

Annual General Meeting April 26, 2006

Slide: Item 8 – Address by the President

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**Mr Chairman,
Valued Shareholders,
Ladies and Gentlemen,**

“A year of success” is the title of our 2005 Annual Report.

In 2005, each of the five projects in clinical phases achieved the planned milestones and all of them were able to advance in their clinical development.

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During the year, a safety study of laquinimod was completed and presented at the ECTRIMS congress, an annual international conference for MS physicians. This study, which we commenced immediately after our own Phase II study, demonstrated that laquinimod is well tolerated also at higher doses than the dose previously shown to be effective in reducing the number of active brain lesions. The study was conducted over the course of a year.

Teva's additional Phase II multi-center study is progressing according to plan. The objective of the study is the selection of the optimal dose for Phase III.

Recruitment for this study commenced in the first half of 2005 and comprises slightly more than 300 patients with relapsing multiple sclerosis (MS). It is a double-blind (that is, coded for both the physician and the patient), placebo-controlled, multi-center Phase IIb clinical study that is being performed in nine countries. The study measures the effect of laquinimod, administered once daily in tablet form at a dose of 0.3 mg/day or 0.6 mg/day during nine months, versus placebo.

Based on the results of this Phase II study, a pivotal Phase III program is planned, with the aim of documenting laquinimod's effectiveness and safety in the treatment of relapsing MS.

At the end of March, we submitted a very important patent application pertaining to the mode of action of quinoline compounds. This is relevant for the laquinimod, 57-57 and TASQ projects. To date, the exact mode of action was unknown.

Since 2000, we have worked with mapping the mode of action in parallel with the clinical development of the project.

Many immunoregulatory substances only quantitatively regulate the immune defense and are immunosuppressive. Quinoline compounds are immunomodulatory, and instead, primarily affect the immune defense qualitatively. It is hence of major interest to explain the mode of action of quinoline compounds and to describe how these differ from other compounds in clinical development.

The first target molecule has now been defined. The molecule demonstrates a structure/activity relationship between the binding of quinoline compounds and the biological activity for autoimmune diseases in an experimental model.

The result strengthens the documentation of the company's clinical projects. It can also be a basis on which to develop an entirely new drug against autoimmune diseases.

Complete data surrounding this target molecule will be published following full documentation of the submitted application.

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In the ANYARA project, we published interim data for the ongoing Phase I dose-escalation study currently being conducted in the US, the UK and Norway. Following the treatment of 30 patients with non-small cell lung cancer, renal cancer or pancreatic cancer, we could define the maximum tolerated dose. The patients tolerated the compound well.

The results of the study, combined with product data presented earlier, fulfill the criteria set for the development of ANYARA: the dose is 100–200 times higher than that administered with the first generation of ANYARA. The dose appears to be active in all patients and, in addition, ANYARA is more advantageous to administer since it can be given through injection instead of infusion.

To further evaluate the effects of treatment with ANYARA, the ongoing Phase I study has been extended to include a total of 50 patients.

In parallel with studying patient safety, additional important findings were generated that support the development of ANYARA. Biological markers related to prolonged survival and an expansion of the number of ANYARA-reactive T lymphocytes after treatment underscore ANYARA's selective immunostimulatory properties in patients with malignant disease.

In September, two-year survival data was presented for renal patients treated with first-generation ANYARA (called TTS CD2).

Survival was considerably longer than expected. Median survival for all the patients in the study was 19.7 months, compared with the expected median survival of 14.4 months.

Patients in the high-dose group lived for 26.6 months, compared with the expected 15.1 months.

Based on these positive results, a Phase II/III study on renal cancer patients is planned to commence in 2006.

During the year, a so-called PET study was conducted. The study confirmed that ANYARA is specifically targeted to tumors in cancer patients. This was another crucial building block in the documentation of the product.

During the latter part of the year and in parallel with the ongoing Phase I studies, we also commenced a combination study of ANYARA together with Taxotere, a well-established chemotherapy drug for, among other uses, the treatment of non-small cell lung cancer.

The cooperation with Strathmann Biotec for the production of clinical trial material and volumes for future commercial requirements was successful and the manufacturing process has now been established.

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In the TASQ project, we are developing a compound for the oral treatment of prostate cancer. In November 2004, an initial clinical Phase I study was initiated aimed at studying the safety of TASQ when the substance is administered in escalating doses.

During 2006, the patients will continue their treatment in a follow-up study intended to document the drug's long-term tolerance and safety. The study is being performed in Sweden. Permission has been obtained from the Swedish Medical Products Agency to include an additional ten patients in the study, making it possible to obtain extended safety and efficacy data earlier than planned.

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In our fourth project, 57-57, we are developing a compound for the treatment of SLE. The first clinical Phase I dose-escalation study was started at the Karolinska Hospital in Stockholm at the end of 2004 and was successfully completed during 2005. The objective of the study was to assess the safety of increasing doses in healthy volunteers.

The results showed that 57-57 is very well tolerated at all of the tested dosage levels and that the substance is suitable to be administered as a daily, oral treatment. The program continued according to plan with a study of SLE

(lupus) and RA (rheumatoid arthritis) patients currently being conducted. The main aim of the study is to examine how the substance is tolerated by patients.

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The development of RhuDex, the project that we out-licensed to Avidex of the UK, is also progressing. Following the positive conclusion of Phase I studies in healthy volunteers, dose-escalation studies on RA patients are now commencing. RhuDex is a so-called CD 80 antagonist, “first in class”, and it is also a product that is administered in tablet form. It is principally intended for the treatment of RA.

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In addition to the clinical projects I have mentioned, a couple of interesting projects are currently on hold. We are pursuing these preclinical projects only to a limited extent.

One preclinical project is I-3D, which appears to be a promising project for a number of autoimmune indications, such as RA and transplantation. To date, efforts have focused on building up strong patent protection, but this project may have the potential to progress to clinical development.

For the CCR-1 project, we have also prioritized work to secure patents. Our assessment is that this project lies outside the company’s focus for the future, and at present, we should not invest competence and resources within this area.

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A partnership agreement was entered into with Teva in June 2004.

Teva is one of the world's leading companies for generic pharmaceutical drugs. During the year, Teva acquired IVAX, a major generic pharmaceutical company in the US, which also has a successful organization in Europe. As a result of the acquisition, Teva assumed the position as the world's largest generic pharmaceutical company with Novartis in second place.

For growth and profitability, both historically and in the future, Teva's innovative products division, with its focus on neurology, continues to play a major role.

Teva is the leading pharmaceutical company within the MS area. Its product Copaxone is increasing steadily, especially in the US, where Teva is the market leader with regard to the proportion of new prescriptions. Last year, sales of Copaxone amounted to approximately USD 1.2 billion and increased by about 25 percent, both in the US and in Europe. Of Teva's total sales of USD 5.25 billion, MS, through Copaxone, accounts for approximately 23 percent.

The partnership 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.

Teva has made an initial payment of USD 5 million to us and conducts and pays for the further development of laquinimod. Teva will make payments to us when pre-set

milestones are achieved. The total of all potential payments amounts to USD 92 million.

Teva is investing heavily in the clinical development of laquinimod, according to our estimates, in an amount that exceeds USD 100 million.

We will also receive tiered double-figured royalty payments on future sales of laquinimod in the market.

The aim of all involved is to bring the product to market as rapidly as possible and to maximize the probability of success through well-designed, high-quality clinical studies.

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The market value of the indication areas we work within is substantial. In 2005, the market for MS drugs amounted to USD 5 billion and is increasing by a double-figure percentage each year.

At present in the market, there are four different drugs divided into two types. All are administered by injection.

The largest group of pharmaceutical drugs against MS is the three interferon-based products: Avonex from Biogen Idec, Betaferon from Schering and Rebif from Serono. The fourth product is Teva's Copaxone, based on glatiramer acetate. Until November 2004, these four pharmaceutical drugs shared the global MS market.

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Tysabri, a biological product developed by Elan for marketing by Biogen Idec, was approved in November

2004. This product is administered by infusion and has demonstrated strong data relating to the reduction of flare-ups in MS patients. However, in February 2005, the product was surprisingly withdrawn following the occurrence of serious side effects and resulting deaths.

The US FDA's advisors recently held a public hearing on whether Tysabri should be reintroduced as a treatment of MS patients, and if so, what restrictions should be applied. A majority of the advisers voted in favor of Tysabri's reintroduction to the market. Following this, the FDA announced it would require additional time for its review and will announce its decision not later than the end of June this year.

If and when Tysabri returns to the market, usage will almost certainly be limited to a relatively limited segment of the market. However, the FDA's final opinion will be an important message with regard to the attitude to risk management and the registration of products based on early clinical data.

All competing products currently under development for the oral treatment of MS are, in our opinion, immunosuppressive, which makes them unsuitable for long-term treatment and increases the risk of side effects.

Laquinimod, with its immunomodulatory mode of action, has a distinct profile and seems extremely attractive for the future market, which within three to four years is estimated to be worth about USD 8 billion.

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The market for lung cancer treatments is estimated at slightly more than USD 1 billion and prostate cancer drugs

at slightly more than USD 3 billion per year. The market for renal cancer treatments is estimated at USD 800 million.

The potential market for 57-57 is more difficult to estimate, since no pharmaceutical drug for the treatment of SLE has been registered since the 1960s, when cortisone and immunosuppression were introduced.

In the US alone, more than 1.5 million people suffer from some form of SLE. The market potential for the SLE indication can therefore be cautiously estimated to total not less than USD 6 billion.

RhuDex

The market for pharmaceutical drugs against arthritis/inflammation totals more than USD 15 billion. According to Avidex, if Rhudex reaches the market, it has the potential to achieve annual sales of more than USD 2 billion.

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Milestone goals for the next 18 months.

As I mentioned in my introduction, this will be an exciting period for us with many new results to present – from us, Teva and Avidex.

Our aim is to achieve clarity in our communications and to be a transparent company, which has been facilitated during the past few years by the establishment of a more defined organizational structure. We report when we deliver results and when we foresee deviations from what has been previously communicated.

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Results will be presented from the additional Phase II study with higher doses of laquinimod, which is being performed by Teva.

In Europe and the US, Phase III studies for the MS indication are expected to commence during the period.

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Data from the ongoing Phase I study in non-small cell lung cancer will be presented, as will the results from the combination study with Taxotere.

We expect to commence our own Phase II/III renal-cancer study and a separate study in non-small cell lung cancer.

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For TASQ, the Phase I study in prostate cancer patients will be reported and the Phase II/III program in this indication will commence.

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For our SLE project, we expect to present results from the Phase I study in lupus and RA patients and commence Phase II/III studies in lupus patients.

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Avidex expects to commence Phase I/II studies in RA patients for RhuDex.

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On May 17, 2005, the Board decided to implement a preferential rights issue for approximately SEK 169 million. The new share issue was concluded in July and yielded SEK 164.2 million for the company. 98.5 percent of the shares were subscribed using preferential rights and the issue was oversubscribed by 43 percent.

In September, we signed an agreement with Nordisk Renting with regard to utilizing our option to acquire the property in Lund. The acquisition entails an annual cost saving of about SEK 10 million and a strengthening of the company's balance sheet. The acquisition was entirely financed by bank credit.

An agreement was signed pertaining to the sale of site divided from the acquired property, with an estimated revenue amounting to SEK 25 million.

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During 2002 and 2003, we invested heavily in clinical development, which gave rise to an annual cost level exceeding SEK 300 million.

The investments reflected our aggressive plan for the clinical trials program with the aim of achieving “proof of principle” for the projects.

Through the decision taken in 2004 to discontinue discovery research and to focus completely on rapidly and safely achieving our goals with our clinical development projects, it was possible to reduce our cost level in 2005 by about SEK 100 million, compared with 2003.

The company's burn-rate before revenues from existing and expected partnership agreements will continue to be in the range of SEK 175 - 190 million in 2006.

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In 2005, the Group's operating loss amounted to SEK 133.2 million, compared with a loss of SEK 185.9 million in the preceding year – an improvement of SEK 52.7 million.

Since no major milestone payments from partnership agreements were received during the year – nor were any payments expected – sales decreased from SEK 69.7 million to SEK 9.2 million.

Research and development and administration expenses decreased from SEK 255.6 million to SEK 197.1 million, which was attributable to the effects of implementation of the focus on clinical projects. This was a reduction in expenses of 23 percent. Of the total clinical product portfolio, three projects are financed by Active Biotech and two by our partners Teva and Avidex.

Earnings for 2005 included a capital gain of SEK 54.7 million, which arose in conjunction with the acquisition of the property in Lund. The transaction entailed no effect on cash flow.

Consolidated net financial items amounted to a loss of SEK 15.1 million compared with a net profit of SEK 16.2 million in the preceding year. The change between the years is mainly attributable to the inclusion in the outcome for 2004 of SEK 26.9 million in dividends and capital gains due to the sale of Group securities holdings and interest expenses of SEK 9.8 million attributable to the convertible debenture issued in 2004.

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At year-end 2005, the Group's total assets amounted to SEK 567.9 million, compared with SEK 586.9 million for the corresponding period in 2004.

Tangible fixed assets amounted to SEK 376.9 million and mainly consisted of the property and associated equipment, tools, and fixtures and fittings.

Short-term investments and cash and cash equivalents in the Group amounted to SEK 178.4 million compared with SEK 214.8 million at year-end 2004.

From January 1, 2005, we apply the EU regulations with regard to International Financial Reporting Standards (IFRS). How this affects our accounting is described in more detail in our annual report.

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The Group's negative cash flow amounted to SEK 36.4 million, compared with a negative cash flow of SEK 12.8 million in the preceding year. This development is attributable to cash flow from current operations, which amounted to a loss of SEK 192.5 million, compared with a loss of SEK 143.9 million in the preceding year and the preferential rights issue implemented during the year, which generated a positive cash flow from financing activities in the amount of SEK 171.2 million, compared with SEK 132.9 in the preceding year.

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The SIX Biotechnology index, in which Active Biotech is listed, increased by about 32 percent in 2005. In the same period, the Active Biotech share increased by 130 percent, from SEK 35.48 to SEK 81.75 on December 31, 2005. From January 1 to date, this index has dropped by 1.8 percent, while our share price has decreased by 1.6 percent during the same period.

At the end of 2004, Active Biotech's market capitalization was approximately SEK 1.2 billion. At year-end 2005, the company's market capitalization was slightly more than SEK 3.2 billion.

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As yet, Active Biotech is a company that does not generate a continuous flow of revenues, but is instead valued on research successes, partnership agreements and expectations pertaining to future revenues.

Active Biotech's situation will change dramatically the day the company generates a continuous flow of revenues in the form of royalties on sales.

Until the launch of our first product, the operation will continue to generate a loss.

Initial payments and milestone payments from partners will yield revenues, but with uncertainty and irregularity.

It is the responsibility of the Board of Directors in each company that does not have a predictable flow of revenues to ensure sustained financing and, for this purpose, to have all financial tools in readiness.

It is important for ensuring that the risk is avoided that the value created in the company's projects is not adequately reflected in the share's value.

This is a safeguard for the shareholders.

To ensure freedom of action to control various financing instruments, the Board requests a mandate to, with or without preferential rights, issue a maximum of 4,000,000 new shares.

This can be conducted on one or more occasions.

This issue is addressed in item 18 on the agenda.

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At the Extraordinary General Meeting in 2003, it was resolved to implement an employee stock options program comprising a total of 1.3 million options.

There is a need to reward particularly significant individual efforts, especially in the research area, through an additional allocation of options within the existing framework.

Accordingly, the Board proposes that the Annual General Meeting resolves that a higher number of options per employee be allocated within the total framework for the program. No changes are proposed with regard to the maximum amount of options to be allocated to the President.

This issue is addressed in item 20 on the agenda.

I would like to thank you all for your attention.

The next reporting occasion is May 11.

I will be pleased to answer any questions.