhög and the company's President & CEO Sven Andréasson.

Board member	Attendance at Board	Annual remuneration,	Independent/dependent Company	Independent/dependent Owners
Mats Arnhög	8 out of 8	250 000	dependent	dependent
Sven Andréasson	8 out of 8		dependent	independent
Klas Kärre	8 out of 8	125 000	independent	independent
Magnhild Sandberg	4 out of 4	125 000	independent	independent
Peter Sjöstrand	7 out of 8	125 000	independent	independent
Peter Ström	8 out of 8	125 000	independent	independent

The work of the Board and formal work plan

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 meetings 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 & CEO.

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 & CEO 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.

In 2007, eight meetings were held at which minutes were taken. Important issues addressed by the Board included development of research projects, business development projects, partner strategy, financial statements and budget and financing matters. Minutes were recorded by the Board's secretary, a role that was filled by the company's CFO Hans Kolam during the year. The Chairman of the Board ensures that an annual assessment of the Board's work is conducted that provides the Board members with the opportunity to present their views on work procedures, Board material, their own efforts and the efforts of other Board members and the scope of the task. The assessment is that the Board's collective expertise corresponds to the company's strategic visions and goals. The Board is well functioning and all members make a constructive contri-

bution to the strategic discussions and the governance of the company. The dialog conducted between the Board and management was also deemed to be productive.

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 & CEO and company management are detailed in note 5.

Remuneration system

The guidelines for remuneration and the incentive program for senior executives presented below were approved by the 2007 AGM.

The guidelines principally entail that the company shall offer total remuneration on market terms, facilitating the recruitment and retention of qualified senior executives. Remuneration to senior executives shall comprise fixed salary, any variable salary, pensions and other benefits. The fixed salary shall take into consideration the individuals' area of responsibility and experience. The variable salary shall be dependant on the individuals' fulfillment of quantitative and qualitative goals. Pension benefits shall comprise defined-contribution schemes with a pension premium of not more than 30 percent of fixed salary for the CEO and not more than 25 percent of fixed salary for other senior executives. These guidelines essentially conform to those that have been applied to date within the company.

Share-based payments

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 2.7 percent of the total number of votes and capital in the company.

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 1.07 shares 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 1.07 shares 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 1.07 shares during the period June 1, 2008 to May 31, 2011 at a recalculated price of SEK 67.10. From June 1, 2006 until December 31, 2007, no Series 1 or 2 options were exercised. For further information, see note 5.

Organization and internal control

In accordance with the Companies Act and the Code, the Board of Directors is responsible for the internal control. Active Biotech's work with internal control is designed to provide a reasonable assurance that the company's goals are achieved in terms of an appropriate and efficient operation, reliable financial reporting and compliance with applicable legislation and regulations. Active Biotech's business is primarily operated at one site and is therefore deemed to be of limited complexity. In turn, this means that the organization is simple and it is easy to gain an overview of its structure.

The internal control as regards the financial reporting is based on how the operation is managed and how the organization is built up. Authorizations and responsibilities are documented, such as the division of work between the Board and the President, and instructions for authorization rights and accounting and reporting instructions. This also helps to minimize the risk for irregularities and inappropriate benefiting of another party at the expense of the company.

The risks identified by Active Biotech regarding the financial reporting are presented on a monthly/quarterly basis by the finance function to the President & CEO, who in turn reports to the Board.

Active Biotech has no internal audit function. The Board has determined that no special circumstances or other conditions exist that motivate the introduction of such a function.

Financial reporting

In accordance with Active Biotech's Investor Relations policy, which has been approved by the Board, the company presents information on a regular basis on the financial position. The information presented comprises quarterly interim reports, year-end reports and annual reports, as well as press releases in conjunction with important events. The company management meets analysts, investors and the media on a regular basis throughout the year. All information distributed via press releases is also available on the company's website, in addition to other information that is deemed to be of a valuable nature.

The Board of Active Biotech ensures quality in the financial reporting by ensuring that the company has an appropriate organization combined with procedures and instructions for its work on financial reporting.

Each month, the Board is presented with a report regarding such aspects as the company's earnings and financial position, including comments relating to the development. The Board reviews interim reports and annual reports prior to publication.

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. Information on concerning auditors' fees is presented in Note 4 on page 27.

The interim report for the third quarter was the subject of a review by the auditors. The company's auditor Stefan Holmström presented the conclusions of the audit for full-year 2006 at the Board meeting on April 19, 2007.

Policies

Information policy

Within the aim of determining principles for the company's communication, the Board has established an information policy. This summarizes overriding goals and responsibilities for the external publication of Active Biotech's information. The goal when providing information to the stock market is to achieve a correct valuation of the company's share that reflects the company's underlying values, growth and earnings capacity in as stable a manner as possible.

An unconditional requirement is that the information to the stock market follows the Nordic Exchange's regulations as specified in the listing agreement with appendices and in other applicable laws and provisions. This mainly relates to the Companies Act, the Book-keeping Act and the Annual Accounts Act, but also certain other laws and regulations, such as the Financial Instruments Trading Act, the Insider Act, Reporting duty in Possession of certain Financial Instruments Act, the Directed Placements for Stock Market Companies Act and certain regulations from the Swedish Financial Supervisory Authority.

The required competence shall exist in the company's Board, management and with those responsible for operations, and the company shall have an organization that ensures the rapid and correct dissemination of stock market information.

Environmental policy

With Active Biotech, environmental and safety work is important and the company has therefore established an environmental policy. It functions in a decentralized manner in the various departments in the Group so that each manager and employee is responsible for fulfilling objectives relating to both the internal and external environment, as well as safety. Each project is responsible for applying a lifecycle perspective to its products. This applies to all areas from proprietary research to contract manufacturing of candidate drugs and production. In addition, Active Biotech attaches great importance to ensuring that external partners impose their own environmental and safety requirements that conform to the company's values.

Responsible treatment of laboratory animals

Despite a rapid development of non-animal based models for medical research, no alternative can yet entirely replace the complex system represented by a living organism. Accordingly, the responsible treatment of laboratory animals in scientific research is ethically justified. Active Biotech endeavors to replace, reduce and refine the use of laboratory animals to the greatest possible degree. When no alternative exists, testing shall be properly planned and shall take ethical requirements into consideration in the implementation phase. Pain, suffering and stress shall be minimized – and preferable eliminated. All who work with laboratory animals are trained and skilled in the area. Animals are treated with care and the greatest possible degree of consideration is given to their health and well being in a careful balance between ethical and scientific requirements. Furthermore, animal keeping and management is conducted in a manner that maximizes well-being and prevents the spread of infection. All work involving animals follows the applicable strict local procedures and national and international legislation. Legislation and other ethical considerations with respect to the care and well-being of laboratory animals are carefully followed and continuously reviewed to harmonize laboratory animal operations in the company.

Board of Directors and Auditors



Mats Arnhög



Magnhild Sandberg-Wollheim



Kerstin Andersson



Sven Andréasson



Peter Sjöstrand



Hans Wännman



Klas Kärre



Peter Ström



Stefan Holmström (Auditor)

Mats Arnhög

Born 1951
Board Member since 2000, Chairman of the Board.
MSc Stockholm School of Economics, owner of
MGA Holding AB.

Other Board assignments:

Chairman of MGA Holding AB with subsidiaries.
Chairman of Situation Stockholm AB, Sturehof AB,
Ahlströmska Skolans Byggnads AB and Föreningen
Carlssons skola. Board member of Nordstjernen
AB, Brofågel Support AB, Switcher Holding S.A.
with subsidiaries, Advisory Board Stockholm School
of Economics and the non-profit organization
Situation Stockholm.

Holding: 14,196,492 shares through companies.

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.
Holding: 6,012 shares.

Magnhild Sandberg-Wollheim

Born 1937
Board Member since 2007.
Professor of Neurology and Consultant at
the neurological clinic at Lund University Hospital.

Other Board assignments:

European MS Foundation.
Holding: 0.

Peter Sjöstrand

Born 1946
Board member since 2000.
BSc Stockholm School of Economics, Medical doctor.

Other Board assignments:

Chairman of Meda AB, Gambro Lundia AB,
Incentive AB, Innate Pharmaceuticals AB and
Byggnads AB S:t Erik.
Board member of Aleris Holding AB, Peter
Sjöstrand AB and Ringens Varv AB.
Holding: 0.

Peter Ström

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

Kerstin Andersson

Born 1960
Employee representative since 2007.
Employed since 1984.
Biochemist, R&D Laboratories.
Holding: 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
auditor-in-charge.
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: 9,187 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. Tomas Leanderson has held the position of Professor of Immunology at Lund University since 1990.



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 compound that will continue on to clinical testing in humans.

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 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.

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

- 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
- 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



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