

This document is in all essential respects a translation of the Swedish prospectus pertaining to the offering to shareholders in Active Biotech to subscribe for convertible debentures in Active Biotech's pending rights issue ("the Offering") prepared in accordance with Swedish regulations. In the event of any discrepancies between the information in the Swedish prospectus and this translation of the Swedish prospectus, the former shall have precedence.

No registration has been made, and no action has been taken in any jurisdiction other than Sweden to permit a public offering of the convertible debentures or any other instruments issued by the company in connection with the rights issue in any jurisdiction where registration or action would be required for such purpose. The Offering is not being made to and must not be acted on by persons whose participation requires an additional prospectus, registration or other measures than those required under Swedish law. The convertible debentures or other instruments issued in connection with the Offering may not be sold or offered for sale, and neither this translation nor the Swedish prospectus may be distributed in any jurisdiction or to any person where such sale, offer or distribution requires an additional prospectus, registration or other measures than those required under Swedish law, or where such sale, offer or distribution would violate applicable laws.



*Offering to subscribe for the issue of
convertible debentures in Active
Biotech AB (publ) 2004/2009*

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Dates for financial information from Active Biotech

Year-end report for 2004	17 February 2005
Annual report 2004	March 2005

Neither the convertible debentures nor the unit rights have been registered or will be registered pursuant to the United States Securities Act from 1933 ("Securities Act") or any provincial legislation in Canada and may not be transferred or offered for sale in the United States of America or Canada to persons domiciled there, other than in exceptional cases that do not require registration pursuant to the Securities Act or any provincial laws in Canada. Neither is the offering directed at persons whose participation would require additional prospectuses, registration or other measures than those pursuant to Swedish law.

The prospectus may not be distributed in any country in which distribution or the offering requires measures pursuant to the preceding sentence or would be in conflict with any law or regulations in such country. Application for the acquisition of convertible debentures contrary to the above will be deemed invalid.

Neither the convertible debentures nor the unit rights in Active Biotech are listed in, nor has application been made for listing in, any country other than Sweden. This prospectus may not be distributed to or in any other country where such distribution (i) requires additional registration or other measures than those required under Swedish law or (ii) is in conflict with legislation, ordinance or other regulations in such country.

Disputes relating to the offering pursuant to this prospectus shall be settled exclusively in accordance with Swedish law and by a Swedish court.

This prospectus has been approved and registered by the Swedish Financial Supervisory Authority pursuant to the provisions of Chap 2, Section 4 of the Financial Instruments Trading Act (1991:980). Note that such approval and registration does not constitute a guarantee from the Swedish Financial Supervisory Authority that the factual content of the prospectus is accurate or complete.

In this prospectus, "Active Biotech," "the group" or "the company," depending on the context, refers to Active Biotech AB (publ) or Active Biotech with subsidiaries. Figures shown in this prospectus have in some cases been rounded off; as a result, figures in tables do not always add up. In this prospectus "MSEK" refers to million Swedish kronor, "TSEK" refers to thousand Swedish kronor, "USD" refers to American dollars, "GBP" refers to British pounds and "EUR" refers to Euro.

Offering to subscribe for convertible debentures in Active Biotech AB (publ)

At a Board meeting on 21 October 2004, the Board of Directors of Active Biotech decided subject to approval of the Extraordinary General Meeting on 8 November 2004, to issue 3,748,764 convertible debentures, each in a nominal amount of SEK 40. The convertible debentures are issued at a price of SEK 40, entailing that Active Biotech will receive SEK 149,950,560 before deductions for issue expenses¹.

The loan carries an annual rate of interest of 2 percent as of 1 January 2005. Interest is paid annually in arrears, beginning on 31 December 2005, and falls due for payment on 31 December each year and on the loan's date of maturity, 30 June 2009, if conversion has not already been implemented. To and including 15 June 2009, holders of convertible debentures are entitled to request conversion of the convertible debenture to shares, which will be done on a

monthly basis. The conversion price is SEK 40. On full conversion, the number of shares in Active Biotech will increase by 3,748,764, from 33,738,876 to 37,487,640 shares, corresponding to 10 percent of the voting rights and capital in the company. On full conversion, the share capital will increase from SEK 337,388,760 to SEK 374,876,400.

MGA Holding AB, with a shareholding corresponding to a total of 28.9 percent of the share capital and voting rights, guarantees subscription for the entire issue.

The shareholders of Active Biotech are hereby invited to subscribe, with preferential rights, for convertible debentures in Active Biotech's 2004/2009 convertible debenture loan pursuant to the terms and conditions in this prospectus.

Offering in brief

Preferential rights	Every nine shares entitle the holder to subscribe for one convertible debenture in a nominal amount of SEK 40, with the right to convert to one share in Active Biotech AB
Issue price	SEK 40 per convertible debenture
Record date	15 November 2004
Subscription period	19 November – 9 December, 2004
Trading in unit rights	19 November – 6 December, 2004
Subscription and payment	Subscription is effected through payment during the subscription period

¹ Total issue expenses, including guarantee provision, is expected to amount to approximately SEK 9 M.

Brief presentation of Active Biotech

Background

Active Biotech is a biotechnology company that originated in Pharmacia's research operations. The company's research portfolio focuses on autoimmune/inflammatory diseases and cancer.

Business concept, objectives and strategies

Active Biotech's business concept is by specialist competence on the human immune-defence system develop effective pharmaceuticals for diseases where a major medical need exists. Operations are organized focused on the clinical phases of pharmaceutical development.

The company seeks to conduct the development of new products up to Proof of Principle, that is, until the respective candidate drug has demonstrated biological activity in human beings.

Active Biotech's objectives and strategies are:

- to generate long-term value for its shareholders through cutting-edge expertise within selected niches of the overall market
- to be an attractive employer by offering a creative atmosphere that provides ample opportunities for individual development
- to efficiently and cost-effectively develop new pharmaceuticals for diseases where current treatment options are inadequate
- to protect its knowledge with strong patents obtained through an active patent strategy

- to create financial sustainability by concluding successful cooperation with strong partners for each of its projects at the appropriate development stage.

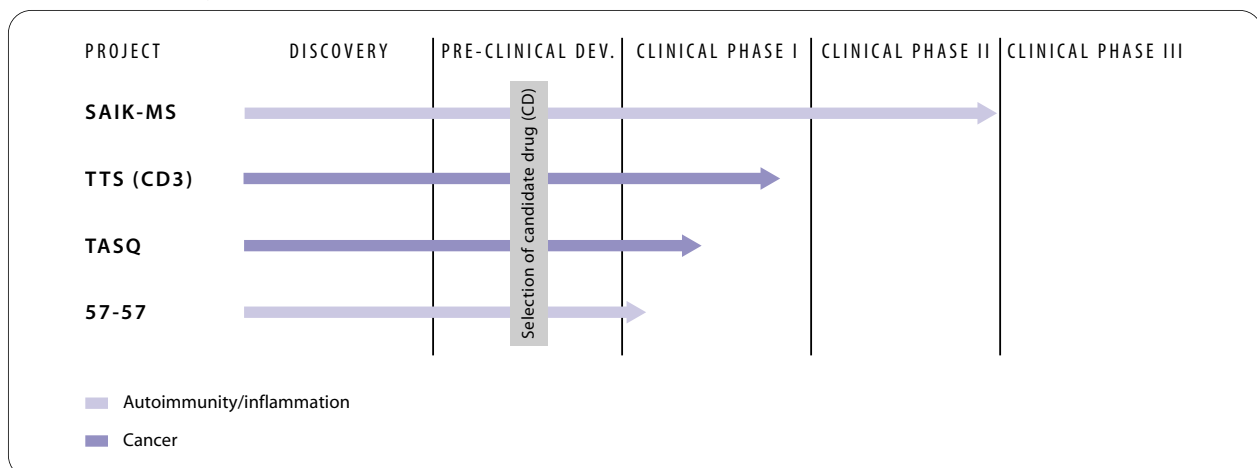
Active Biotech seeks to sign partnership agreements at the optimum time for each project. The intention is to enter partnership agreements with pharmaceutical companies for the continued development of pharmaceuticals and their further commercialization. It is Active Biotech's view that the most appropriate time for signing such agreements is prior to the commencement of phase II or phase III clinical trials.

Active Biotech's project portfolio

Active Biotech currently has four projects in clinical development. Two of these involve pharmaceuticals intended for the treatment of the autoimmune diseases multiple sclerosis (MS) and Systemic Lupus Erythematosus (SLE) and two projects involve pharmaceuticals for the treatment of cancer diseases, primarily non-small cell lung cancer and prostate cancer.

The project that has made most progress in clinical development, laquinimod (SAIK-MS), is a compound in tablet form for the treatment of multiple sclerosis. In June 2004, a partnership agreement regarding the continued clinical development and commercialization of SAIK-MS was signed with Teva Pharmaceutical Industries Ltd. ("Teva"). The agreement means that Teva will assume responsibility for the project and the costs for the continued development of laquinimod.

Active Biotech's project portfolio



Terms, conditions and instructions

The terms and conditions and information regarding the stock exchange listing and trading are summarized below. Refer to *Terms and conditions for Active Biotech AB (publ)'s convertible debenture loan 2004/2009* for the complete terms and conditions for the convertible debenture loan.

Preferential subscription rights

Those who on the record date of 15 November 2004 are registered as shareholders in Active Biotech have, for every nine (9) shares held, preferential right to subscribe for one (1) convertible debenture in a nominal amount of SEK 40. One (1) convertible debenture entitles the holder to convert to one (1) new share in Active Biotech.

Record date

The record date at VPC AB – the Swedish Securities Register Centre ("VPC") – for the determination of who is to receive unit rights¹ in the issue is Monday, 15 November 2004.

Subscription price

The subscription price has been set at the nominal amount of the convertible debenture, SEK 40.

Conversion price

On issue, the conversion price is SEK 40, which means that a convertible debenture in a nominal amount of SEK 40 entitles the holder to convert to one share in Active Biotech. The conversion price may be adjusted in connection with a share split and share issues, etc. Refer also to the section *Terms and conditions for Active Biotech AB (publ)'s convertible debenture loan 2004/2009*.

Loan amount

The loan amount totals SEK 149,950,560, distributed among 3,748,764 debentures, each in a nominal amount of SEK 40. On full conversion, this corresponds to 3,748,764 new shares.

Interest

The convertible debenture carries an annual rate of interest of 2 percent. The interest, which is paid out via VPC, falls due for payment on 31 December each year, commencing on 31 December 2005, and on the maturity date of the loan, 30 June 2009.

Repayment date

The nominal amount of the convertible debenture shall be repaid on 30 June 2009 to the extent that conversion has not already taken place.

Information from VPC to directly registered shareholders, etc.

This prospectus, along with printed issue statement with an attached payment notice will be sent to those shareholders or their representatives who, on the record date of 15 November 2004, are registered in the share register maintained by VPC on behalf of Active Biotech. Among other information, the printed issue statement shows the number of unit rights received. Those who are included in the special list of pledge-holders and others that accompanies the share register will be notified separately. No securities notice (VP-notice) regarding registration of unit rights in the securities account (VP-account) of shareholders and owners of convertible debentures will be sent.

Holdings registered with a trustee

Shareholders whose holding is registered with a trustee will not receive an issue statement from VPC. Subscription and payment will instead be conducted in accordance with contract with the trustee.

Unit rights

One unit right is received for each existing share. Subscription for one (1) convertible debenture in a nominal amount of SEK 40 requires nine (9) unit rights.

¹ Unit rights is VPC's designation for the rights received based on shareholding and which are used to subscribe for convertible debentures. The corresponding designation in a share issue is subscription rights.

Subscription period

Subscription for convertible debentures will take place during the period 19 November – 9 December 2004. Note that subscription must be made not later than 9 December 2004. Following expiration of the subscription period, unutilized unit rights will be invalid. After 9 December, unutilized unit rights will be booked out of the securities (VP) account without notification from VPC.

Trading in unit rights

Trading in unit rights will be conducted on the Stockholm Stock Exchange during the period 19 November – 6 December 2004. Unutilized unit rights must be sold to avoid becoming invalid and thus worthless.

Subscription and payment

Subscription based on preferential right will take place in the following manner:

1. *For full utilization of the number of unit rights shown in the issue statement:* Cash payment at any Swedish bank office using the preprinted payment notice from VPC, which is attached to the issue statement.
2. *In other cases:* If unit rights have been purchased, transferred from another securities account, or if all the allocated unit rights shown in the issue statement are not utilized, a special application form must be used. Application forms can be obtained from Alfred Berg Fondkommission, telephone +46 8 5723 61 40. Instruction for payment can be found on the application form. Payment may be made cash at any bank office. At the same time, the duly completed special application form with a receipt for the paid-up amount is mailed to:

Alfred Berg Fondkommission AB

Issues Department

Box 70447

107 25 Stockholm

Telephone: +46 8 5723 61 40

Note that the application form must be received by Alfred Berg Fondkommission by 9 December 2004, at the latest, which is the last day for subscription for convertible debentures.

Shareholders resident outside Sweden

Shareholders resident outside Sweden wishing to subscribe for convertible debentures with preferential right shall make payment in accordance with the instructions given on the application form. The application form shall be submitted or sent to Alfred Berg Fondkommission at the above address and shall be received by Alfred Berg Fondkommission not later than 9 December 2004, which is the final date for subscription for the convertible debentures. Applications sent from outside Sweden should be mailed well in advance of the final subscription date to ensure they are received by Alfred Berg Fondkommission not later than 9 December 2004.

Please note that this prospectus is not intended for persons whose participation is conditional upon further prospectuses, registration or other measures than those pursuant to Swedish law.

Subscription for convertible debentures without preferential rights

In cases all convertible debentures are not subscribed for, the Board will determine the extent to which allocation of convertible debentures subscribed for without preferential rights will take place and how such allocation shall be conducted.

Subscription without preferential right is made using a special application form titled “Subscription without preferential right,” which can be obtained from Alfred Berg Fondkommission as above. The application form shall be received by Alfred Berg Fondkommission not later than 9 December 2004.

Notification of allocation and payment instructions will be provided through the distribution of a settlement note, which is expected to take place on or about 16 December

2004. When payment for the subscribed and allocated convertible debentures has been completed, a VP (securities) note will be sent from VPC confirming that the booking of subscribed and allocated convertible debentures has been carried out in the subscriber's VP (securities) account.

Paid subscribed units ("BTU")

A few days after subscription and payment with preferential right, VPC will distribute notices confirming that paid subscribed units have been reserved in the subscribers VP (securities) account. Paid subscribed units are labelled BTUs in the VP (securities) account until the convertible debenture loan has been registered with the Swedish Companies Registration Office. Registration is expected to take place at the end of December 2004. A few days after registration, BTUs will be reclassified as convertible debentures in the VP (securities) account. VPC will not distribute notices in connection with this reclassification. The listing of BTUs on the Stockholm Stock Exchange is expected to take place during the period 24 November to 27 December 2004.

VPC registration

The convertible debenture loan is linked to VPC's account-based system. This means that debenture holdings are registered in the particular holder's securities account.

Listing of convertible debentures

Active Biotech has applied for a listing of the convertible debentures on the Stockholm Stock Exchange. Trading is expected to commence on or about 29 December 2004.

Conversion to shares

Conversion may be effected until 15 June 2009. If conversion is not requested by 15 June 2009, the conversion right will expire in its entirety.

In requesting conversion, the holder of convertible debentures must use a special application form, which is available from Active Biotech or Alfred Berg Fondkommis-

sion. After it is duly completed, the application form is to be mailed to Active Biotech or Alfred Berg Fondkommis-sion. Request for conversion is binding and may not be revoked by the convertible debenture holder. For administrative reasons, the company retains the right to implement such conversion at the end of each month. This means the company may implement conversion on the final banking day of each month.

Premature repayment

If the average share price for the Active Biotech share after 1 January 2007 exceeds the conversion price by 30 percent, meaning is at least SEK 52 during a consecutive period of 30 trading days, the company is entitled to repay the loan prematurely. If the company makes a decision concerning such repayment, you will be informed not earlier than 60 days and not later than 30 days before such repayment is made.

If you under these circumstances would prefer to convert your loan to shares the conversion must be demanded before the day of repayment, at the latest.

Convertible debentures

The following section presents an overview of convertible debentures and an introduction to their valuation. The section should not be viewed as a comprehensive account of the instrument and its valuation.

What is a convertible?

A convertible is essentially a loan to a company. A certain sum of money is lent to the company in return for a certain rate of interest, referred to as the convertible interest rate. A convertible is not just a loan to the company, since, as the name suggests, it can be exchanged for (converted into) shares in the company. The convertible debenture provides a right but not the obligation to future purchases of shares in the company at the same time as the lender receives an annual interest return on the investment. It is determined in advance at what stage in the life of the loan that the convertible debenture holder may convert the loan to shares, and the price at which conversion may be made. On conversion, entitlement to interest from the period immediately preceding interest due date is forfeited. If conversion is not undertaken, the loan shall be repaid on the maturity date.

Convertible debentures are commonly issued in the form of a debenture loan, which means that in terms of priority rights, they are subordinate to other loans. This also applies to Active Biotech's convertible debentures, which, in terms of priority rights in the event of the company's bankruptcy or liquidation, are subordinate to Active Biotech's non-subordinate debts.

A convertible is viewed as a less risky security than a share. If the share price does not exceed the conversion price, the convertible may be viewed as a loan. Interest is received on the money during the term of the loan and the investment is repaid when the loan term expires. The loss in this case could be that the interest (return) provided by the convertible over the years is lower than what would have been gained in the form of a return on other investments.

However, if the company becomes insolvent and finds it impossible to repay the loan, the lender may lose the entire amount invested.

If the share price rises, it may prove profitable to exchange the convertible for a share. However, it is most

frequently favorable to convert as late as possible, since the interest on convertibles is generally higher than share dividends. Since accrued interest is not paid continually, it is generally profitable not to convert immediately prior to the date when the convertible interest rate falls due for payment. If the dividend on the shares at any time is higher than the interest rate on the convertible, it is beneficial to convert, provided that the share price is higher than the conversion price and that these circumstances can be expected to be sustained in the future.

Those holding convertibles can thus during the conversion period choose to convert these to shares in the company. A higher share price leads to a higher value for the convertibles. In this respect, convertibles resemble shares.

Sample calculation

Assume that on the record date of 15 November 2004, you hold 900 shares in Active Biotech, you will then receive 900 unit rights. Nine (9) unit rights entitle you to subscribe for one (1) convertible debenture during the period 19 November – 9 December 2004. You thus receive the right to acquire 100 convertible debentures for SEK 40 each. The convertible debenture means that you lend money to Active Biotech. In the example above, the amount you lent to the company totaled SEK 4,000 (100x40). During the period you hold the convertible debentures, you will receive 2 percent annually in fixed interest on the loan amount, meaning SEK 80 annually. From the date on which the convertible loan is registered at the Swedish Companies Registration Office – which is expected to occur at the end of December 2004 – you may convert the convertible debentures to 100 shares in Active Biotech through 15 June 2009. Note that on conversion, the right to interest for the period preceding interest due date is lost.

Loan repayment

If by 15 June 2009 you have chosen not to convert your loan to shares, the company shall repay the loan amount to you as of 30 June 2009. The terms and conditions also include a stipulation that says that if the average price for the Active Biotech share after 1 January 2007 exceeds the conversion price by 30 percent, meaning at least SEK 52,

during a consecutive period of 30 trading days, the company is entitled to repay the loan prematurely. If the company makes a decision concerning such repayment, you will be informed not earlier than 60 days and not later than 30 days before such repayment is made.

If you under these circumstances would prefer to convert your loan to shares the conversion must be demanded before the day of repayment at the latest.

Valuation of convertible debentures

The valuation of a convertible debenture may be divided into two components: a bond component with a fixed duration and interest rate; and an option component with a pre-determined duration and exercise price (the conversion price). The theoretical value of the convertible debenture consists of the sum of the value of these two components – the bond component and the option component. The convertible debenture structure means that the holder can either convert to shares; or, at maturity of the convertible debenture, request a repayment of the money lent (the nominal amount).

Bond component

The convertible debenture's bond value is determined by the interest rate, the remaining time to maturity, general interest rates and market assessment of the company's credit rating. Another way of expressing this is that the bond value consists of the present value of future interest payments and the present value of the convertible debenture's nominal amount.

Option component

The option component in the convertible debenture – meaning the right but not the obligation to convert to shares – may in theory never be valued higher than the share to which the convertible debenture provides entitlement. Theoretically, neither can an option be valued below the share's market value minus the pre-determined exercise price (conversion price). If the sum of the price of an option and the exercise price is lower than the share price, an investor could, risk-free, be able to capitalize on the difference by buying the option, immediately utilizing it and

then sell the share. These opportunities are reduced in an efficient market. The share price minus the exercise price always represents the option's minimum value.

Market interest rates

An investment in an option entails a lower capital investment than an investment in shares. The opportunity cost of the capital investment in shares is greater, the higher the interest rate.

Duration

The value of an option increases with duration. This is because the longer duration of the option, the greater the potential for the market price of the share to exceed the exercise price (conversion price). A longer duration also entails a greater interest gain, since the option holder may postpone for a longer period the share purchase that the option entitles.

Volatility

Volatility measures the degree to which a share price fluctuates. The value of the option rises when volatility increases. Higher share price movements result in greater probability of a higher share price on the expiry date.

Dividend

Dividend has a negative impact on option value, since the option does not give entitlement to the dividend received on the share. The higher the dividend offered by a share during the option duration, the less attractive it is to invest in the option compared with the share.

Lending to companies is associated with higher risk than lending to sovereign states, for example. If for some reason or other, Active Biotech's operations develop negatively, there may be a risk that the amount that you lent to the company will remain partly or fully unpaid (refer also to the section "Risk factors").

Background and rational

Active Biotech is a biotechnology company that originated from Pharmacia's research operations. The company's business mission is to use its specialist expertise in human immunity to develop effective drugs to treat diseases with major medical need. Active Biotech's research portfolio focuses on pharmaceuticals for the treatment of auto-immune/inflammatory diseases and cancer.

The project that has made most progress in clinical development, laquinimod (SAIK-MS), is a pharmaceutical in tablet form for the treatment of multiple sclerosis. The project has undergone phase II studies with positive results, which were reported in September 2003. In June 2004, the company signed a partnership agreement with Teva Pharmaceutical Industries Ltd. ("Teva") regarding continued clinical development and future commercialization of laquinimod. The agreement entails that Teva assumes responsibility for the project and the costs of further development of laquinimod.

In addition, the company has three projects in clinical phases. TTS, Tumor Targeted Superantigens, is an immunological cancer treatment, in which the body's own T-lymphocytes are activated and used to force tumor cells to apoptosis, programmed cell death. Following the optimization of previous candidate drugs, the TTS project today includes a substance that is primarily focused on the treatment of non-small cell lung cancer. A phase I study is in progress and is expected to be completed in 2005. An earlier candidate drug in the project, CD2, has shown positive results in phase II studies of cancer of the kidneys and pancreas. TASQ, Tumor Angiogenesis Suppression by

Quinolines, is the company's second cancer project, in which an angiogenesis-inhibiting substance is developed. This substance is developed to be used for the treatment of prostate cancer. Clinical phase I study in patients, is planned to be commenced in November 2004. The company's third project, 57-57, involves the development of a compound for the treatment of Systemic Lupus Erythematosus (SLE). A phase I study using healthy volunteers commenced in November 2004. Active Biotech focuses its operations on the clinical development of the aforementioned projects and the company aims to conduct the project development up to Proof of Principle. Proof of Principle means that the candidate drug has demonstrated biological activity in human beings. Operations have been organized to conduct the first clinical phases in an optimal manner.

In an effort to strengthen the company's financial position and thus ensure the continuing development of the company's clinical projects, the Board of Active Biotech has decided on the proposed issue of convertible debentures. The issue will provide the company with about SEK 150 M, before issue expenses. Provided that the clinical projects progress as planned, Active Biotech expects to generate sales and receive royalties no earlier than 2009.

Existing liquidity, liquidity from the current issue, part or full utilization of the authorization from the Annual General Meeting regarding the issue of six million shares, combined with revenue from completed and expected partnership agreements, are assumed to finance operations up to 2009.

In other respects, readers are referred to the presentation in this prospectus, which was prepared by the Board of Active Biotech AB as a result of the current issue of convertible debentures. The Board is responsible for the content of the prospectus. It is hereby assured that, to the knowledge of the Board, the information in the prospectus complies with actual circumstances and nothing of material significance has been omitted that could affect the image of Active Biotech provided in the prospectus.

Lund, 8 November 2004

Active Biotech AB (publ)
Board of Directors

Pharmaceutical development

Pharmaceutical development is a time-consuming and resource-intensive process that is heavily regulated by various government authorities, primarily the European pharmaceutical authority, the EMEA, and its US counterpart, the FDA. Drug development from discovery to finished drug normally takes over ten years, and typically the cost amounts to between SEK 5–10 billion, of which the largest proportion is attributable to the clinical development involving studies using large groups of healthy volunteers and patients. The development phase encompasses many stages, in each of which a number of projects or candidates are eliminated on account of different priorities.

Pharmaceutical development is generally divided into two main stages: discovery and development. Given that since February 2004, Active Biotech focuses entirely on clinical and near-clinical development, the description focuses mainly on these aspects of development.

The discovery phase

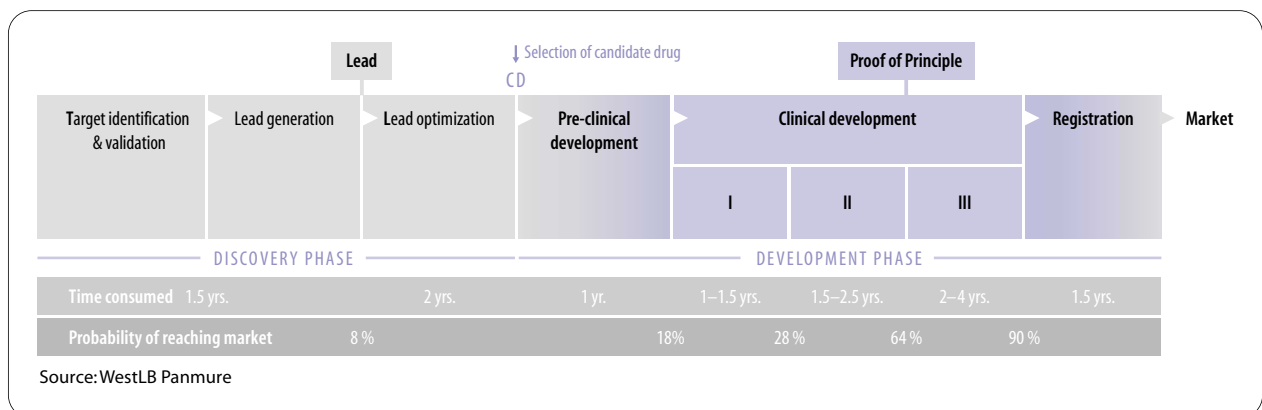
The discovery phase is intended to identify and develop a substance that is supposed to cure or influence a particular disease mechanism. The discovery phase starts with the identification and validation of a target molecule, normally a protein in the form of a receptor, enzyme or transport protein. The next step is to identify chemical compounds that bind to the target molecule – these are called lead compounds. The last step in the discovery phase (lead optimization)

involves optimising lead compounds with regard to various properties such as absorption, stability, effect and toxicity. The purpose of lead optimization is to identify one or more candidate drugs (CDs). Once a candidate drug has been found and its pharmaceutical effect established, the next phase starts: the development phase.

The discovery phase often takes 4–5 years to complete. The costs involved correspond, on average, to 10–20 percent of the total development cost of the new drug. In this phase, it is important to secure a strong patent for the compound, preventing competitors from developing the same or similar compounds. Only about 8 percent of all candidate drugs reach the market as fully developed pharmaceuticals.

The development phase

The development phase starts with pre-clinical development. Its purpose is to establish that all the necessary requirements have been complied with, to obtain permission to start clinical studies, that is, to test the substance on humans. The drug must be clearly effective in pre-clinical models and it must be possible to administer the drug to humans without risk. This requires controlled safety studies on animal models, conducted in accordance with guidelines from various government authorities. Before studies involving humans may commence, an application for an IND (Investigational New Drug) must be submitted to the authorities.



The purpose of the pre-clinical studies is to show that the substance is not toxic – that is, that serious side-effects do not occur in the dosage that produces the desired effect on the disease. The pharmacokinetic properties are also tested. An ideal drug should be suitable for oral administration; it should pass through the stomach to then be absorbed by the intestines and pass various membranes in the body without being metabolised before it reaches the target organ in a sufficient quantity. It is also important that the drug is not accumulated in the body, but rather excreted within a reasonable period of time.

Before a drug can be given to humans, a suitable dosage form must be found – for example, a solution, tablet or capsule. This requires extensive chemical and pharmaceutical studies and stability studies in accordance with established official requirements. A preliminary dosage form is often used in the initial clinical studies, but is subsequently replaced by a more advanced dosage form before the final pharmaceutical is developed.

Phase I

The first studies on humans are called phase I studies and they are carried out on a small group – normally 20–80 healthy volunteers. The purpose of these studies is mainly to show that the substance is safe for humans. The phase I study clarifies

- the safety profile of the substance – that is, whether the substance can be expected to result in serious side effects such as heart arrhythmia or changes in blood pressure.
- how well the substance is tolerated at different doses – that is, whether it causes unpleasant side-effects such as headaches or nausea
- pharmacokinetic properties – that is, establish whether the pre-clinical pharmacokinetic studies were relevant.

Phase I studies, which take approximately one year to carry out, account for 5–10 percent of the total costs of clinical drug development. Of the substances approved in phase I, about 30 percent normally reach the market in the form of a finished drug.

Phase II

Phase II studies test the substance on patients suffering from the disease that the potential drug is designed to treat. Tests are normally conducted on 100–300 patients. The number of patients in the study depends on which disease the potential drug is intended to treat. The primary aim of a phase II study is to show that the substance has the intended medical effect and determine an optimal dosage. Further studies on side effects and metabolism are conducted simultaneously.

A phase II study generally takes one to two years to complete and accounts for approximately 20 percent of resource consumption in the clinical trials phase. Slightly more than 60 percent of all substances that are approved in phase II studies result in a completed drug.

Phase III

In phase III, the substance is tested on a large number of patients, often between 1,000 and 3,000 patients in several clinics. However, the number of patients included depend on the disease the drug is intended to treat. 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. This requires confirming and further proving, in a statistically acceptable manner, the results of the effect and side-effect studies carried out in phase II, as well as definitively establishing the dosage in which the drug should be administered to future patients. If no earlier

drug for treatment of the specific disease exists, the effect of the drug is confirmed through comparison with a placebo.

A phase III study takes a long time to complete, is heavily regulated by government authorities and consumes a great deal of resources. Between 70 and 80 percent of the costs of clinical trials are usually incurred in phase III testing, which can take from one to four years to carry out. Of the substances approved in phase III, approximately 90 percent normally reach the market in the form of a completed drug.

Regulatory approval

If the results of phase III are satisfactory, a registration application – that is, an NDA (New Drug Application) or equivalent – is submitted to the authorities for review and approval. The application contains a compilation of all the data from the discovery and development phases – that is, everything from the design and manufacturing of the new drug to safety tests on animals and studies on effects and safety in clinical trials. This takes the form of an application for permission to market the new drug in a particular country. For the EU, it is possible to make a single application that applies to all member states. The approval review can take up to one year. The authorities conduct a risk/benefit analysis, in which the benefit of the drug is weighed against its side effects and the product profile is weighed against comparable results.

Government requirements

The pharmaceutical industry is one of the most regulated industries there are. Authorities in various countries oversee pharmaceutical companies in the development, testing, production and marketing of their products.

Legislation in the pharmaceutical area follows general principles but does vary among countries and regions. Initially, different sets of regulations were based on the same fundamental principles of quality, safety and effectiveness. In the 1960s and 1970s, however, national regulations were developed and divergent detailed requirements defined. As a result of the requirements on the pharmaceutical industry, many lengthy and expensive studies had to be duplicated to permit global marketing of new products. This was considered a problem, even by government authorities, the health-care system and patients, who required access to new, safe drugs.

The first step toward harmonisation was taken by the EEC in the 1980s. In 1990, the ICH was founded, a body that created a set of common rules for the collection and presentation of technical data. The work of the ICH is ongoing, and has now reached the final stage of an agreement on the structure of a global registration application.

These harmonisation efforts are very helpful. However, much remains to be done before it will be possible to actually look ahead to a uniform global market.

The EU recently announced a new directive regarding uniform rules for clinical studies. This particularly improves harmonisation with the US – although practical discrepancies will remain for a long time. Clinical studies on humans are conducted in close cooperation with physicians and hospitals, and are carefully regulated. Each new phase in clinical development requires a new application to the relevant authorities.

The company's operations

■ HISTORY

The group's operations commenced in 1983, with the founding of the ACTIVE i Malmö AB investment company. The original business concept was to acquire and manage a portfolio of small and medium-size industrial companies, and subsequently to sell them at an appropriate point in time. The company was listed on the Stockholm Stock Exchange on 1 December 1986.

During the period 1983–1996, a large number of companies in different lines of business were acquired and divested. The group's primary operations changed in 1997, into biotechnology and drug research, and the company was subsequently renamed Active Biotech. In the same year, the company acquired SBL Vaccin AB from the Swedish government in order to increase its involvement in biotechnology.

In the following year, 1998, Active Biotech acquired the Lund Research Centre AB, later renamed Active Biotech Research AB, from Pharmacia & Upjohn. The purchase included the research centre, personnel and research projects, as well as the patent portfolios associated with them. In exchange, Pharmacia received shares in Active Biotech and a share in the commercial rights to certain projects.

To further concentrate the operations on drug research, the operations and companies that were not active in the pharmaceutical area were combined under Wilh. Sonesson AB. In 1999, the shares in Wilh. Sonesson AB were distributed among shareholders in Active Biotech and were simultaneously listed on the Stockholm Stock Exchange.

In 1999, a small phase I study involving SAIK-MS/laquinimod was carried out on healthy volunteers. Based on this study, an expanded phase I study involving patients was initiated in February 2000.

In May 2001, Active Biotech decided to further concentrate operations and intensify the focus on research and development in Active Biotech Research AB in Lund. As part of this process, in July 2001 the company sold the vaccine operations of SBL Vaccin to the British company, PowderJect Pharmaceuticals Plc. In December 2001, a phase II study on renal cancer was initiated within the framework of the TTS project, based on effect-related data

from a phase I study presented during the year. Also during the same year, a candidate drug was selected for the TASQ prostate-cancer project.

The commercial rights relating to SAIK-MS and TTS that Pharmacia obtained in conjunction with Active Biotech's 1998 acquisition of the Lund research facility were repurchased by Active Biotech through an agreement with Pharmacia toward the end of 2002. In 2002, phase II studies for SAIK-MS were launched, as well as for TTS focusing on renal and pancreatic cancer. A candidate drug was chosen for the 57-57 project and TASQ was prepared for clinical trials.

The clinical results of the phase II study concerning SAIK-MS/laquinimod were reported in September 2003. The study met its primary endpoint and demonstrated a significant reduction of disease activity measured with MRI. Data from the phase II study on TTS CD2 against renal cancer also showed a clear disease-stabilising effect. Phase I studies involving the optimized candidate drug, TTS CD3, were initiated simultaneously.

In February 2004, the company decided to focus its operations on its projects currently in clinical phases. Since then, the company has relocated its resources to support clinical and near-clinical projects. A smaller number of research-phase projects are being kept dormant with the possibility of reactivation at an appropriate time. The new business strategy has involved extensive personnel reductions. After the reductions, the company will have 87 employees, compared with 176 at the beginning of 2004.

In June 2004, Active Biotech signed an agreement with Pfizer Health AB concerning Pfizer's obligation to manufacture commercial quantities of the TTS substance in the future. Pfizer's manufacturing obligation ceased and was offset by Active Biotech's obligation to pay additional compensation to Pfizer in conjunction with the signing of partnership agreements concerning SAIK-MS. In June 2004, a partnership agreement concerning SAIK-MS was also signed with Teva for further clinical development and commercialization of laquinimod. Under the agreement, Teva is to assume the responsibility for the project and the costs of further development of laquinimod.

■ BUSINESS CONCEPT, OBJECTIVES AND STRATEGIES

Active Biotech's business concept is by specialist competence on the human immune-defence system develop effective pharmaceuticals for diseases where a major medical need exists. Active Biotech's objectives and strategies are:

- to generate long-term value for its shareholders through cutting-edge expertise within selected niches of the overall market
- to be an attractive employer by offering a creative atmosphere that provides ample opportunities for individual development
- to efficiently and cost-effectively develop new pharmaceuticals for diseases where current treatment options are inadequate
- to protect its knowledge with strong patents obtained through an active patent strategy
- to create financial sustainability by concluding successful cooperation with strong partners for each of its projects at the appropriate development stage.

■ ORGANIZATION AND EMPLOYEES

Active Biotech's operations are organized around a focus on the early clinical phases of drug development. The research and development operations are divided into three organizational units: Pre-clinical Development, Clinical Development and Scientific Affairs. Pre-clinical Development includes functions for analytic chemistry, pharmacology, drug metabolism, pharmacokinetics and biopharmacy. Clinical Development is mainly in charge of the clinical studies carried out within the group's various projects, which includes handling contacts with contract research organizations (CROs). Clinical Development is also in charge of toxicology studies. Scientific Affairs handles patents, knowledge-management systems and project management.

The research and development unit is supported by the administrative units, which are: Finance, Administration/IT, Investor Relations, Legal Affairs & Human Resources, Business Development and Regulatory Affairs & Quality Assurance.

The group's legal structure is based on the parent company, Active Biotech AB. The parent company conducts the group-wide functions and asset management. The parent company owns shares in several subsidiaries, of

which Active Biotech Research AB conducts operations in drug development. Other subsidiaries are dormant and have no operations. The subsidiary Active Security Trading AB, however, holds the options issued to cover the requirements of the employee options program introduced in 2003 – see 'Share capital and ownership,' page 39. Active Biotech also holds a 20 percent stake in the associated company Isogenica Ltd., which develops technologies in molecular biology and is a limited partner of Stockholmsledet 7 KB, a limited partnership that owns the property in which the group's primary operations are conducted.

As of 30 September 2004, the number of employees of Active Biotech amounted to 133, of whom 47 have been made redundant and will gradually leave the company during end of 2004 and beginning of 2005 as their employment periods expire. The organization, for which agreements have been reached with the trade unions, consists of 87 people, of whom 70 are involved in research and development and the remaining 17 in administrative functions. Of the 70 employees working in research development, 22 have doctoral degrees.

■ CONTRACT RESEARCH

Active Biotech has chosen to use outsourcing for several of the steps involved in drug development. For example, toxicological assessment is carried out in cooperation with contract laboratories with high-level expertise in this particular area, while pharmacokinetic studies are carried out using the company's own resources. The preparatory conceptual studies regarding dosage format are conducted internally, whereas the final dosage form, which are compliant with established government requirements, are produced by specialised contract companies. Since clinical trials require extensive personnel resources, to handle, for example, regular visits to all participating hospitals to ensure high-quality data, these are conducted in collaboration with CRO companies.

■ LICENSE AND PARTNERSHIP AGREEMENTS

Active Biotech intends to sign partnership agreements for each of its projects at the most appropriate time. The idea is to enter into partnership agreements with pharmaceutical companies for clinical development and future commercialization. Active Biotech believes that the best time for

signing such agreements is generally before the start of phase II or phase III clinical trials.

The content of the partnership agreement varies depending on the project. In these agreements, the seller generally transfers the commercial rights to the potential drug in exchange for an initial compensation plus additional compensation as milestones are achieved. The out-licensing company also receives a portion of the revenue from the sale of the drug – that is, royalty revenue – normally during the remaining period of the underlying patent. The partner furthermore assumes responsibility for financing and administrating the remaining development, as well as for applying for the necessary permits and the possible regulatory approval of the drug. The size of both upfront and milestone payments, and royalty revenue, depends on the project's clinical status, the size and complexity of the area of indication, the market potential of the drug, and the success of the continued clinical trials, ensuring that the potential drug reaches the market.

The characteristics that are assessed in the selection of potential partners include ability and experience in carrying out projects involving clinical trials, financial strength, access to production resources and knowledge of the current indication area. In addition, an established marketing and sales organization for distribution of the potential drug is required. Active Biotech believes there is a sufficient number of potential cooperation partners that do match the company's preferences.

■ PROJECT RIGHTS

Active Biotech is sole owner of all of the group's projects, see also Intellectual property page 21. This means that Active Biotech, when signing commercial agreements in the future regarding development and further commercialization of each project, will receive all revenues from these agreements.¹

Apart from the license and development agreement that Active Biotech signed with Teva in June 2004, no other partnership agreements regarding rights or options concerning commercialization of the group's projects have been signed.

■ REGULATORY REQUIREMENTS AND QUALITY SYSTEMS

Active Biotech aims to conduct development of new products up to Proof of Principle. Proof of Principle means that the candidate drug has demonstrated biological activity in humans.

Government requirements are designed to form the basis of registration. Even though the development chain is sequential and involves clearly defined milestones objectives, the associated rules are not also designed to support the purpose of demonstrating Proof of Principle. Therefore, Active Biotech cooperates with internal and external experts and government authorities to devise project programs that enable it to test researchers' hypotheses at an early stage, while focusing consistently on patient safety. This enables the company to postpone certain investigations, which are, instead, conducted after the substance has demonstrated Proof of Principle. This is done in compliance with applicable rules and guidelines to guarantee the possibility of future registration.

All pre-clinical trials focusing on safety are conducted in accordance with GLP (Good Laboratory Practice), all raw materials and preparations of new substances are manufactured in accordance with GMP (Good Manufacturing Practice) and clinical trials take place in accordance with GCP (Good Clinical Practice). These sets of regulations are international, and compliance with them is monitored by the Swedish Medical Products Agency. Active Biotech holds a current permit for GLP and is inspected at regular intervals. The company manufactures no drugs for clinical use and has no permission for such operations. However, Active Biotech is responsible for ensuring that contract manufacturing is carried out in an acceptable manner. The group holds a wholesaler's permit that lets it store and distribute drugs for clinical trials.

The development of regulations governing clinical activities and pan-EU legislation has led to the need for Active Biotech to obtain a manufacturing license. Consequently, the group recently applied for a limited manufacturing permit that would permit it to release drugs for clinical trials that have been manufactured by contract manufacturers.

¹ Active Biotech is, however, in certain cases, see for instance Strathmann Biotech AG page 36, obliged to pay certain compensation to third parties based on such revenues.

■ RESEARCH FOCUS

Active Biotech's expertise focuses primarily on the human immune system and this expertise is used to develop drugs to treat autoimmune diseases and cancer. The company currently has four project in the clinical phase. Two of the projects involve drugs designed for treatment of autoimmune diseases, multiple sclerosis (MS) and Systematic Lupus Erythematosus (SLE) and two are drugs for treatment of cancer – non-small cell lung cancer and prostate cancer.

Autoimmune/Inflammatory diseases

The immune system's activity and inflammatory reactions are basically functions to protect the human being against threats such as infections caused by micro-organisms. Within these systems there is a high degree of selectivity, precise regulation and considerable power. The regulation of the systems usually works well, but in certain cases what is called autoimmune diseases arise. Such diseases arise when the body's immune system starts attacking normal healthy tissue instead of invading bacteria and viruses. Example of autoimmune diseases are: rheumatoid arthritis, multiple sclerosis, Type I diabetes, inflammatory bowel disease and SLE. Autoimmune diseases affect more than 5 percentage of all human beings¹. In general, women are affected more than men and autoimmune diseases are also

more prevalent in temperate climatic zones, such as northern Europe and North America.

Cancer

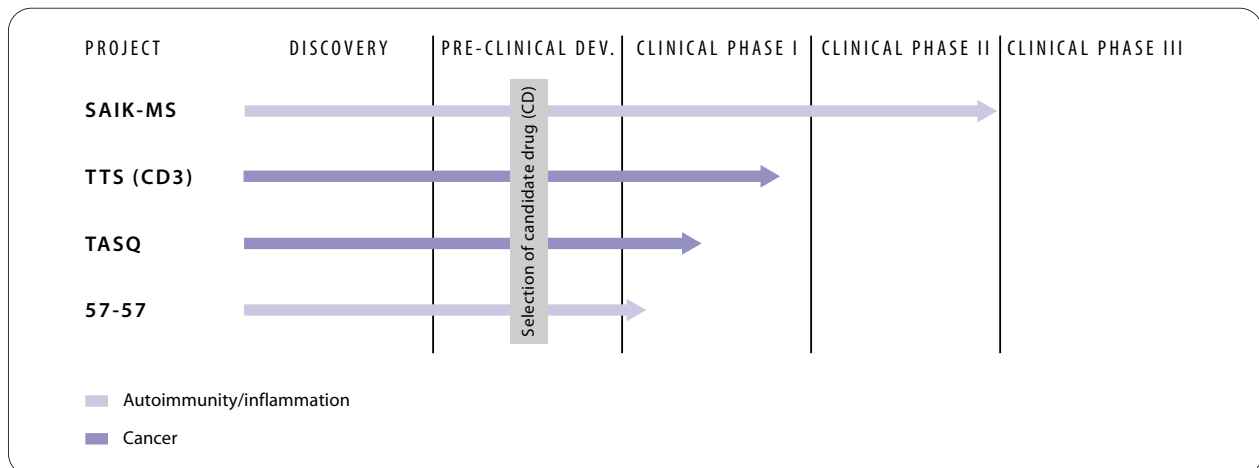
Cancer refers to a large number of diseases. In all of them, a few cells in the body start to divide at an abnormal rate and then spread.

Despite extensive research, it is still not completely clear what causes cancer, but certain chemical substances, radiation and viruses, in excessive doses, can lead to cancer.

It is also well known that smoking tobacco can cause lung cancer and that poor eating habits increases the risk of intestinal and stomach cancer. Hereditary factors are also often involved. Normally, cell division in the body is regulated in a highly sophisticated manner that is programmed into the genes inside the cell. Damage to one ore more of the genes, however, can transform a normal cell into a cancer cell. Everyone is exposed to this daily, usually without it causing health problems. That is because the cells have their own repair functions that can recognise damaged genes and repair them. If the damage is so serious that the cell cannot repair it, normally the cell dies. A damaged cell that is neither repaired nor dies is generally attacked and destroyed by our immune system. It is therefore extremely unusual for damage to genes to give rise to cancer, but it does occur and it can happen in most of the organs of the body. The incidence of this occurring is also strongly correlated to age.

¹ Davidson, A and Diamon, B: Autoimmune diseases. New England Journal of Medicine, 2001:345:340–50.

Active Biotech's project portfolio



The most common forms of cancer in Europe and the US are prostate cancer, breast cancer, lung cancer and intestinal cancer. Different forms of cancer have different prognoses and the forms of cancer that kill most patients are lung cancer, pancreatic cancer and cancer of the liver.

Most forms of cancer start as a primary tumor that then spreads, forming secondary tumors – metastases.

■ ACTIVE BIOTECH'S PROJECT PORTFOLIO

Autoimmune/Inflammatory diseases:

SAIK-MS

Within the SAIK-MS project, Active Biotech has developed the new active substance laquinimod for oral treatment of multiple sclerosis. In June 2004, Active Biotech signed an agreement with Teva for the development and commercialization of laquinimod. The agreement gives Teva the exclusive right to develop, register, produce and commercialize laquinimod globally, with the exception of the Nordic and the Baltic countries, for which Active Biotech retains all commercial rights.

The disease

Multiple sclerosis, MS, is a chronic disease, often with insidious progression. The disease affects the central nervous system in the brain and spinal cord. The symptoms are caused by the body's own immune system attacking and damaging the myelin sheaths surrounding nerve fibres. This causes inflammation within the central nervous system causing the patient to suffer relapses that affect a variety of bodily functions. As the nervous system controls all bodily functions, the disease can affect the sense of touch, motor functions, co-ordination as well as eyesight and hearing. The cause of the disease is unknown, but is assumed to depend, like other autoimmune diseases, on both genetic and environmental factors. Diagnosis is made based on the symptoms a patient exhibits combined with an MRI scan (Magnetic Resonance Imaging). MRI can show whether damage, in the form of lesions, has occurred in the central nervous system, seen on the images as round or oval white spots. There are various forms of MS, the most common of which is known as RRMS (Relapsing Remitting MS). RRMS is characterised by unexpected

recurring relapses that can last from a few days to a few weeks and are followed by complete or partial remission. For approximately 80 percent of all patients, the disease begins as RRMS but most develops after some ten or so years into SPMS (Secondary Progressive MS). SPMS is characterised by a gradually increasing degree of handicap, without the recovery periods.

The market

MS primarily affects young and middle-aged people. The disease often first appears when the patient is between twenty and forty years old, and the number of women affected is twice as high as the number of men. The incidence amounts to between three and five new cases per 100,000 people and year. The number of diagnosed cases is probably increasing with improved diagnostic methods, but particularly, improvements in treatment. A total of about 1,250,000 people throughout the world suffer from MS, a little over half of them in Europe. The temperate zones of Europe are the most affected. The number of MS patients in Sweden amounts to between 12,000 and 15,000.

There are currently two types of drugs for the treatment of MS on the market: interferons and glatirameracetate. The drugs reduce the number of relapses and are therefore all approved for treatment of MS patients with relapses. The use of the drugs varies greatly between markets. The lower use in Europe compared with the US may be due to several factors, such as side-effects and high pricing relative to efficacy. A common side-effect of MS drugs is influenza-like symptoms such as fever and muscle and joint pain. Injection-related side-effects are also common. The long-term effects of treatment with existing drugs are difficult to assess.

The largest group of MS drugs are interferons, which are glycoproteins with antiviral effects. Cells normally secrete interferons when they have been infected by a virus. Interferons bind with other cells, inhibiting protein synthesis in the cell, which slows down the spread of the viral infection in the body. In light of the effect of interferons, they began to be studied for the treatment of MS toward the end of the 1980s. In the 1990s, three drugs for treatment of RRMS were registered: Betaferon®/Betaseron® from Schering, Avonex® from Biogen and Rebif® from Serono. The mechanism of action of these drugs is

unknown, but they are assumed to have an immune-modulating effect. In addition to interferons, an MS drug consisting of polypeptides built up of four amino acids in random sequences and of varying length is also used. This drug is glatirameracetate, Copaxone®, which is marketed by Teva. Copaxone's mechanism of action is unknown. All drugs for treatment of MS are currently administered in the form of injections.

An additional drug, Antegren, for treatment of RRMS, is expected to be registered and launched by Biogen/Elan in 2005. Antegren is a humanised monoclonal antibody, developed to inhibit the migration of immune cells into tissue where they can cause or maintain an inflammation. Antegren will be administered as an infusion.

In 2003, the total market for the registered MS drugs amounted to USD 3.3 billion. Of the world's existing MS patients, about 40 percent are assumed to be under treatment with one of these drugs. Given improved diagnostics, new drugs, simplified administration and reduced side-effects, it can be assumed that with time the proportion of patients who will receive such treatments will increase.

The mechanism of action of laquinimod

A major advantage of Active Biotech's MS drug is that it can be administered in tablet form. Active Biotech has shown in pre-clinical studies that laquinimod has a clear ability to inhibit MS-like disease development in relevant animal models. Even though the laquinimod's mechanism of action has not been fully clarified, the animal model trials indicate that the mechanism of action of laquinimod is different from that of interferons. The experimental studies have also shown that there are no serious side-effects at the dosages of clinical use. Good tolerability, without serious side-effects, has also been confirmed in the clinical trials conducted on healthy volunteers and MS patients.

Clinical results

In September 2003, the results of the clinical phase II study were presented. Approximately 200 patients at 20 clinics in four countries were treated daily for a period of six months. The study showed a statistically significant reduction in the number of inflammations in the brain, as measured using MRI, in a mixed population of MS patients, as well as a very favorable safety profile. Treatment with 0.3 mg of laquinimod per day reduced the average disease activity by

over 40 percent. The effect was strongest in patients with a high level of disease activity.

57-57

Within the framework of the 57-57 project, Active Biotech is developing a substance for treatment of SLE (Systemic Lupus Erythematosus).

The disease

SLE is a life-threatening disease that develops in flare-ups interspersed with periods that are relatively free from symptoms. SLE causes inflammation and damage to the connective tissue of many organs in the body. The autoimmune attacks affect many organ systems. Symptoms often begin with motor-organ problems. The disease also attacks the skin: SLE patients are sensitive to light and ultraviolet rays can cause skin rashes and inflammation in their internal organs. Patients may also suffer hair loss, cold fingers and serious renal and blood vessel inflammations. The central nervous system can become seriously disturbed resulting in psychoses and depression. SLE is often difficult to diagnose since symptoms vary so widely. The disease may eventually lead to life-threatening secondary symptoms, such as kidney failure.

The market

SLE is most common among women of child-bearing age and affects one in 20,000. There are estimated to be about 5,000 SLE sufferers in Sweden, and there are new patients at a rate of 600 per year. In the US, the number of SLE patients is estimated to be at least 500,000. SLE is two to three times more common among people of colour. During flare-ups the patients may require intensive care treatment. The medications currently used for treatment of SLE are NSAIDs (non-steroidal anti-inflammatory drugs), malaria medicines, acetylsalicylic acid, cortisone and cytostatic drugs such as cyclophosphamide and methotrexate. Many of these drugs have severe side-effects. There is a major medical need for new treatments for SLE. The number of patients is increasing and no new drugs have been registered for the past 40 years.

La Jolla Pharmaceuticals has developed Riquent™ for treatment of kidney disease, which affects certain SLE patients. The company submitted a registration application to the FDA in the beginning of 2004, but in October was told that a supplemental study would be required before the drug could be registered.

The mechanism of action

Within the framework of the 57-57 project, Active Biotech is developing its own compound for treatment of SLE. The compound has demonstrated favorable effects in an SLE-like disease model, protecting test animals from developing the disease. The compound has also shown itself to be effective in reducing levels of blood and protein in urine, which suggests that the compound may be active against the kidney damage associated with the disease. The compound will be administered orally.

Clinical results

Phase I clinical studies were commenced in November 2004, and no clinical data for the 57-57 project is therefore available yet. In October 2003, however, positive pre-clinical results for the project were presented. The candidate drug 57-57 proved itself to have the capacity to slow down the progression of the disease in animals that spontaneously develop a condition similar to SLE. As a consequence, the survival rate increased among the treated animals. A similar result was noted regardless of whether the animal was treated early or late in the course of the disease. The results were presented in October 2003 at the annual conference of the American College of Rheumatology, ACR, held in Orlando, in the US.

Cancer*TTS*

Within the framework of the TTS project, Active Biotech is developing an immunological cancer treatment that utilizes the same powerful mechanisms causing rejection of transplanted organs.

The disease

Following optimization of the third candidate drug, CD3, Active Biotech has chosen to focus on the development of TTS for non-small cell lung cancer.

Lung cancer is the second-most common form of cancer, among both men and women, but it is the form that causes most deaths. Most cases of lung cancer begin in the bronchi and consist of small changes in cells such as the growth of new blood vessels. Often these changes cannot

be detected through lung X-ray, the most common means of diagnosis. Other diagnostic methods include computer tomography of the thorax, to determine the extent of the tumor, and bronchoscopy, in which samples are taken for cytological and histological diagnosis. The single most common cause of lung cancer is smoking tobacco, though radon and asbestos can also give rise to lung cancer. Lung cancer is a life-threatening disease, because it has often developed secondary tumors – metastases – before it is discovered. Lung cancer is divided into small cell and non-small cell lung cancer. Small cell cancer usually starts in the bronchi or in the central part of the lungs. Non-small cell lung cancer is divided into squamous epithelial cancer, adenocarcinoma and large cell lung cancer. Like small cell lung cancer, squamous epithelial cancer starts in the bronchi or the central parts of the lungs. Adenocarcinoma is mainly found in the outer parts of the lungs, and the prognosis for these patients is somewhat better than for the other forms. Large cell lung cancer is mainly found in central parts of the lungs and usually spreads quickly throughout the body, resulting in a poor prognosis.

The market

Non-small cell lung cancer accounts for about 80 percent of lung cancer cases world-wide. In 2000, approximately one million people developed non-small cell lung cancer. In the same year, approximately 880,000 people died from the disease.

Today, lung cancer can only be treated effectively if the tumor has not yet begun to metastasise, and the treatment involves surgery. Cell toxins such as cisplatin, carboplatin, vinorelbine, paclitaxel, docetaxel and gemcitabine are used, with limited success, to treat the disease when it is in its advanced stages. TTS is unique in terms of its mechanism of action and no similar competing product currently exists. Iressa™ (gefitinib, Astra Zeneca) was recently registered and Tarceva (erlotinib, Roche) recently finished a phase III study, but neither of them are immune therapies like TTS, but rather 'targeted therapies.' Alimta (pemetrexed, Eli Lilly) is another compound that was recently registered in Europe and is awaiting registration in the US for treatment of non-small cell lung cancer.

The mechanism of action of TTS

TTS stands for Tumor Targeted Superantigens. The antibody constituent of TTS makes treatment tumor-specific and directs the activated cytotoxic T lymphocytes toward the tumor. The tumor cells are then forced into apoptosis – that is, programmed cell death. The TTS method is unique in its category and will meet the overwhelming need for a new innovative cancer-treatment method. Active Biotech's TTS compounds have a tumor specificity that is steered by the antibody constituent of the product. The antibody constituent is the part of the TTS product that seeks out and binds itself to the antigen on the surface of the tumor. Very low concentrations of the TTS superantigen are required to activate the T lymphocytes with a force that is even greater than that of the antigens that trigger rejection mechanisms in unsuccessful transplants.

Clinical results

In parallel with the development of TTS CD2, Active Biotech optimized CD3. The anti-tumor activity of this compound is higher and the toxicity and antigenicity are lower. It will therefore be possible to administer CD3 in considerably higher doses. In the phase I dose-escalation study currently under way, patients are treated with 50–100 times higher doses than in the previous phase II study for

CD2. Active Biotech has therefore decided to focus future development of TTS entirely on CD3, primarily for use against non-small cell lung cancer. A phase I study of CD3 was started in the US and Norway in 2003. It is expected that phase II/III will begin in 2006. The final report on a phase II study of TTS CD2 for use against renal cancer was presented in December 2003. The positive results of that study showed that in 68 percent of the patients in the study, the disease stabilised after treatment with CD2. One patient experienced a dramatic tumor reduction. The tumor burden in this patient decreased by more than 90 percent after treatment with CD2. The results of the phase II study involving patients with pancreatic cancer also showed that TTS is effective in treatment of serious cases of cancer.

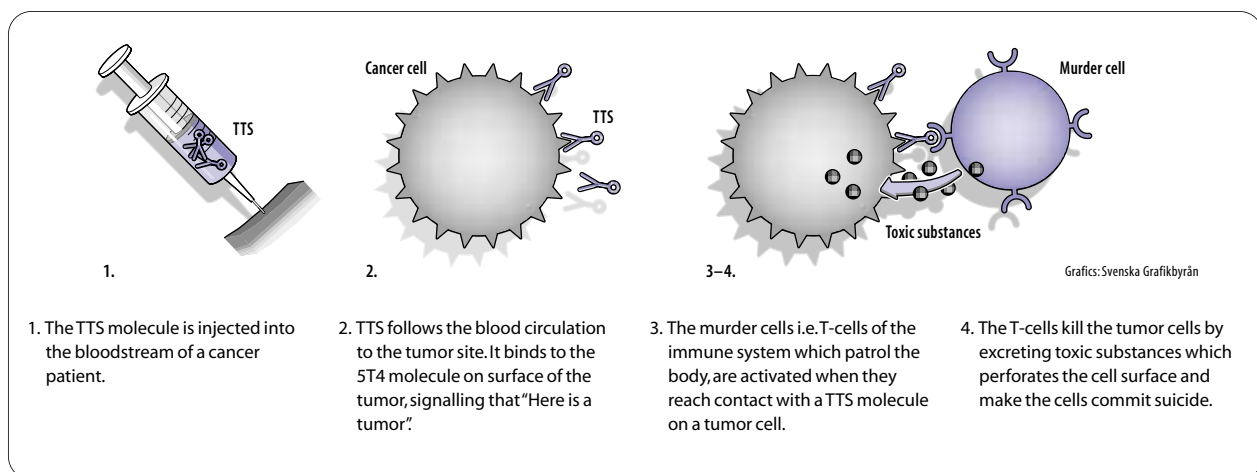
TASQ

Within the framework of the TASQ project, Active Biotech is developing a substance for antiangiogenesis in the treatment of prostate cancer.

The disease

Prostate cancer has highly varying degrees of severity. Despite a relatively good prognosis, prostate cancer is the second most common cause of death among men. In its

The mechanism of action of TTS



early stages, prostate cancer is hormone-dependent and its growth is stimulated by the male hormone testosterone. Patients with advanced prostate cancer are often affected by secondary tumors, metastases, in skeletal tissue. These tumors grow regardless of hormone levels. Suspicion of prostate cancer arises when a man has an elevated level of blood PSA or a hard and/or uneven prostate. A diagnosis is verified by a prostate biopsy.

The market

Prostate cancer is the most common form of cancer among men. Its occurrence is strongly age-related and is extremely unusual before age 50. In 2003, 334,000 new cases were expected to be diagnosed in Europe and the US. The global market for the treatment of prostate cancer is estimated at USD 3.1 billion per year¹. Prostate cancer cells divide at a remarkably slow rate – more slowly than the cells in normal skin, bone marrow or intestines. This makes it difficult to treat the disease using ordinary cell-division inhibitors, since these compounds also affect the cell division of normal cells, thus resulting in toxic side-effects. In the early stages, prostate tumors can be surgically removed, through a prostatectomy, or treated with radiation. In over half of the cases, however, the disease spreads to other locations in the body, whereupon surgery is no longer a viable alternative. Instead, treatment then focuses on removing the growth-promoting effect of testosterone – which, however, produces a number of undesirable effects, such as sterility and impotence. Sooner or later, the prostate cancer starts to grow again, now as a hormone-independent cancer.

The mechanism of action of TASQ

TASQ stands for Tumor Angiogenesis Suppression by Quinolines. Active Biotech's TASQ project attacks the tumor's way of growing. Prostate carcinoma is a metastasising malignant solid tumor that is highly dependent on blood vessel growth – that is, angiogenesis. Antiangiogenic compounds – alone or in combination with conventional anticancer treatment – make it possible to effectively inhibit the development of prostate cancer. During the pre-clinical development of the TASQ project, the candidate drug showed itself to be capable of reducing blood vessel growth by 50 percent and reducing the growth of the actual tumor by 80 percent.

Clinical results

The first phase I study of TASQ using healthy volunteers was presented in January 2003. The results showed that the TASQ candidate drug has pharmacokinetic characteristics that make it suitable for oral administration. The study also provided a solid foundation for the future clinical development of the drug.

A phase I trial designed to study tolerance of higher dosages of the compound in healthy volunteers was concluded in February 2004. The study showed that TASQ can be administered orally on a daily basis at the dosage levels at which it is expected to have an effect in the treatment of prostate cancer. An initial clinical study involving patients with prostate cancer is planned to begin in November 2004.

¹ Blomqvist & Associates, February 1, 2003.

■ INTELLECTUAL PROPERTY

Patent strategy

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

Active Biotech has built up its position in the area of patents through 29 strategically defined patent families, primarily in the areas of autoimmunity/inflammation and cancer.

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

NO. OF PATENT FAMILIES

Owned	SAIK, TASQ, 57-57	6
	TTS	7
	Other projects	16
Total owned		29
Under license	TTS	2
	Other projects	1
Total under licence		3

PATENT PROTECTION FOR TASQ

Patent family Type of protection	Area	Status	Year of expiry
"Product"	Europe	Granted	2019
	US	Granted	2019
	Japan	In process	2019
"Use"	Europe	In process	2020
	US	Granted	2020
	Japan	In process	2020

PATENT PROTECTION FOR SAIK-MS

Patent family Type of protection	Area	Status	Year of expiry
"Product"	Europe	Granted	2019
	US	Granted	2019
	Japan	In process	2019
"Method"	Sweden	In process	2023
	US	In process	2023

PATENT PROTECTION FOR TTS

Patent family Type of protection	Area	Status	Year of expiry
"Use"	Europe	Granted	2010
	Japan	Granted	2010
"Product"	Europe	Granted	2011
	US	Granted	2016
	Japan	Granted	2011
"Product"	Europe	Granted	2015
	US	In process	2018
	Japan	In process	2015
"Product"	Europe	In process	2017
	US	Granted	2016
	Japan	In process	2017
"Product and method"	Europe	In process	2018
	US	In process	2018
"Product"	Japan	In process	2018
	Europe	In process	2022
	US	In process	2022
"Method"	Japan	In process	2022
	Sweden	In process	2024
	US	In process	2024

PATENT PROTECTION FOR 57-57

Patent family Type of protection	Area	Status	Year of expiry
"Product"	Europe	Granted	2019
	US	Granted	2019
	Japan	In process	2019
"Method"	Sweden	In process	2023
	US	In process	2023

Risk factors

An investment in a research-oriented company such as Active Biotech may provide positive returns in the long term but is also accompanied by considerable risk. The account below presents the risk factors – which are not ranked in any order of priority– that are viewed as having the greatest significance for the group’s future earnings trend and financial position. For obvious reasons, the presentation of risk factors is not exhaustive. An overall evaluation of the group and the risks to which it may be exposed must be based on a combination of other information in the prospectus and a general assessment of conditions in the business environment.

Early development stage

Since February 2004, Active Biotech has focused on the clinical development of a number of projects. However, the group has not yet completed clinical testing of any drug, independently or jointly with a partner, and thus has not commenced the drug sales or received any royalty income from the sale of any drug. Projects in progress continue to require research and development, pre-clinical and/or clinical testing and official approval before sales and/or royalty revenue can be received.

There is no guarantee that Active Biotech’s projects will be successfully finalized, that any drugs will be safe and effective, that the requisite approval will be received or that drugs launched on the market will be successful.

Continuing losses and future capital requirements

Operations of the current Active Biotech have to date reported operating losses before items affecting comparability. Drug development is a complex and time-consuming process that covers a number of different phases. The Active Biotech projects that have made most progress in the development towards a finished drug have completed clinical phase II. The time from the completion of clinical phase II to the launch of a finished drug on the market may normally be expected to be 4 to 6 years. Even though the trend in the group’s projects continues to be successful – with partnership agreements also being signed for TTS and TASQ as scheduled and on satisfactory terms for the com-

pany – Active Biotech will report an operating loss for a further few years until sales and/or royalty revenue can be received. Active Biotech expects a need to turn to the capital market also in the future. Both the size and the timing of the group’s future capital requirement depend on a number of factors, including the potential to conclude partnership agreements and the possibility of succeeding in research and development projects.

There is no guarantee that the group will report positive earnings in the future.

Uncertainty regarding the future share price trend

If Active Biotech’s share price develops in such a manner that the convertible debenture loan is not, partly or fully, converted to shares not later than 15 June 2009, the remainder shall be repaid in cash on 30 June 2009. This means that by the aforementioned date, Active Biotech must have sufficient funds to repay the outstanding convertible debentures to creditors. There is no guarantee that Active Biotech’s financial position will permit such repayment or that refinancing can be organized on reasonable terms and conditions or can be organized at all.

Premature repayment

The terms and conditions underlying the convertible debentures does not include any right to premature repayment of the convertible debenture loan if the company fails to meet its commitments in accordance with the general terms and conditions, such as if the company fails to pay the interest on the convertible debentures.

Uncertainty regarding clinical testing

Before a drug is launched on the market, its safety and efficacy in treating people must be demonstrated for each particular indication. This is done by means of extensive pre-clinical and clinical testing. However, the results of pre-clinical testing, which is conducted on animals, are not always in line with the results subsequently achieved for humans.

Also, results from previous clinical testing do not always provide an accurate indication of the effects that may be attained in more extensive clinical testing.

There is no guarantee that clinical testing conducted by Active Biotech, independently or in cooperation with partners, will demonstrate sufficient safety and effectiveness to ensure the granting of the requisite official approval or that the tests will lead to a drug that can be sold on the market.

A number of drug companies have been hit by substantial setbacks and forced to discontinue development in a late stage of clinical testing, despite initially promising test results. If Active Biotech or its business partners during the development stages cannot show with sufficient reliability that the potential drug is safe and effective, approval may not be granted. This would have an adverse impact on the group.

Uncertainty surrounding partnership agreements

Active Biotech is, and will also in the future continue to be, dependent on partnership agreements with external partners, primarily for the testing, production and marketing of substances and marketing and distribution of any drugs. There is no guarantee that the companies with whom Active Biotech has signed or will sign partnership agreements will meet the commitments of these agreements.

To optimize the utilization of its own resources and its own skills Active Biotech plans to conclude partnership agreements at the estimated optimal point in time for each project. However, there is no guarantee that it will be possible for Active Biotech to sign such agreements on satisfactory terms or that it will at all be possible to conclude such agreements.

There is no guarantee that existing partnership agreements will not be terminated or declared invalid or that adjustments are made to concluded agreements. Even if Active Biotech believes that the current and future partners have financial interests in ensuring the fulfillment of their commitments pursuant to completed agreements, Active Biotech will not be able to control either the resources provided by partners to a project or at which stage this occurs. There is no guarantee that current or future partners will be able to fulfill their obligations or that the partnership agreements will lead to royalty revenue.

Uncertain protection for intellectual rights

Active Biotech's future success is largely dependent on the group's ability to obtain patent protection for potential drugs in terms of the specific substances, application areas and production methods, as well as protecting the company's own research secrets and those of its business partners.

There is no guarantee that drugs and production methods developed by Active Biotech can be patent protected; that current and future patent applications lead to patents, or that any approved patent is sufficient to protect Active Biotech's rights. Neither is there any guarantee that any patents provide competitive advantage, or that any approved patent is sufficient to protect Active Biotech's rights. Neither is there any guarantee that a patent offers competitive advantage for the group's drugs and/methods, or that competitors do not manage to circumvent any patents. If Active Biotech is compelled to defend its patent rights against a competitor, this may lead to substantial costs, which can in turn adversely impact on the group's earnings and financial position.

If Active Biotech in its own operations utilizes or is accused of utilizing substances or methods that are patent-protected or will be patent protected by another party, the holder of these patents may accuse Active Biotech of patent infringement. Third-party patents may obstruct some of Active Biotech's business partners from freely utilizing the particular product or production method. The uncertainty associated with patent protection means that the outcome of such disputes is difficult to predict. In addition, the costs of a dispute even with a favorable outcome for Active Biotech can be substantial, with a negative impact on the group's earnings and financial position.

Active Biotech is dependent on research secrets and know-how. There is no guarantee that the group's employees, consultants, advisers, business partners or others do not breach non-disclosure obligations regarding the group's research secrets and know-how, or that the group's research secrets and know-how do not in some other manner become known to competitors or that competing companies will not themselves develop corresponding research results or know-how.

Intense competition

Development in the drug and biotechnology industry is rapid and highly competitive. A large number of companies, universities and research institutions worldwide are active in research and development of drugs and thus represent potential competitors to Active Biotech and its business partners. Some of these potential competitors have a substantially stronger financial position, plus considerably greater resources and capacity in terms of, for example, research and development, contacts with approval authorities and marketing than Active Biotech. Consequently, there is no guarantee that another company or institution will not be able to develop a more effective drug than Active Biotech and its business partners. Neither is there any guarantee that a similar drug could not be developed more rapidly than what is possible for Active Biotech and its business partners.

Moreover, there is no guarantee that a business partner will compete with Active Biotech or cooperate with a competitor of Active Biotech within a closely related area or project in a manner that limits the advantages of cooperation.

Dependence on key employees

Active Biotech is dependent on a limited number of key employees. The departure of some or several of them from the group could delay and/or obstruct the continuing development of projects in progress. Also it is crucial for Active Biotech's success to be able to attract and retain qualified researchers. Although Active Biotech believes that it would be possible to attract and retain qualified researchers, no guarantee can be given that this could be done on satisfactory terms and conditions, in view of the competition from other drug and biotechnology companies, universities and other research institutions.

Drug registration

In order to be marketed, all drugs developed must undergo extensive registration procedures with the relevant authorities in individual markets, such as the FDA or EMEA. The FDA's registration procedure, which Active Biotech views as being the most stringent, includes, in applicable areas, requirements in terms of development, testing, registration, approval, labeling, manufacturing and distribution of new drugs, and medical and biological products.

An inability to meet requirements that may exist or arise in the future could result in extensive actions, including the recall of products, suspension of import, refusal of registration, recall of previously approved applications or the filing of legal proceedings. To minimize the risks in connection with registration, Active Biotech regularly applies a standard adapted to meet the FDA's requirements.

Even if a drug manufactured by Active Biotech or by another party subject to agreements with the company, was registered in both the U.S. and Europe, there is no guarantee that Active Biotech will meet new regulations or be able to receive corresponding permission for additional drugs. Neither is there any guarantee that the rules currently applying, or interpretations of these rules, will not be changed in such a manner that adversely impacts group operations, resulting in effects on earnings and the financial position.

Permission and legislation

Active Biotech currently has all the requisite permission for conducting operations. Since research and development work, production and marketing are subject to continual official supervision, there is, however, no guarantee that permission in the future will be renewed on the same terms and conditions as previously. Neither is there any guarantee that such permission will not be revoked or limited.

Changes in legislation or rules governing permission, the discovery of problems with a product or at the manufacturer, can thus negatively impact on Active Biotech's operations.

Dependency on reimbursement systems

The group's opportunities to successfully commercialise products will be dependent on the reimbursement available for its products from private insurance companies, public authorities and other payors of healthcare products and services. Authorities and other payors in the healthcare sector are increasingly seeking to reduce healthcare costs by challenging the prices of products or by limiting the number of patients who can benefit from them. Reimbursement from various payors also depends on other factors, such as the paying party's perception of whether the product is safe and effective, non-experimental, medically important and suitable for patients, and whether it is cost efficient based on the laws and regulations applicable in the specific market.

It cannot be guaranteed that sufficient reimbursement can be obtained for the group's products, that any approved reimbursement can be secured or that possible limitations from various payors will not entail a lower price or reduced demand for the group's products. Insufficient reimbursement for the group's products may affect its operations and financial position negatively.

Nor can the group predict which laws or reimbursement regulations may be introduced in the future regarding healthcare and the pharmaceutical industries.

Product liability and insurances

Group operations involve the risk of product liability, which is unavoidable in connection with research and development, pre-clinical and clinical testing, marketing

and sale of drugs. Even though the group currently has adequate insurance, the extent of the cover and compensation amount are limited. Consequently, there are no guarantees that insurance will fully cover any legal claims.

Currency and credit risks

The group has relatively limited currency exposure, since operations are pursued primarily in Sweden. However, the proportion of costs in foreign currency, mainly USD and EUR, can increase in the future as projects move into later clinical phases that involve more clinical studies abroad. The group does not currently use forwards or options to hedge currency risks. Credit risks in the group are marginal, since the group's operations have a low level of invoicing as they presently mainly involve research and development. The group's liquid assets are invested in line with a long-term policy established by the Board, which is designed to provide balanced risk between fixed income and equity investments.

Financial development in summary

In line with the concentration of the group's operations on the development of pharmaceuticals, the subsidiary SBL Vaccin AB was divested in July 2001. To reflect the performance of the current Active Biotech, the following pro forma accounts, excluding SBL Vaccin AB, have been prepared for the period 1999–2001. Information regarding 2002 and 2003 has been obtained from the audited accounts for 2002 and 2003. During 2004, Active Biotech

has, firstly, made decisions regarding a concentration of operations to projects that have entered the clinical phase, which gave rise to a workforce cutback, and, secondly, has concluded a licence agreement regarding laquinimod, which means that the group's financial performance has changed significantly; also see "Future prospects" on page 34.

Income statement

SEK M	2003	2002	2001	2000	1999
Net sales	0.3	3.8	2.5	45.2	81.1
Operating expenses	-336.8	-345.0	-268.7	-268.9	-281.5
(of which, depreciation)	-15.5	-17.6	-17.8	-20.2	-22.9
(of which, items affecting comparability) ¹	-19.7	-24.6	0.3	-	15.0
Operating loss	-336.4	-341.1	-266.2	-223.7	-200.3
Participations in results of associated companies	-2.5	-3.0	-1.0	-	-
Net financial items	32.0	35.8	19.4	91.6	57.7
Pre-tax loss	-307.0	-308.3	-247.8	-132.1	-142.6
Taxes	-0.6	9.4	-1.8	0.1	-
Net loss for the year	-307.6	-298.9	-249.6	-132.0	-142.6

¹ For a specification, see page 29.

Balance sheet

SEK M	2003	2002	2001	2000	1999
Intangible fixed assets	-	-	-	0.4	4.8
Tangible fixed assets	50.3	60.2	74.3	82.5	97.8
Financial fixed assets	45.1	47.9	52.0	53.3	94.8
Other current assets	22.5	30.3	25.3	63.7	132.1
Liquid assets and short-term investments	227.6	329.1	596.1	926.6	1,088.3
Total assets	345.4	467.5	747.7	1,126.5	1,417.8
Shareholders' equity	289.6	380.3	678.8	1,020.5	1,241.7
Interest-bearing liabilities and provisions	6.7	29.4	-	-	-
Interest-free liabilities and provisions	49.1	57.8	68.9	106.0	176.1
Total shareholders' equity and liabilities	345.4	467.5	747.7	1,126.5	1,417.8

Operating cash flow in summary

SEK M	2003	2002	2001	2000
Cash flow from operations before investments	-319.5	-329.7	-282.4	-266.5
Investments	-0.1	-0.4	-9.6	-7.0
Operating cash flow	-319.6	-330.1	-292.0	-273.5

Key figures

	2003	2002	2001	2000	1999
Capital employed, SEK M	296.3	409.6	678.8	1,020.5	1,241.7
Net indebtedness, SEK M	-260.9	-339.7	-636.1	-966.6	-1,128.3
Surplus value in short-term investments, SEK M	29.1	36.4	22.9	6.2	18.8
Return on equity, %	-92	-56	-29	-12	-11 ¹
Return on capital employed, %	-86	-56	-29	-12	-11 ¹
Equity/assets ratio, %	84	81	91	91	88
Share of risk-bearing capital, %	84	81	91	91	88
Net debt/equity ratio, times	-0.90	-0.89	-0.94	-0.95	-0.91
Interest coverage ratio, times	neg	neg	neg	neg	neg
Research and development costs, SEK M	-284.2	-285.2	-231.3	-219.9	-232.1
Average number of employees	179	183	186	188	184
Payroll costs, incl. social security fees, SEK M	115.4	112.4	108.1	125.3	120.1

¹ Calculated on the basis of the closing balance.

Data per share

	2003	2002	2001	2000	1999
Loss after taxes, SEK ¹	-11.80	-23.28	-19.53	-10.33	-11.15
Loss after taxes but before items affecting comparability ¹ , SEK	-11.05	-21.46	-19.55	-10.33	-12.33
Shareholders' equity, SEK	8.58	29.75	53.10	79.83	97.14
Net asset value, SEK	9.45	32.59	54.89	80.32	98.61
Disposable liquidity, SEK	6.66	25.75	46.63	72.48	85.14
Year-end share price, SEK:					
Active Biotech share	61	-	-	-	-
Series A	-	24	105	109	185
Series B	-	25	108	117	186
Dividend, SEK	0	0	0	0	0
Price/equity ² , %	711	84	203	147	191
Price/net asset value ² , %	646	77	197	146	189
Number of shares at end of period ³ , thousands	33,739	12,783	12,783	12,783	12,783
Weighted average number of ordinary shares before dilution ³ , thousands	26,062	12,783	12,783	12,783	12,783
Number of shares at end of period, incl. warrants, thousands	35,069	12,783	12,783	12,783	12,783

¹ There are 1,330,000 warrants outstanding in the company. Since a calculation of earnings per share after full dilution is not estimated to provide an accurate impression, this key figure is not provided.

² For year 1999-2002 the key figures have been calculated on the share price of the series B-shares.

³ For comparison year 1999-2002 have been recalculated, see note 12.

Principles for preparing the pro forma accounts, excluding SBL Vaccin AB:

The condensed pro forma income statements for 1999–2001 have been prepared in accordance with the following principles:

- It has been assumed that the sale of the subsidiary SBL Vaccin became effective on 31 December 1998. Accordingly, the company has been excluded from the group's income statement for 1999, 2000 and for the period January – June 2001.
- The capital gain of SEK 341.7 M that arose in 2001 in connection with the actual divestment has been excluded from the pro forma income statements for 2001.
- Charges pertaining to administrative services between the parent company and SBL Vaccin AB have been reported as external services.
- Net financial items have not been adjusted to take into account an assumed return on the sales proceeds received in connection with the pro forma divestment of SBL Vaccin AB. Nor have the group's net financial items been adjusted due to the parent company's interest-free receivables from the subsidiary of SEK 95 M 1999, SEK 35 M in 2000 and SEK 35 M on the date of the divestment.
- It has been assumed that pro forma divestment of SBL Vaccin AB did not give rise to any tax effects, because the group contributions provided by the parent company to the company could have been utilized by other group companies.

The condensed pro forma balance sheets for 1999–2000 have been prepared in accordance with the following principles:

- Since it has been assumed that the sale of the subsidiary SBL Vaccin became effective on 31 December 1998, the company has been excluded from the group's balance sheet for 1999 and 2000.
- The sales proceeds of SEK 547.3 M received in connection with the divestment of SBL Vaccin AB have been reported as liquid assets and the capital gain of SEK 341.7 M has been added to the group's shareholders' equity. The sales proceeds and the amount added to shareholders' equity might differ from the amount that would have been received if SBL Vaccin AB had been divested in 1998.
- In 1999, Active Biotech received a group contribution of SEK 69 M from SBL Vaccin AB. During 2001, Active Biotech AB provided a shareholder contribution of SEK 92 M to SBL Vaccin AB. These transactions have been treated as external and have been reported directly against the group's pro forma shareholders' equity.
- Intra-group receivables from and liabilities to SBL Vaccin AB have been reported as external receivables and liabilities.
- The total adjustment of pro forma shareholders' equity on 31 December 1998 consists of a group capital gain on the divestment of SBL Vaccin AB, group contributions and shareholder contributions according to the above and accumulated consolidated earnings attributable to SBL Vaccin AB during the period 1 January 1999 up to the date of divestment.

Definitions

Capital employed

Total assets less interest-free provisions and liabilities.

Cash flow from operations before investments

Operating profit/loss adjusted for items that are not included in cash flow plus change in working capital.

Disposable liquidity per share

Liquid assets and short-term investments divided by number of shares at year-end.

Equity/assets ratio

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

Interest-coverage ratio

Operating loss after financial items plus financial expenses divided by financial expenses.

Loss per share after taxes

The group's reported loss divided by average number of shares.

Net asset value per share

Shareholders' equity plus surplus value in short-term investments divided by number of shares at year-end.

Net debt/equity ratio

Interest-bearing net liabilities divided by shareholders' equity including minority interest.

Net indebtedness

Interest-bearing net liabilities, meaning interest-bearing liabilities and provisions, less liquid assets, short-term investments and other interest-bearing long-term holdings of securities.

Operating cash flow

Cash flow from operations before investments, less investments.

Return on capital employed

Loss after financial items plus financial costs as a percentage of average capital employed.

Return on equity

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

Share of risk-bearing capital

Shareholders' equity plus minority interest and deferred tax liabilities as a percentage of total assets.

Shareholders' equity per share

Reported shareholders' equity in the group divided by number of shares at year-end.

Surplus value in short-term investments

Difference between market value and book value of short-term investments. In view of the group's tax situation, no deductions have been made for deferred tax.

Comments on the financial development

Comments on the group's pro forma financial trend are presented below. The basic principles for the pro forma financial statements are reported under the "Financial development in summary – pro forma excluding SBL Vaccin AB" section above.

Net sales

Year	2003	2002	2001	2000	1999
SEK M	0.3	3.8	2.5	45.2	81.1

The group's net sales in 2003 amounted to SEK 0.3 M and consisted of sales of research services.

During 2002, the group's net sales amounted to SEK 3.8 M. Most of the net sales consisted of a lump-sum payment pertaining to the out-licensing of the CD80 project to the British company Avidex Ltd.

Pro forma net sales in 2001 amounted to SEK 2.5 M and consisted mainly of charges for administration services to SBL Vaccin and sales of research services.

The group's pro forma net sales during 2000 amounted to SEK 45.2 M, compared with pro forma sales of SEK 81.1 M during 1999. The net sales consisted mainly of remuneration for pre-clinical contract research relating to the TTS project on behalf of Pharmacia. During early 2000, Active Biotech acquired all of the TTS patents and rights related to the development of new candidate drugs within the cancer field from Pharmacia. The agreement regarding contract research that was entered into in 1998 thus expired, which resulted in the revenues from Pharmacia decreasing from SEK 75.0 M in 1999 to SEK 40.0 M in 2000.

Operating expenses

SEK M	2003	2002	2001	2000	1999
Cost of goods sold	–	0.2	0.2	0.1	–2.0
Selling costs	–	–	–	–	–3.4
Administrative costs	–32.9	–35.4	–37.0	–54.9	–59.1
Research and development costs	–284.2	–285.2	–231.3	–219.9	–232.1
Other operating revenues and costs	–	–	–0.9	5.8	0.1
Items affecting comparability	–19.7	–24.6	0.3	–	15.0
Operating expenses	–336.8	–345.0	–268.7	–268.9	–281.5

Operating expenses excl. items affecting comparability and cost of goods sold

	–317.1	–320.6	–269.2	–269.0	–294.5
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Since Active Biotech's operations consist of the development of pharmaceuticals, operating expenses consist mainly of research and development costs. The proportion of research and development costs increased from 79 percent of the total cost of operations, excluding items affecting comparability, in 1999 to 90 percent in 2003. The increase was attributable to a larger proportion of clinical trials and clinical trials conducted during a later phase, whereby the larger number of patients increases the group's costs. During the same period, administrative costs decreased, due to the concentration of the group's operations to Lund.

Operating expenses, excluding items affecting comparability, decreased from SEK 320.6 M in 2002 to SEK 317.1 M in 2003. The change was attributable to reductions in both administrative and research and development costs. During 2003, the group's research costs amounted to SEK 284.2 M. The decrease compared with 2002 was due to

reduced costs for clinical trials and purchased research services, because phase II studies for SAIK-MS and TTS CD2 against renal cancer were reported during the year. Items affecting comparability amounted to SEK –19.7 M in 2003, which consisted of remuneration for a guarantee deficiency in connection with the sale of the subsidiary Peltor AB in 1996.

During 2002, operating expenses, excluding items affecting comparability and major, increased to SEK 320.6 M, compared with SEK 269.2 M in 2001. The major part of the increase resulted from increased costs for projects that had entered clinical phases, meaning the SAIK-MS and TTS projects, and the TASQ and SLE project 57-57, for which phase I studies were being prepared. During spring 2002, a clinical phase II study for SAIK-MS started for slightly more than 200 patients in the UK, the Netherlands, Russia and Sweden. The clinical phase II renal-cancer study (TTS) that was initiated in the UK in December 2001 was continued during 2002 and a clinical phase II study of pancreatic cancer (TTS) was initiated as planned during 2002. The group's research costs in 2002 totalled SEK 285.2 M, an increase of 23 percent compared with the preceding year. Items affecting comparability during 2002 amounted to a cost of SEK 24.6 M, of which costs attributable to the purchase of commercial rights pertaining to SAIK-MS and TTS from Pharmacia accounted for SEK 26.5 M, the reversal of legal reserves resulting from the divestment of subsidiaries for revenues of SEK 2.7 M and a capital loss on the divestment of subsidiaries for a cost of SEK 0.8 M.

The group's pro forma operating expenses, excluding items affecting comparability and the cost of goods sold, totalled SEK 269.2 M in 2001. Pro forma administrative costs during 2001 amounted to SEK 37.0 M, compared with SEK 54.9 M pro forma during 2000. The decrease was an effect of the reduced organization. Pro forma research

costs during 2001 totalled SEK 231.3 M, up 5 percent compared with 2000. The cost increase related to the SAIK-MS and TTS projects, which were conducted as clinical phase I projects during 2001. When the phase I studies were completed during the late spring of 2001, planning of a phase II study for SAIK-MS commenced during the second half of the year. A phase I study for the TTS project was also completed during the late spring of 2001 and patient recruitment for a phase II study for renal cancer was initiated in the UK during the year. In addition, planning of a phase II study for pancreatic cancer in the UK was initiated. Items affecting comparability included in the group's earnings for 2001 amounted to SEK 0.3 M and were attributable to the sale of a condominium.

Pro forma operating expenses during 2000, excluding items affecting comparability and the cost of goods sold, totalled SEK 269.0 M, compared with SEK 294.5 M pro forma during 1999. The cost decrease was principally related to the phase-out of operations in UK subsidiary Actinova Ltd, which was implemented during 1999 as part of the concentration of operations to Lund. The group's pro forma research costs amounted to SEK 219.9 M during 2000, compared with SEK 232.1 M pro forma in 1999. The decrease was due to the geographical concentration of research operations. Most of the research costs related to the SAIK-MS and TTS projects. An introductory phase I study of a number of healthy volunteers was started for the SAIK-MS project in 1999. This introductory study was followed in February 2000 by an expanded phase I study with healthy volunteers and then switched to MS patients.

Items affecting comparability in 1999 consisted of a capital gain of SEK 15.0 M from the sale of a site in Lund.

Net financial items

The group net financial items in 2003 totalled SEK 32.0 M. During 2003, parts of the holding in the Nektar inter-

est-hedge fund were sold, as was the entire portfolio of listed shares. The capital gains amounted to SEK 2.6 M, net interest income to SEK 3.7 M, dividends received from share investments to SEK 26.0 M and exchange-rate differences to an expense of SEK 0.4 M.

The group's net financial items during 2002 totalled SEK 35.8 M, of which net interest income accounted for SEK 8.7 M, dividends for SEK 0.6 M and capital gains from asset management to SEK 27.4 M, while exchange-rate differences amounted to an expense of SEK 0.9 M.

During 2001, the group's pro forma net financial items amounted to SEK 19.4 M. Of the total net financial items in 2001, net interest income accounted for SEK 8.9 M, dividends for SEK 0.7 M, capital gains from asset management for SEK 8.2 M and exchange-rate differences for SEK 1.6 M.

During 2000, the group's pro forma net financial items totalled SEK 91.6 M, of which net interest income accounted for SEK 5.4 M, dividends for SEK 4.1 M and capital gains from asset management for SEK 82.2 M, while exchange-rate differences amounted to an expense of SEK 0.1 M. Pro forma net financial items in 1999 amounted to SEK 57.7 M.

Tax expenses

During 2003, a tax expense of SEK 0.6 M was reported. Adjustments of prior year tax charges resulted in a positive tax effect of SEK 9.4 M in 2002. A tax expense of SEK 1.8 M was reported for 2001.

Investments and cash flow

The group's operating cash flow during 2003 was a negative SEK 319.5 M, compared with a negative SEK 330.1 M during 2002 and a negative SEK 292.0 M on a pro forma basis during 2001.

Investments in tangible fixed assets totalled SEK 5.6 M in 2003, SEK 3.6 M in 2002 and SEK 9.6 M on a pro forma basis during 2001, of which SEK 5.5 M of the investments in 2003 and SEK 3.2 M of the investments in 2002 were financed by financial leasing. The investments pertained to acquisitions of instruments, laboratory equipment and technical plants in research operations.

Assets

The group's total assets at the end of 2003 amounted to SEK 345.4 M, including liquid assets and short-term investments of SEK 227.6 M, corresponding to approximately 66 percent, of which cash and bank balances accounted for SEK 45.3 M and short and medium-term fixed-income investments for SEK 182.3 M.

Tangible fixed assets totalled SEK 50.3 M at the end of 2003 and consisted mainly of equipment, tools and installations. Financial fixed assets amounted to SEK 45.1 M, of which SEK 42.8 M was represented by shares in the Stockholmsledet 7 KB limited partnership and the Isogenica Ltd associated company. The limited partnership owns the property in Lund in which the group's operations are conducted. For information on the group's assets at 30 September 2004, see "Interim report January – September 2004" on pages 47.

Financing and financial position

The group's shareholders' equity amounted to SEK 289.6 M on 31 December 2003.

On the same date, the group's interest-bearing liabilities totalled SEK 6.7 M. The group's equity/assets ratio on 31 December 2003 was 83.8 percent. For information on the group's financial position at 30 September 2004, see "Interim report January – September 2004" on pages 47.

Financial information and outlook

Dividend policy

In view of Active Biotech's financial position and negative earnings, the Board of Directors does not intend to propose the payment of a dividend in the years immediately ahead. The company's financial assets will mainly be used to finance existing and new research projects.

Investment policy

Active Biotech's Board has established a policy for the investment of the group's liquid assets, according to which liquid assets are to be invested at a low risk in Swedish and international shares, interest-bearing securities denominated in SEK and interest and equity funds. The proportion of shares, including equity funds, must not account for more than 40 percent of the total portfolio and the proportion of equity-hedge funds may amount to a maximum of 50 percent of the total portfolio of shares. Interest-bearing investments are limited to securities issued by the Swedish government, Swedish housing-financing companies and Swedish banks.

Foreign exchange-rate effects

The group has relatively limited foreign exchange-rate exposure, since operations are pursued primarily in Sweden. Earnings are exposed to exchange-rate effects in respect of purchases of clinical trials, research services and clinical materials. Operating expenses for the 2003 fiscal year amounted to SEK 336.8 M, of which approximately 22 percent was represented by costs in foreign currency. The proportion of costs in foreign currency, mainly USD and EUR, could fluctuate when the projects gradually reach later phases of development with the potential for more clinical studies outside Sweden. Since the group does not use forward contracts or options in order to hedge exchange-rate risks, any changes in the SEK exchange rate have an impact on the income statement. Credit risks within the group are marginal, because the rate of invoicing from the group's operations is low, since the operations mainly consist of research and development at present.

Tax situation

The group's total tax loss carryforwards in its Swedish companies amounted to approximately SEK 980 M at the end of 2003. Because it is not currently possible to state accurately when anticipated revenues will be reported, no tax receivables are reported in the group's balance sheet.

Investments

Investments in instruments and laboratory equipment in the years ahead are not expected to change significantly in relation to the level reported in 2003. Nor are any other major investments in fixed assets planned.

The property

Active Biotech and Active Biotech Research AB leases the property in Lund in which the group's research operations are conducted. The property is owned by Stockholmsledet 7 KB, a limited partnership in which Active Biotech is a limited partner that has contributed an investment capital of SEK 40 M. The lease applies until 31 January 2009.

In the event that notification of termination of the contract is not issued at the latest three years before the end of the rental period, the contract will be extended by a further ten years. However, Active Biotech and Active Biotech Research AB may only terminate the contract on the condition that the financing of the limited partnership company can be arranged independently from the partner with limited liability, Nordisk Renting AB (publ), which currently guarantees financing. Conditions remain unchanged for any extensions of the contract.

During the period 31 January 2006 to 31 January 2009, Active Biotech is, under certain circumstances, entitled to acquire the remaining shares in the limited partnership.

For further information on the lease, see Note 13 on page 69.

Effects of the share issue

The issue of convertible debentures totals approximately SEK 150 M before issue costs. It is estimated that the issue

costs will amount to approximately SEK 9 M, which means that about SEK 141 M will be contributed to Active Biotech.

A convertible debenture consists of two parts, a financial liability (a contractual commitment to effect payment in cash or other financial assets) and an equity instrument (an option that provides the holder with the right during a certain period to demand that the debenture is converted into shares).

According to the Financial Accounting Standards Council's Recommendation RR 27, the liability and the equity instrument are to be reported separately in the balance sheet.

To determine the value of each part, several conceivable methods may be applied. In this case the financial liability is valued in accordance with the description below and the equity instrument is accounted for as a residual item. The value of financial liability is determined by discounting the future payments based on the current market interest rate for a similar liability, but without the right to conversion.

The nominal amount of the loan is approximately SEK 150 M and the loan carries annual interest at a rate of 2 percent. However, since Active Biotech is a research company that is expected to show negative earnings and cash flow during the years immediately ahead and because the loan is subordinate to other liabilities, this interest rate cannot be regarded as equivalent to the market interest rate. The market interest rate for this loan may be estimated at 12 percent, which makes the market value of the loan approximately SEK 100 M.

According to a statement, URA 25, from the Financial Accounting Standards Council's Emerging Issues Task Force, issue expenses pertaining to the issue of an instru-

ment that includes both a financial liability and an equity instrument must be divided among both of the parts in proportion to the way in which the issue proceeds are proportioned. According to the Annual Accounts Act, issue expenses resulting from the raising of loans must be accrued over the duration of the loan. This means that the issue expenses that are proportionally attributable to the loan will be reported as a financial cost over the duration of the loan, meaning for four and a half years.

Estimated future accounting effects

The issue will give rise to a liability in the group's balance sheet corresponding to the estimated market value of the debenture loan, which is approximately SEK 100 M. The remaining portion of the convertible debenture loan will be reported as shareholders' equity, approximately SEK 50 M, after issue costs but before any tax effects. The group's liquid assets will increase by approximately SEK 141 M.

The group's earnings will be charged with interest of 12 percent for the convertible loan, calculated on the basis of the book value of the liability at each point in time. In terms of liquidity, however, interest at a rate of 2 percent will be paid, based on the loan's nominal amount of approximately SEK 150 M. In addition, earnings will be charged with the issue expenses over the term of the loan according to the compound interest method. The value of the reported loan liability will be written up gradually during the term of the loan based on the discount rate, to ensure that the reported liability amount on the due date will match the nominal amount.

Amounts in SEK M	At issue	31 Dec 2005	31 Dec 2006	31 Dec 2007	31 Dec 2008	30 Jun 2009
Interest paid		3.0	3.0	3.0	3.0	1.5
Write-up of liability		9.8	11.1	12.6	14.3	8.1
Financial expense		12.8	14.1	15.6	17.3	9.6
Convertible loan, present value including issue expenses	94.1	103.9	115.0	127.6	141.9	150.0

Based on assumed full conversion at the end of the term, the reported liability amount will decrease by an amount corresponding to the debenture loan's nominal amount and shareholders' equity will increase by a corresponding amount.

The table above shows the financial costs for accounting purposes during the term of the debenture loan and how these are related to the future book value of the convertible loan. No tax effects have been taken into account.

Future prospects

In February 2004, the company's Board decided to pursue a new strategic direction with the aim of focusing operations on projects that have entered clinical phases. A small number of projects that are close to entering clinical phases will be kept dormant with the aim of pursuing these actively when opportunities arise. The new strategic direction gave rise to the creation of a new organization with key competences based on the pursuit of clinical/close to clinical projects, which necessitated a comprehensive downsizing of the workforce.

The focusing of operations on clinical projects, combined with phase II trials for SAIK-MS and TTS CD2, was concluded during 2003 and is generating a total cost reduction of approximately SEK 100 M, compared with 2003, with full effect from 2005.

In June 2004, an agreement was reached with Teva Pharmaceutical Industries Ltd regarding the continued clinical development and future commercialization of the SAIK-MS project. The agreement means that:

- Active Biotech received USD 5 M as a upfront payment and is entitled to a further USD 87 M in the form of milestone payments when the agreed milestones have been achieved
- Teva finances the continued clinical development of the SAIK-MS project

- Teva holds global commercial rights, except for the Nordic region/ Baltic countries
- Active Biotech will receive escalating double-digit royalties on future sales of laquinimod.

Accordingly, the agreement means that Active Biotech will have virtually no costs for the SAIK-MS project and that the company will receive revenues from the project during the years immediately ahead, assuming that the project develops as planned. The other projects, TTS, TASQ, 57-57, have entered clinical development phases, which gives rise to costs. All projects are scheduled to report phase I results during 2005 and 2006. The ongoing phase I dose escalation study for treatment of non-small cell lung cancer with TTS CD3 is expected to be concluded during 2005. Phase II/III studies are scheduled to start during 2006. In November 2004, phase I studies of patients for the TASQ project, for the treatment of prostate cancer, are planned to be initiated, as were phase I studies of healthy volunteers for the SLE project 57-57.

In view of the decision to reduce costs and the revenues that will be received from the licence agreement with Teva, the prospects for financing continued clinical development of projects until royalties from future sales can be received have improved significantly. In order to strengthen the company's financial position and to further improve the company's opportunities to finance the development of TTS, TASQ and 57-57, the Board of Directors made the decision regarding the current issue of debentures. Provided that the clinical projects progress as planned, Active Biotech expects to receive sales and royalty revenues not earlier than 2009.

Existing liquidity, liquidity from the current issue, part or full utilization of the authorization from the Annual General Meeting regarding the issue of six million shares, combined with revenue from completed and expected partnership agreements, are assumed to finance operations up to 2009.

Reporting in accordance with IAS/IFRS (International Financial Reporting Standards)

In accordance with the requirements to which listed companies within the EU will be subjected, Active Biotech AB will switch to reporting its consolidated financial statements based on IAS/IFRS, as of 1 January 2005.

On the basis of the current IAS/IFRS and proposed amendments of these, the company has identified a number of areas that will affect the consolidated accounts, and thus financial key figures, compared with the accounting principles currently applied. The main areas consist of the sale and lease back agreement for the property, short-term investments, personnel-option programmes and pension solutions through Alecta.

In accordance with IAS 17, the company's sale and lease-back agreement pertaining to the property in which operations are conducted, and which is reported as an operational leasing agreement, will be reported as a financial leasing agreement. This means that the property will be reported as an asset in the group's balance sheet and be depreciated according to plan to an estimated residual value. The commitment in relation to the lessor to pay future leasing fees will be reported as a short-term and a long-term liability, with the property reported as a pledged asset. The forthcoming leasing payments will be reported as interest expense and amortisation. The capital gain reported in 1998 at the time when the sale and lease back-transaction was concluded will be accrued over the leasing period.

In accordance with IAS 39, the group's short-term investments will be valued and reported at fair value.

In December 2003, Active Biotech AB issued a personnel-option programme to all employees in the company, who were offered an opportunity to acquire, via new subscription, shares in the company. The personnel-option programme will be reported in accordance with IFRS 2.

The condition for the exercise of the options is that the employees continue to be company employees for a certain period. The fair value of the options was estimated on issue and will be reported as a personnel expense distributed over the period of earning. Transactions settled via equity instruments will be reported as an increase in shareholders' equity. Accordingly, an option programme for employees, whereby the options are exchanged for the company's own shares, is charged against earnings for the period but has no impact on total shareholders' equity.

The Active Biotech Group has decided to cover its pension commitments for the majority of salaried employees via Alecta. For a plan that includes several employers, the company, in accordance with RR29/IAS 19, must report its own proportion of the defined-benefit undertaking, and its assets under management and costs, in the same manner as for other types of defined-benefit plans. However, if the companies are not able to reliably establish their portion of the plan, this should instead be reported as if it were a defined-contribution undertaking. At present, it is not clear how pension insurance programs with Alecta will be reported.

Legal matters

Significant agreements

Teva Pharmaceutical Industries Ltd.

In June 2004 Active Biotech entered into a development and license agreement with Teva Pharmaceutical Industries Ltd. (Teva) regarding the Active Biotech developed and patented substance laquinimod for the treatment of multiple sclerosis and other indications. The Agreement gives Teva the exclusive right to develop, register, produce and commercialize laquinimod globally, with the exception of the Nordic and Baltic countries where Active Biotech keeps all commercial rights. Teva has agreed to conduct and fund the further clinical development of laquinimod.

As compensation for the license to Teva, Active Biotech is entitled to payments based upon achievement of certain development and sales milestones. These milestone payments can aggregate up to a maximum of USD 92,000,000. In addition, Active Biotech is entitled to a tiered double digit royalty on Teva's sales of laquinimod until 15 years after first commercial sale in each country.

Avidex Ltd.

In April 2002, Active Biotech signed a license agreement with the British biotech company, Avidex Ltd ("Avidex") regarding the so-called CD80 antagonists developed and patented by Active Biotech for the treatment of autoimmune illnesses. The agreement gives Avidex exclusive rights to product development and marketing and gives Active Biotech rights to milestone payments of maximum GBP 5,950,000. In addition, the agreement gives Active Biotech rights to royalties on Avidex' sales of the finished products. The royalty rights are not limited in terms of amounts and apply as long as the finished product is protected by the patent rights comprised by the agreement, but for at least ten years from the date of market launch.

Strathmann Biotec AG

Active Biotech is dependent on partnership agreements with external parties for process development and manufacture of clinical materials. There are only a limited number of suitable parties in this respect, and Strathmann Biotec AG ("Strathmann") is one of them.

In March 2004, Active Biotech Research AB signed an agreement with Strathmann concerning the development and manufacture of substances for TTS CD3.

According to the agreement, Strathmann will provide services in the form of development and production of substances in Active Biotech's TTS CD3 project for clinical phase II/III studies. Payment for the services will be made to Strathmann in the form of milestone payments totalling EUR 2,788,900, plus royalties. Royalties are limited to a maximum amount of EUR 10,000,000. Provided that cooperation pursuant to the agreement is finalized in conjunction with the commercialization of products, Strathmann will receive an option to manufacture the products.

Pfizer Health AB

In June 2004 Active Biotech signed an agreement with Pfizer Health AB ("Pfizer") regarding Pfizer's future obligation to manufacture commercial quantities of the TTS substance pursuant to an agreement concluded in September 2000. The agreement meant that Pfizer's obligation to produce ceased in return for Pfizer paying USD 2,000,000 to Active Biotech. Meanwhile, as a result of the agreement, Active Biotech made a supplementary payment to Pfizer amounting to USD 1,500,000, which, in accordance with an earlier agreement, should be paid when Active Biotech signed a partnership agreement for SAIK-MS.

Following the agreement in June 2004 each party's undertakings and rights pursuant to previously concluded agreements have, with few exceptions, ceased.

CMO agreement

Within the framework of drug development, a number of clinical studies must be conducted and clinical materials produced. Active Biotech Research AB uses Contract Manufacturing Organizations (CMOs) for the production of clinical materials used in the clinical studies. For this purpose, the company has primarily contracted Siegfried Ltd., DuPont Sverige AB, Galenica AB, Inpac AB and Apoteket AB.

CRO agreements

The practical implementation of clinical studies is conducted by means of Clinical Research Organizations (CROs). Active Biotech is dependent on the signing of agreements with CROs for projects that reach the clinical phase. Active Biotech Research AB has concluded agreements with the CRO PPD Global Ltd. in respect of the implementation of phase II studies in the SAIK-MS project and TFS Trial Form Support AB primarily for the implementation of phase I studies in the 57-57 project. During 2004, Active Biotech Research AB also concluded several agreements with Clinical Data Care in Lund AB covering phase I studies in the TASQ and TTS CD3 projects.

Disputes

Aero Corporation

In March 2002, the US-based Aero Corporation, formerly Cabot Safety Corporation, brought claims against Active Biotech totalling SEK 18,373, 555 for an alleged warranty breach pursuant to an agreement made in 1996 concerning the acquisition of all shares in Peltor Holding AB. The claim involved the additional taxation of Peltor Holding AB's subsidiary Peltor AB plus interest, in accordance with a judgement of the Administrative Court of Appeal in February 2002. The judgement was appealed to the Supreme Administrative Court, which in May 2003 decided not to grant right of appeal. Thus, the decision of the Administrative Court of Appeal gained legal force. Aero Peltor AB (which took over the claim from Aero Corporation) requested arbitration proceedings against Active Biotech in January 2003, whereby Aero Peltor AB demanded that Active Biotech should indemnify Aero Peltor AB for the additional taxation as above.

In June 2003, Aero Peltor AB and Active Biotech reached a settlement, whereby Active Biotech paid a sum of SEK 19,706,762 to Aero Peltor AB in return for which Aero Peltor AB withdraw the requested arbitration proceedings. Consequently, Aero Peltor AB has no outstanding claims on Active Biotech attributable to the additional taxation as above.

PowderJect Pharmaceuticals Ltd. and

Chiron Vaccines International Srl & KG

In June 2003, PowderJect Pharmaceuticals requested arbitration proceedings against Active Biotech, whereby PowderJect Pharmaceuticals claimed compensation totalling USD 20,000,000 as a result of warranty breach pursuant to a transfer agreement concluded in July 2001 regarding Active Biotech's sale of SBL Vaccin AB to PowderJect Pharmaceuticals. In connection with the dispute, another dispute arose due to the interpretation of a royalty agreement concluded between Active Biotech and SBL Vaccin AB, according to which Active Biotech, under certain circumstances, was entitled to milestone payments when the ETEC and Dukoral vaccines were registered in Europe and/or the U.S. SBL Vaccin AB has transferred all of their rights and liabilities according to the royalty agreement to Chiron Vaccines International Srl & Co KG ("Chiron").

In April 2004, Chiron, PowderJect Pharmaceuticals, SBL Vaccin AB and Active Biotech reached a settlement covering the dispute attributable to the alleged warranty breach well as the dispute regarding the interpretation of the royalty agreement. The settlement involved the withdrawal of the requested arbitration proceedings and freed Active Biotech from all liability for the alleged warranty breach. At the same time, Active Biotech waived all rights to milestone payments and royalties, pursuant to the royalty agreement, in return for a lump sum of USD 4,500,000, which was paid to Active Biotech in connection with the settlement.

Active Biotech's remaining outstanding warranty commitments in accordance with the transfer agreement were not covered by the agreement and consequently still apply in accordance with their terms pursuant to the transfer agreement.

King's College

In January 2003, King's College, London, presented a written claim against Active Biotech in respect of compensation of GBP 237, 894 for research contributions pursuant to an agreement between Active Biotech and King's College. The claim has been contested by Active Biotech on the ground

that King's College has not fulfilled its undertakings pursuant to the agreement. Correspondence is currently in progress between the parties concerning the claim and its extent.

Health Protection Agency (formerly CAMR)

In 1997, Active Biotech's British subsidiary, Actinova Ltd, signed a development agreement ("Manufacture, Research and Development Agreement") and a transfer agreement covering intellectual property rights ("Agreement for Transfer of Intellectual Property Rights") with the Centre for Applied Microbiology ("CAMR") in England. According to the development agreement, CAMR assumed responsibility in return for certain compensation to conduct services in respect of research, development and manufacture on behalf of Actinova during the period 1997–2001. According to the transfer agreement, Actinova acquired, among other things, certain patent rights to Protein L from CAMR.

In January 2003, CAMR 2003 made claims against Actinova for payments covering compensation for services in accordance with the development agreement and milestone payments for the transfer of the intellectual property rights. CAMR's claims were later taken over by the Health Protection Agency.

In July 2004, the Southampton District Registry announced a decision against Actinova, according to which Actinova is liable to pay GBP 1,188,730 and costs to the Health Protection Agency. In addition, the Health Protection Agency has claimed, without specifying any amount, that Actinova is liable to pay royalties and milestone payments attributable to the transfer of the intellectual property rights. In October 2004, Actinova received a payment notice in respect of the amount plus interest according to the decision, with information to the effect that a statutory demand under the Insolvency Act could ensue in the event of non-payment. Actinova is currently a dormant company that does not conduct operations. Active Biotech plans to liquidate the company. Against this background, negotiations are in progress with the Health Protection Agency concerning a settlement of all outstanding rights and liabilities between Actinova and the Health Protection Agency.

Tax disputes

For the fiscal years 1996, 1997, 2001 and 2002, the Swedish tax authorities have decided to seek additional tax and tax surcharges amounting to a total of SEK 4,894,353.

According to the decisions, the tax authorities have not accepted deductions made by Active Biotech attributable to, among other things, personnel stock option programmes, consultant costs in connection with the distribution of shares, costs for administrative charges and the acquisition of rights to royalties. All decisions have been appealed to the Administrative Court of Appeal and a respite in tax payment has been granted pending the final decision. Provision was made in the financial statements for 2003 for the total amount of SEK 4,894,353.

Labour disputes

During 2004, Active Biotech Research AB has terminated the employment of slightly more than 80 persons due to shortage of work. Of these, 14 have challenged their terminations and discussions have been conducted with the unions affected at the local level during the year. Since no agreement with all employees has yet been reached, the risk for a legal labour dispute with one or more of these cannot be dismissed.

Insurance

In the opinion of the Board, Active Biotech has adequate insurance coverage in view of the nature and extent of the company's operations. Active Biotech, including Active Biotech Research AB, holds a general professional liability insurance policy for its operations, which applies for injury to persons or property and consequential damage (product liability). The professional liability insurance covers clinical trials and applies globally. The maximum total reimbursement is SEK 100,000,000 per year. The conditions and scope of the professional liability insurance are customary. In addition to this general professional liability insurance, Active Biotech, including Active Biotech Research AB, holds a fidelity insurance policy and Active Biotech Research AB holds a property insurance policy (full value). The conditions and scope of these policies are customary.

Share capital and ownership

Share capital and ownership

The share capital in Active Biotech amounts to SEK 337,388,760, distributed among 33,378,876 shares, each in a nominal amount of SEK 10. All shares carry equal rights to participation in the company's assets and earnings. On full conversion of the convertible debentures which are issued in accordance with this prospectus, the number of shares will rise by 3,748,764, or 10 percent of the voting rights and capital in Active Biotech. On full conversion, the share capital rises by SEK 37,487,640 to SEK 374,876,400.

Personnel stock options

An extraordinary meeting of shareholders on 8 December 2003 decided on the introduction of an personnel stock

option programme, according to which all employees in the Active Biotech group were to be offered the potential to acquire a maximum total of 1,000,000 shares in the company. To ensure the undertakings pursuant to the personnel stock option programme, it was decided to issue to a wholly owned subsidiary a maximum total of 1,330,000 options for new subscription for shares on conditions corresponding to those applying to the personnel stock options. Full utilization of employee stock options results in a dilution effect of about 3.8 percent of the share capital, and assuming full conversion of the convertible debentures which are issued in accordance with this prospectus the dilution effect of the personnel stock option programme is 3.4 percent of the share capital.

Share capital

Event	Active Biotech share	A-shares	B-shares	Nominal amount	Change in share capital SEK M	Total share capital SEK M
Opening balance		23,156,600	22,960,400	1	–	46.1
1994 Conversion of debt instruments			9,142,856	1	9.2	55.3
1995 Reverse split 1:10, nominal value SEK 10						
New share issue, 4 B shares		–20,840,940	–28,892,930	10	0	55.3
1996 Bonus issue				25	82.9	138.2
1997 Conversion SEK 4,000,000			40,000	25	1.0	139.2
1998 Issue in kind			2,000,000	25	50.0	189.2
1998 New share issue			1,891,496	25	47.3	236.5
1998 New share issue, divided			1,400,000	25	35.0	271.5
1998 Conversion SEK 36,000,000			388,810	25	9.7	281.2
1998 Reclassification of A as B		–342,965	342,965	25	0	281.2
1999 Reclassification of A as B		–8,950	8,950	25	0	281.2
2000 Reclassification of A as B		–676,214	676,214	25	0	281.2
2001 Reclassification of A as B		–117,840	117,840	25	0	281.2
2002 Reclassification of A as B		–24,667	24,667	25	0	281.2
2003 Write-down of shareholders' equity				10	–168.7	112.5
2003 New share issue. One A- or B-share entitled subscription for two new shares			22,492,584	10	224.9	337.4
2003 Reclassification of A as B		–16,850	16,850	10	0	337.4
2003 Transition to a single class of share	33,738,876	–1,128,174	–32,610,702	10	0	337.4

Major shareholders

According to the Swedish Securities Register (VPC), at 29 October 2004, the number of shareholders amounted to approximately 13,000. The compilation below is based on data known by the company at 29 October 2004.

Shareholder	Number of shares	Percentage
MGA Holding AB	9,756,028	28.9%
Pfizer	2,714,286	8.0%
Catella funds	2,217,000	6.6%
Nordea Bank SA	896,241	2.7%
Robur funds	806,700	2.4%
Ronni Sand and companies	610,000	1.8%
Banque Carnegie Lux funds	490,000	1.5%
Skandia	459,336	1.4%
Hans Borgelin and companies	440,000	1.3%
Futuris funds	438,200	1.3%
SIF	309,800	0.9%
Zenit	300,000	0.9%
Other	14,301,285	42.4%
Total	33,738,876	100,0%

Shareholder data

Shareholding Number of shares	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of share capital
1-1,000	11,188	85.7	2,843,747	8.4
1,001-10,000	1,694	13.0	4,754,974	14.1
10,001-100,000	145	1.1	3,861,397	11.4
100,001-	31	0.2	22,278,758	66.0
Total	13,058	100.0	33,738,876	100.0

Authorization

The Annual General Meeting of shareholders in Active Biotech on 21 April 2004 approved the authorization of the Board until the next Annual General Meeting to decide on a new issue of a total of six million shares, on one or a number of occasions, with or without preferential rights for the company's shareholders. On full utilization of authorization, the share capital will increase by SEK 60,000,000.

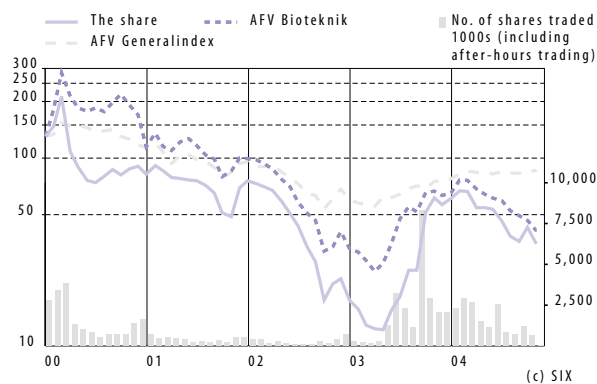
Shareholder agreements

To the knowledge of the Board, there are no shareholder agreements among the major shareholders in Active Biotech.

The Active Biotech share

Active Biotech's share has been listed on the Stockholm Stock Exchange since 1 December 1986. A round lot consists of 200 shares. The diagram below shows the share price trend for the Active Biotech share since 1 January 2000 through 1 November 2004.

Share price diagram



Board of Directors, senior executives and auditors

Board of Directors

Mats Arnhög *Chairman*

Born 1951, Board member since 2000.
MSc Economics, owner of MGA Holding.
Holding: 9,756,028 shares through companies
Other Board assignments: MGA Holding AB, and in subsidiaries within the MGA-Holding group, North Trade Stockholm AB, Nordstjernan AB.

Sven Andréasson

Born 1952, Board member since 1999.
MSc Economics, President & CEO Active Biotech AB.
Holding: 40,000 shares, 175,000 call options, 11,200 personnel stock options.
Other Board assignments: TiGenix B.V. Leuven, Belgium.

Maria Borelius

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

Klas Kärre

Born 1954, Board member since 2003.
Professor of Molecular Immunology at the Karolinska Institute in Stockholm.
Holding: 4,000 shares.
Other Board assignments: Accuro Immunology AB, Karolinska Institute, University College Kalmar

Peter Sjöstrand

Born 1946, Board member since 2000.
Graduate in Business Administration and medical doctor, previously Executive Vice President, Astra AB.
Holding: 0
Other Board assignments: Meda AB (publ).

Peter Ström

Born 1952, Board member since 2003.
Graduate in Business Administration, Vice President IMS Health.
Holding: 10,000 shares.
Other Board assignments: Chairman, Medical Radar.

Ingela Fritzson *Employee representative*

Born 1964, employed since 1987, Board member since 2004.
Chemical engineer, Pre-clinical development.
Holding: 1,375 personnel stock options.

Hans Wännman *Employee representative*

Born 1952, employed since 1980, Board member since 1999.
Chemical engineer, Pre-clinical development.
Holding: 2,500 personnel stock options.

Senior executives

Sven Andréasson

President & CEO
Born 1952
Holding: 40,000 shares, 175,000 call options, 11,200 personnel stock options.
Sven Andréasson has been President & CEO and Board member of Active Biotech since 1999. He has longstanding experience of the international pharmaceuticals industry, including time spent as President and Vice-President of Swedish, French and German companies in Pharmacia Corporation.

Hans Kolam

Chief Financial Officer
Born 1951
Holding: 5,000 shares, 7,500 personnel stock options.
Hans Kolam has worked for Active Biotech since 2000. He has more than 20 years' experience from the pharmaceutical industry, with various positions in Pharmacia's financial organization, most recently as Vice-President of Finance, Europe.

Tomas Leanderson

Chief Scientific Officer
Born 1956
Holding: 0 shares, 7,500 personnel stock options.
Tomas Leanderson has worked at Active Biotech since 1999. He was previously a researcher at the Basel Institute of Immunology in Switzerland and a researcher in cellular differentiation at Uppsala University. In 1990 Tomas Leanderson was appointed professor of Immunology at Lund University.

Lars M Nilsson

VP Regulatory & Quality Affairs
Born 1943
Holding: 1,000 shares, 7,500 personnel stock options.
Lars M Nilsson has been employed at Active Biotech since 2001. He has a degree in veterinary science and lengthy experience in the international pharmaceuticals industry. Most recently he worked as the head of registration and quality assurance at Pharmacia Consumer Health Care.

Auditors

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

Salaries and benefits

Salaries, remuneration and other benefits during the 2003 financial year were as follows.

SEK M	2003
Board of Directors, total	0.750
of which Chairman of the Board	0.250
Management Group,	9.398
of which the CEO	3.291

Pensions

The retirement age for the President & CEO is 65, with a defined-contribution pension. The pension premium amounts to 30 percent of the pension-determining salary, which is the basic salary. Pension benefits to other senior executives are paid in the range between the terms for the Swedish supplementary pension scheme (ITP) and up to 25 percent of salary. The pension age is between 60 and 65.

Severance pay

The President has a 12-month period of notification and, under certain conditions, the right to severance payment corresponding to 12 months' salary following the termination of employment. Senior executives are subject to a notice period of 6 months. No other severance pay is provided.

Auditor's fees

During the 2004 financial year, SEK 661,000 was paid in auditor's fees for auditing purposes, as well as SEK 846,000 for other assignments.

Transactions with closely associated parties

None of the current Board members, senior executives or auditor have been directly or indirectly involved in business transactions in a private capacity that are or were unusual in

character or in terms of the conditions, or were of substantial significance in relation to business operations in Active Biotech, and which occurred during the current or previous financial years and remain unsettled or incomplete in some respect. Active Biotech has not provided loans, guarantees or sureties on behalf of Board members or the auditor in the group.

Board activities

Active Biotech's Board consists of six members, who are elected by the Annual General Meeting, and two members appointed by the employees. The President & CEO is a member of the Board. Other salaried employees in the company participate in Board meetings in a reporting or administrative capacity whenever required.

During 2003, nine meetings were held for which minutes were kept, compared with eight and seven meetings, respectively, in 2002 and 2001. The President has continually informed both the Chairman of the Board and other Board members of developments in the company. Key issues handled by the Board include the development of research projects, business development projects, partner strategy and partner discussions, strategic direction, and information regarding the financial statements and budgets.

The nomination process for the Board involves the three largest shareholders, during the fourth quarter, each appointing a representative, who together and under the guidance of the Chairman of the Board prepare a proposal regarding the composition of the Board, which is presented to the Annual General Meeting for decision.

The Board as a whole handles questions involving remuneration.

The company's auditors appointed by the Annual General Meeting reports directly from the completed audit to the Board at a Board meeting.

Extract from the Articles of Association and other information

Company name

The name of the company is Active Biotech AB (publ).

Registered office

The registered office of the Board of Directors is in the Municipality of Lund, M, Sweden.

Operations

The company shall directly, or through subsidiaries, conduct research, development, production, marketing and sale of medical, chemical and biotechnology products and conduct group administrative services and pursue other business compatible with these operations.

Share capital

The share capital shall be no less than SEK 112,462,920 and not more than SEK 449,851,680.

Par value of share, etc.

Each share shall have a par value of SEK 10.

Board of Directors

The Board of Directors shall consist of three to nine members, with not more than nine deputy members. It will be elected each year at the Annual General Meeting for the period extending until the completion of the next Annual General Meeting.

Fiscal year

The company's fiscal year shall be the calendar year.

Record day provision

The company is registered with the Swedish Securities Registration Centre (VPC). Those who on the record date are registered in the share register or in the list pursuant to Chapter 3, Section 12 of the Swedish Companies Act (1975:1385) shall be regarded as being authorised to receive dividends and shares in the event of bonus issues, and to exercise the preference rights of shareholders to participate in share issues.

Other information

Active Biotech AB (publ) is a public limited liability company. The company's corporate registration number is 556223-9227. The company was registered at the Swedish Patent and Registration Office on 11 January 1983 and has since then conducted its operations. The current company was registered on 25 November 1997. The company's form of association is governed by the Swedish Companies Act (1975:1385). The company is a VPC company and VPC AB maintains its share register.

Tax considerations in Sweden

The presentation below summarizes certain Swedish tax rules made relevant for investors by the current Offering. Unless otherwise stated, the summary is based on prevailing legislation and is meant only as general information for individuals and legal entities with unlimited tax liability in Sweden. The presentation does not cover situations in which securities are held as an inventory asset in business operations or are held by partnerships. Also, the presentation does not cover special regulations governing tax-free capital gains (including the prohibiting of deductions for capital losses) and dividends in the corporate sector that may be applicable when the investor holds shares in Active Biotech that are viewed as being related to business operations.¹ The tax treatment of each individual investor depends in part on the person's particular circumstances. Special tax considerations that are not described below may be applicable to certain categories of tax subjects. Each potential investor is advised to consult a tax advisor for information on specific tax consequences arising from the Offering, including the applicability and effect of foreign rules and tax treaties for the avoidance of double taxation.

General

Private individuals

In the case of private individuals, income from capital such as interest, dividends and capital gains is taxed as income from capital. The tax rate levied on income from capital is 30 percent. As the main rule, capital losses are 70 percent deductible against income from capital. However, capital losses on shares, as well as other listed unit rights and convertible debentures are fully deductible against capital gains in the same year on market-listed shares and other market-listed securities that are taxed as shares (such as unit rights and convertible debentures) but also against capital gains on shares that are not market-listed.

If a deficit arises in income from capital, a reduction of the tax on income from services and business operations, as well as real estate tax, is allowed. Such tax reductions are allowed in the amount of 30 percent for a deficit that does not exceed SEK 100,000 and in the amount of 21 percent for a deficit in excess of that. A deficit may not be carried forward to a later tax year.

In the case of private individuals, preliminary tax of 30 percent on share dividends and interest payments is withheld. The preliminary tax on share dividends is normally withheld by VPC or, in the case of shares registered with a nominee, by the nominee.

Shares in Active Biotech, that are listed on the O-list of the Stockholm Stock Exchange, are not subject to wealth tax. Convertible debentures, on the other hand, are taxable and are declared at 80 percent of the listed value at the end of the tax year.

Limited liability companies

In the case of limited liability companies, all income, such as interest, dividends and capital gains, is taxed as income

¹ Listed shares, as in the current case, are viewed as being related to business operations if the shareholding constitutes capital asset for the holder and the holding either amounts to at least 10 percent of the voting rights or is necessary for operations conducted by the owning company (or a company that is deemed to be closely associated to the owning company).

from business operations. It should be noted that taxation dates for interest, for example, comply with generally accepted accounting principles. The tax rate is 28 percent. If a capital loss arises from shares and unit rights, for example, as well as convertible debentures, a limited liability company may deduct the loss solely against capital gains on shares and other securities taxed as shares. In certain cases, such capital losses may be deducted against capital gains on securities taxed as shares within a corporate group if the right to make group contributions between the companies exists. Capital losses that cannot be used during a certain year can be deducted from capital gains on securities taxed as shares during subsequent taxation years with no limits in terms of time. Special tax rules may be applicable to certain corporate categories or certain legal entities, such as investment funds and investment companies.

Exercise of unit rights received

The receipt of unit rights does not give rise to any taxation for shareholders in Active Biotech. Neither does the exercise of the unit rights received for the acquisition of convertible debentures give rise to taxation for shareholders in Active Biotech. The expense amount for the convertible debentures consists of the subscription price. Interest on the convertible debentures is taxable as interest income.

Sale of unit rights received

Shareholders who do not wish to utilize their preferential rights to participate in the issue can sell their unit rights. Taxable capital gains is then to be calculated. In the case of unit rights based on shareholding in the company, the acquisition expense is SEK 0. The so-called standard method may not be used to determine the expense amount in this case. The entire purchase sum paid in the sale less

any expenses for divestment must thus be reported for taxation. The expense amount for the original shares is not affected.

Exercise of purchased unit rights

For those who purchase or in a similar manner acquire unit rights in Active Biotech, the expense amount consists of the consideration paid for those rights.

The exercise of purchased unit rights to subscribe for convertible debenture does not give rise to taxation. The expense amount for the unit rights is to be included in the calculation of the expense amount for the convertible debentures.

Sale of purchased unit rights

As noted above, for those who purchase or in a similar manner acquire unit rights in Active Biotech, the expense amount consists of the consideration paid for those rights. If the unit rights are sold, capital gains taxation arises. The expense amount for the unit rights is calculated according to the average method. The so-called standard method may be used for market-listed unit rights acquired in the manner specified here. (See below regarding the standard method.)

Sale of convertible debentures

Capital gains or losses on the sale of convertible debentures consist of the difference between the compensation (purchase price in the sale less selling expenses) and the expense amount. As an alternative to the actual expense amount, a standard expense amount may be used according to the so-called standard method (which means that the expense amount may be determined as 20 percent of the net sales payment). The standard method may be used for the sale of market-listed convertible debentures. It should be noted

that in the sale of convertible debentures, compensation for accrued interest is taxed as interest (and not as part of the payment in the calculation of capital gains).

Utilization of conversion rights

No taxation arises when a convertible debenture is converted to a share. The share received through conversion assumes the expense amount for the convertible debenture.

Sale of shares

The capital gain or loss from the sale of shares consists of the difference between the payment (sales price less selling expenses) and the expense amount. The expense amount consists of the average expense amount for all the holder's shares of the same type and class, taking into account changes in the holding (average method). It should be noted that until the new shares that arise on conversion have been registered with the Swedish Companies Registration Office, these shares are not regarded as being of the same type and class as other shares in Active Biotech.

As an alternative to the average method, the standard method may be used for market-listed shares. This means that the expense amount may be calculated as 20 percent of the sale price after deduction for selling expenses.

Shareholders and holders of unit rights and convertible debentures who have limited tax liability in Sweden

Swedish withholding tax is normally withheld in the case of shareholders who are not domiciled in Sweden for tax purposes (have limited tax liability) and who receive dividends on shares in a Swedish limited liability company. This also

applies in the case of payments from the company in connection with, for example, share redemptions and in share buy-backs through acquisition offers to shareholders (however, Swedish withholding tax is not charged on interest payments). The tax rate is 30 percent. However, the tax rate is generally reduced via tax treaties for the avoidance of double taxation concluded by Sweden with other countries. In Sweden, VPC normally withholds coupon tax, or a nominee in the case of shares registered with a nominee. Neither the receipt of unit rights nor subscription for convertible debentures or shares gives rise to Swedish withholding tax.

Shareholders and holders of unit rights and convertible debentures who are not domiciled in Sweden for tax purposes (have limited tax liability) and who do not pursue business operations from a permanent establishment or a fixed base of business in Sweden are not normally taxed in Sweden for capital gains from the sale of shares, convertible debentures and unit rights. However, they may be subject to tax in their country of domicile.

According to a special rule, private individuals who are not domiciled in Sweden for tax purposes (have limited tax liability) may be subject to capital gains tax in Sweden as a result of inter alia the sale of shares and convertible debentures if they at any time during the calendar year when the sale occurred, or during the past ten years, have been resident or continually lived in Sweden. However, the applicability of this rule is in many cases limited through tax treaties for the avoidance of double taxation concluded by Sweden with other countries.

Interim report

January – September 2004

- TTS against lung cancer progressing according to plan
- All necessary permits obtained to commence patient study for the TASQ prostate-cancer project
- Phase I study with healthy volunteers has started for the SLE project
- Partnership with Teva implemented
- Net sales: SEK 68.2 M (0.2)
- Loss after net financial items: SEK 110.7 M (loss: 229.8)
- Loss per share for the period amounted to SEK 3.28 (loss: 9.79)
- Loss after tax: SEK 110.7 M (loss: 229.8)

TTS project progressing to plan

The clinical phase I dose-escalation study of TTS CD3 (Tumor Targeted Superantigens) is progressing according to plan. The study comprises patients with non-small cell lung cancer at the Fox Chase Center in Philadelphia, Pennsylvania, in the US and at the Radiumhospitalet hospital in Oslo, Norway. The study has been expanded to also document TTS CD3 in patients with renal cancer or pancreatic cancer. To date, the study has shown that TTS CD3 can be administered at 50-100 times higher doses than its predecessor TTS CD2 with maintained safety. The product's antigenicity has been lowered and the form of administration changed, making treatment simpler and more effective.

As part of the TTS project, pre-clinical data is also being compiled to study various kinds of treatments combining TTS with already established products. This data will be important in the design of future clinical studies.

The timing of the commencement of a controlled phase II/III study depends on the length of the ongoing phase I study. At the moment, such trials are planned to commence during 2005.

The market for the treatment of lung cancer is currently estimated at slightly more than USD 1 billion (source: Blomquist & Associates, February 1, 2003).

Background:

Non-small cell lung cancer is one of the most common types of cancer. It is also the most fatal form of cancer. Non-small cell lung cancer accounts for about 80 percent of the total number of cases of lung cancer worldwide. In 2000, approximately one million people were afflicted by non-small cell lung cancer. In the same year, 880,000 people died of the disease. No adequate treatment methods are available. Surgery is the only form of treatment that can cure non-small cell lung cancer, although it is only effective for tumors that have not yet formed metastases. Cytostatic drugs such as cisplatin, carboplatin, vinorelbine, paclitaxel, docetaxel and gemcitabine are used with limited success for treating advanced disease.

Patient study planned for the TASQ prostate-cancer project

All the permits necessary for the commencement of a phase Ib clinical study with prostate-cancer patients have now been obtained. The study will be started shortly and will be

run in cooperation with Sahlgrenska Hospital in Gothenburg and the University Hospital in Lund.

A phase I clinical study with healthy volunteers was concluded in February 2004. The study showed that the candidate drug TASQ can be administered orally, daily, and at dosage levels expected to be effective in the treatment of prostate cancer. In addition, an extensive pre-clinical safety documentation process was completed, making it possible to conduct clinical studies where the TASQ substance can be administered to patients during longer periods.

The global market for pharmaceuticals for the treatment of prostate cancer is currently estimated at approximately USD 3.1 billion annually (source: Blomquist & Associates, February 1, 2003).

Background:

The purpose of the company's TASQ project is to develop a pharmaceutical that can be administered orally for the treatment of prostate cancer. Active Biotech is collaborating with Professor John T. Isaacs of Johns Hopkins University in Baltimore, Maryland, in the US, in this project. In various disease models, this candidate drug has shown favorable anti-angiogenesis effects, which means it is able to cut off nutrition to tumor cells, and has also shown a direct anti-tumor effect in pre-clinical models. Moreover, studies have also shown that the TASQ substance does not inhibit the enzyme systems (kinases) that are the target molecules for most of the current anti-angiogenesis compounds. This implies that the TASQ substance's mode of action differs from that of such drugs.

Prostate cancer is the most common form of cancer among men and accounts for almost one third of all cancers. The disease principally affects men in their 50s and older. Prostate cancer has varying degrees of severity. Despite a relatively good prognosis, prostate cancer is the second most common cause of death among men.

Clinical studies commenced for the 57-57 project for SLE

As announced, the company initiated a phase I clinical trial with the candidate drug 57-57 for Systemic Lupus Erythematosus (SLE) in early November 2004.

The study is a dose-escalation study aimed at studying the safety of the ABR-215757 candidate drug in escalating doses in parallel groups of healthy volunteers. The study is being conducted at Karolinska University Hospital in Stockholm and is expected to finish during the first half of 2005.

The next step in the clinical development of 57-57 is a phase I clinical trial to study how the substance is tolerated in the treatment of SLE patients.

SLE (Systemic Lupus Erythematosus) is a life-threatening, degenerative autoimmune disease for which current

treatment alternatives are highly inadequate. The number of SLE patients in the US is estimated at not less than 500,000. Ninety percent of those affected are women.

Background:

SLE - Systemic Lupus Erythematosus - is a disease of the connective tissues that can cause inflammation and damage to the connective tissue in any organ in the body. Progress and symptoms of the disease vary widely, depending on the organs affected. The disease primarily affects women of childbearing age. It progresses in "flare-ups" interspersed by relatively symptom-free periods. The autoimmune attacks affect many different organ systems, and the disease eventually leads to many patients experiencing serious secondary symptoms, such as kidney failure.

Partnership with Teva implemented

In June of this year, Active Biotech signed an agreement with Teva Pharmaceutical Industries Ltd. for the development and commercialization of laquinimod; an immunomodulatory agent carrying the potential to develop an anti-retroviral drug in tablet form for the oral treatment of multiple sclerosis (MS). On August 24, the Federal Trade Commission approved the agreement, giving the go-ahead for the partnership.

The project has now been integrated into Teva's research organization, project teams have been appointed and the cooperation is well in progress.

On October 19, Active Biotech and Teva jointly arranged a Capital Market Meeting in Stockholm, at which Teva's senior management gave a presentation of the company, its position in the MS market and its expectations for laquinimod.

Assuming continued successful development, the company assesses that laquinimod can be launched on the market in 2009, with a yearly sales potential exceeding USD 1 billion.

To view and listen to the entire presentation at the Capital Market Meeting, see www.activebiotech.com

The total market for MS drugs in 2003 amounted to USD 3.5 billion. This market is expected to exceed USD 6.5 billion in 2008 (source: SG Cowen, 2004).

Background:

The phase II study of laquinimod, presented in September 2003, shows that laquinimod, in a daily oral dose of 0.3 mg, is well tolerated and is effective in inhibiting the development of harmful inflammation in the brain measured using MRI in relapsing MS patients.

Teva has received a globally exclusive right to develop, register, produce and commercialise laquinimod. Active Biotech will retain com-

mercial rights for the future sale of the product in the Nordic and Baltic regions. Teva will assume responsibility for future communications relating to the project. Teva has initially paid Active Biotech a sum of USD 5 M and will now implement and bear the cost of the continued clinical development of laquinimod. Teva will also make partial payments to Active Biotech as the project's milestones – including sales targets – are met. If all milestones are met, the payments will total USD 92 M. Active Biotech will also receive two-figure royalty payments on a rising scale from future sales of the product in the market.

Multiple sclerosis is a chronic, progressive disease affecting the central nervous system and is the most commonly occurring neurological disease causing disability among young people. It is described as an autoimmune disease since it belongs to a large group of diseases that cause the body's immune defence system to attack healthy areas of the body as if they were foreign bodies. MS can lead to anything from minor symptoms for lengthy periods to severely incapacitating symptoms within a few years. Initially, MS comes in relapse with alternating periods of deterioration and stability. The disease mainly affects young people, and more women than men; the average age of onset of the disease is about 30.

FINANCIAL INFORMATION

Comments on the group's results for the period January – September 2004

Consolidated net sales for the period amounted to SEK 68.2 M (0.2), of which SEK 30.3 M pertains to a milestone payment from Chiron Corp. In addition, SEK 37.7 M pertains to the initial payment related to the partnership agreement with Teva Pharmaceutical Industries Ltd.

Research and administration costs for the period decreased by 12 percent compared with the year-earlier period to SEK 206.3 M (235.6). The reduction in costs is largely attributable to lower costs for the clinical development program with the phase II trials for SAIK-MS and TTS CD2 being completed during the latter part of 2003. The first nine months of 2004 were burdened with costs for the ongoing phase I study for TTS CD3 against lung cancer in the US and Norway and costs for starting up phase I studies for the TASQ prostate-cancer project and 57-57 project against SLE.

Earnings for the period were burdened by a SEK 10.2 M provision for payroll expenses during the remaining period of notice for personnel who have left the company.

The operating loss decreased by SEK 117.1 M to a loss of SEK 138.0 M (loss: 255.1) as a result of higher revenues and lower costs.

Net financial income for the period amounted to SEK 28.9 M (27.6). The improved financial net is primarily attributable to the first quarter of 2004, when a dividend from the Nektar interest hedge fund and a capital gain from the disposal of this investment totalled SEK 26.9 M.

Participation in the results of the associated UK company Isogenica Ltd amounted to a loss of SEK 1.7 M (loss: 2.2). Operations in the associated company are progressing according to plan.

Loss after financial items amounted to SEK 110.7 M (loss: 229.8).

Liquidity and financial status

Cash flow from current operations before changes in working capital was negative in an amount of SEK 99.4 M (neg: 218.7). The improved cash flow is attributable to higher revenues and lower costs compared with the year-earlier period.

Investments in tangible fixed assets – primarily laboratory equipment – during the period amounted to SEK 1.3 M (5.2). On September 30, 2004, the group had no external debts, apart from a debt of SEK 6.5 M (6.8) to leasing companies.

The book value of the group's short-term investments and liquid assets was SEK 128.5 M at the close of the period, compared with SEK 227.6 M at year-end 2003. Available liquidity per share amounted to SEK 3.72, compared with SEK 6.66 at the end of 2003.

Share capital

Consolidated shareholders' equity amounted to SEK 178.7 M at the close of the period, compared with SEK 289.6 M at the end of the preceding year. The change is due to the negative earnings for the period.

The total number of outstanding shares on September 30, 2004 was 33,738,876, which was unchanged from the end of 2003.

At the close of the period, the group had an equity/assets ratio of 78.6 percent, compared with 83.8 percent at the end of 2003. The corresponding figures for the parent company, Active Biotech AB, were 36.0 percent and 28.5 percent, respectively.

Organization

On September 30, 2004, the group had 133 (181) employees. In February 2004, the group decided to focus its activities on projects in the clinical phase, resulting in significant staff cutbacks. The new organization will comprise 87 employees. The reduction in the number of

employees will take place gradually as employment contracts expire.

Outlook

In June 2004, Active Biotech signed a development and commercialization agreement with Teva Pharmaceutical Industries Ltd. for laquinimod (SAIK-MS) for treatment of multiple sclerosis. The initial payment of USD 5 M was received in August and the cooperation is progressing according to plan.

Operations will continue to focus on implementing the phase I dose-escalation study for TTS CD3 against non-small cell lung cancer and phase I studies for the TASQ prostate-cancer project and the 57-57 project for SLE.

Forecast for full year 2004

The signing of the partnership agreement combined with the planned organizational changes will result in a significant reduction of the company's loss for the full year 2004. The forecast for the full year is for an operating loss not exceeding SEK 175 M (loss: 307) after financial items.

Parent company Active Biotech AB

– Corporate reg. no. 556223-9227

The operations of the parent company, Active Biotech AB, comprise groupwide administrative functions. Parent company net sales for the period amounted to SEK 70.6 M (2.6), of which SEK 30.3 M pertained to a milestone payment from Chiron Corp. and SEK 37.7 M to the initial payment from Teva Pharmaceutical Industries Ltd.

Operating expenses during the period amounted to SEK 24.4 M (expense: 43.8). The figure for 2003 includes an expense item arising from a lack of guarantee in connection with the sale of the Peltor AB subsidiary company in 1996. Net financial income for the period amounted to SEK 26.4 M (25.5). The parent company's gross investments in fixed assets during the period amounted to SEK 0.0 M (0.0). Liquid funds in the parent company at the end of the period amounted to SEK 125.4 M, compared with SEK 217.0 M on January 1, 2004.

Extraordinary General Meeting on November 8, 2004

The Board of Directors has decided to propose at an Extraordinary General Meeting that the company raises a con-

vertible debenture loan in a nominal amount of SEK 149,950,560 through the issue of 3,748,764 convertible debentures.

MGA Holding AB, with shares corresponding to 28.9 percent of the share capital and votes, guarantees that the issue will be fully subscribed.

The Extraordinary General Meeting will be held on November 8, 2004 at 5 p.m. in the company's premises at Scheelevägen 22 in Lund.

Notification of the Board's decision and the invitation to attend the Extraordinary General Meeting can be read in full on the company website: www.activebiotech.com

Accounting and valuation principles

This interim report has been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendations (RR20 Interim Reports). The accounting and valuation principles applied in the interim report remain unchanged from those applied in the 2003 Annual Report.

Because of the company's structure and considerable research and development costs, the company is currently not required to pay income taxes. The group's accumulated tax loss carryforwards at the end of 2003 amounted to SEK 980 M, including the currently unconfirmed tax assessment for the fiscal year 2003.

In accordance with EU requirements for listed companies, Active Biotech will apply IFRS (International Financial Reporting Standards) in its consolidated accounts from 2005. Based on the company's current operations, the main differences will concern the reporting of pensions and other remuneration to employees, the reporting of "sale and lease-back agreements" pertaining to property and the reporting of financial instruments. The process of preparing for the introduction of the new accounting regulations is progressing according to plan.

The consequences of the change in accounting principles will be presented in a prospectus for convertible debentures published by the company in November 2004.

Future report dates

Year-end report 2004 17 February 2005

The report will be available at www.activebiotech.com from this date.

Active Biotech – Group

Income statement, condensed SEK M	July–Sept.		Jan.–Sept.		Full year
	2004	2003	2004	2003	2003
Net sales	37.8	0.1	68.2	0.2	0.3
Administrative expenses	-7.0	-6.7	-24.4	-24.2	-32.9
Research and development costs	-63.9	-65.7	-181.9	-211.4	-284.2
Items affecting comparability	-	-19.7	-	-19.7	-19.7
Operating loss	-33.1	-92.0	-138.0	-255.1	-336.4
Loss from shares in associated companies	-1.0	-0.6	-1.7	-2.2	-2.5
Net financial items	0.8	2.2	28.9	27.6	32.0
Loss after net financial items	-33.3	-90.5	-110.7	-229.8	-307.0
Tax	-	-	-	-	-0.6
Net loss for the period	-33.3	-90.5	-110.7	-229.8	-307.6
Depreciation/amortisation included in an amount of	3.3	3.7	10.2	11.9	15.5
Investments in fixed assets	0.0	0.9	1.3	5.2	5.6
Loss per share before dilution (SEK)	-0.99	-2.68	-3.28	-9.79	-11.80
Weighted number of ordinary shares before dilution (000s)	33,739	33,739	33,739	23,475	26,062
Weighted number of ordinary shares after dilution (000s)	33,739	33,739	33,739	23,475	26,062
Number of shares at close of period (000s)	33,739	33,739	33,739	33,739	33,739
Number of shares at close of period, including warrants (000s)	35,069	33,739	35,069	33,739	35,069

Balance sheet, condensed

SEK M	Sept. 30		Dec. 31
	2004	2003	2003
Tangible fixed assets	41.4	53.5	50.3
Financial fixed assets	45.1	46.5	45.1
Total fixed assets	86.5	100.1	95.4
Current receivables	12.3	20.9	22.5
Short-term investments and liquid assets	128.5	288.1	227.6
Total current assets	140.8	309.0	250.0
Total assets	227.3	409.0	345.4
Shareholders' equity	178.7	367.3	289.6
Long-term liabilities	4.8	6.8	4.9
Current liabilities	43.8	35.0	50.9
Total liabilities and shareholders' equity	227.3	409.0	345.4

Changes in shareholders' equity, condensed

Balance at start of period	289.6	380.3	380.3
New share issue	-	216.2	216.7
Translation differences	-0.1	0.6	0.2
Net loss for the period	-110.7	-229.8	-307.6
Balance at end of period	178.7	367.3	289.6

Cash-flow statement, condensed

SEK M	Jan.-Sept.		Full year
	2004	2003	2003
Loss after financial items	-110.7	-229.8	-307.0
Adjustments for items not included in cash flow, etc.	14.3	14.0	18.9
Tax paid	-2.9	-2.9	0.0
Cash flow from current operations before changes in working capital	-99.4	-218.7	-288.1
Changes in working capital	3.4	-10.6	-0.7
Cash flow from current operations	-95.9	-229.3	-288.8
Net investments in fixed assets	-1.7	-1.1	-1.1
Cash flow from investing activities	-1.7	-1.1	-1.1
New share issue	-	216.2	216.7
Loans raised/amortisation of borrowing	-1.4	-26.7	-28.2
Cash flow from financing activities	-1.4	189.5	188.5
Cash flow for the period	-99.1	-40.9	-101.4
Liquid funds, beginning of period	227.6	329.1	329.1
Exchange-rate differences in liquid funds	0.0	-0.1	-0.1
Liquid funds, end of period	128.5	288.1	227.6
		Sept. 30	Dec. 31
Key figures	2004	2003	2003
Shareholders' equity, SEK M	178.7	367.3	289.6
Shareholders' equity per share, SEK	5.30	10.89	8.58
Available liquid funds, SEK M	125.5	288.1	224.6
Available liquid funds per share, SEK	3.72	8.54	6.66
Equity/assets ratio of parent company, %	36.0	43.7	28.5
Equity/assets ratio of group, %	78.6	89.8	83.8
Average number of annual employees	164	179	179

Any errors in addition are due to rounding-off of figures.

Lund, 5 November 2004
Active Biotech AB

Sven Andréasson
President & CEO

We have reviewed this interim report in accordance with the recommendation issued by FAR. A review is considerably limited in scope compared with an audit. Nothing has come to our attention that causes us to believe that the interim report does not comply with the requirements of the Annual Accounts Act.

Lund, 5 November 2004
KPMG Bohlins AB

Stefan Holmström
Authorised Public Accountant

Financial statements

Income statement

SEK thousands	note	Group			Parent company		
		2003	2002	2001	2003	2002	2001
Net sales	1	335	3,847	102,258	3,500	6,528	5,350
Cost of goods sold	2	–	200	–76,507	–	–	–
Gross profit		335	4,047	25,751	3,500	6,528	5,350
Selling expenses	2	–	–	–12,666	–	–	–
Administrative expenses	2,3	–32,896	–35,405	–42,134	–32,853	–35,237	–35,744
Research and development expenses	2	–284,169	–285,170	–294,559	–	–	–
Revenues affecting comparability	4	–	2,698	341,979	–	–	–
Expenses affecting comparability	4	–19,707	–27,283	–	–19,707	–26,484	–
Other operating income/loss	2	–	–	–1,275	–	–	–
Operating loss	5	–336,437	–341,113	17,096	–49,060	–55,193	–30,394
Participations in the earnings of associated companies	6	–2,501	–3,014	–1,025	–	–	–
Profit/loss from financial investments							
Profit/loss from shares in subsidiaries	7	–	–	–	–	2,699	151,142
Profit/loss from participations in associated companies	6	–	–	–	–2,871	–4,039	–
Interest revenue and similar items	8	34,711	38,229	20,358	32,650	36,509	17,506
Interest expenses and similar items	9	–2,760	–2,425	–1,634	–383	–182	–189
Loss after financial items	10	–306,987	–308,323	34,795	–19,664	–20,206	138,065
Tax on profit for the year	11	–612	9,432	–1,773	–612	369	–68,133
Net loss for the year		–307,599	–298,891	33,022	–20,276	–19,837	69,932
Loss for the year		–307,599	–298,891	33,022			
Earnings per share, before dilution, SEK	12	–11.80	–23.38	2.58			
Weighted average number of ordinary shares before dilution (thousands)		26,062	12,783	12,783			
Earnings per share after dilution, SEK	12	–11.80	–23.38	2.58			
Weighted average number of ordinary shares after dilution (thousands)		26,062	12,783	12,783			
Proposed dividend per share		None	None	None			

Balance Sheet

SEK thousands	note	Group			Parent company		
		03-12-31	02-12-31	01-12-31	03-12-31	02-12-31	01-12-31
ASSETS							
Land improvements		491	519	548	–	–	–
Equipment, tools, fixtures and fittings		49,812	59,677	73,708	480	520	617
Total tangible fixed assets	13	50,303	60,196	74,256	480	520	617
Shares in subsidiaries	14	–	–	–	377,831	377,831	377,831
Participations in associated companies	14	2,767	4,616	7,630	2,767	4,616	8,654
Other long-term securities	14	40,000	40,000	40,000	40,000	40,000	40,000
Other long-term receivables		2,310	3,300	4,387	222	279	335
Total financial fixed assets		45,077	47,916	52,017	420,820	422,726	426,820
Total fixed assets		95,380	108,112	126,273	421,300	423,246	427,437
Accounts receivable		2,595	4,039	4,616	2,586	3,883	4,496
Receivables from subsidiaries		–	–	–	64,669	65,979	66,530
Tax receivables		1,897	1,897	–	–	–	–
Other receivables	15	8,063	11,831	8,995	3,113	7,129	2,663
Pre-paid costs and accrued revenues	16	9,900	12,494	11,793	1,934	2,099	2,248
Total short-term receivables		22,455	30,261	25,404	72,302	79,090	75,937
Short-term investments	17,21	182,272	159,979	470,960	182,272	159,979	470,960
Cash and bank balances		45,293	169,153	125,104	34,734	161,059	117,205
Total short-term investments	18	227,565	329,132	596,064	217,006	321,038	588,165
Total current assets		250,020	359,393	621,468	289,308	400,128	664,102
TOTAL ASSETS		345,400	467,505	747,741	710,608	823,374	1,091,539

SEK thousands	note	Group			Parent company		
		03-12-31	02-12-31	01-12-31	03-12-31	02-12-31	01-12-31
SHAREHOLDER'S EQUITY AND LIABILITIES							
Restricted equity							
Share capital		337,389	281,157	281,157	337,389	281,157	281,157
Restricted reserves		186,367	332,810	442,994	184,926	325,269	425,977
		523,756	613,967	724,151	522,315	606,426	707,134
Unrestricted equity							
Unrestricted reserves		73,421	65,191	-78,390	-299,808	-289,200	-170,640
Loss for the year		-307,599	-298,891	33,022	-20,276	-19,837	69,932
		-234,178	-233,700	-45,368	-320,084	-309,037	-100,708
Total shareholders' equity	19	289,578	380,267	678,783	202,231	297,389	606,426
Provision for taxes		-	-	9,073	-	-	-
Total provisions		0	0	9,073	0	0	0
Long-term interest-bearing liabilities	20,21	4,930	2,679	-	-	-	-
Total long-term liabilities		4,930	2,679	0	0	0	0
Liabilities to credit institutes		-	26,700	-	-	26,700	-
Accounts payable, trade		25,029	32,923	27,629	1,725	968	1,299
Liabilities to subsidiaries		-	-	-	497,680	490,685	463,968
Tax liabilities		3,256	2,535	3,223	3,256	2,535	3,223
Other current liabilities	22	4,727	2,723	5,716	1,079	873	5,207
Accrued costs and pre-paid revenues	23	17,880	19,678	23,317	4,637	4,224	11,416
Total short-term liabilities		50,892	84,559	59,885	508,377	525,985	485,113
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		345,400	467,505	747,741	710,608	823,374	1,091,539
Assets pledged	24	3,000	40,347	-	3,000	40,347	-
Contingent liabilities	24	-	18,374	535	7,575	24,366	17,116

Changes in shareholders' equity

SEK thousands	note 19	Group			Parent company		
		Share capital	Restricted reserves	Unrestricted equity	Share capital	Restricted reserves	Unrestricted equity
Shareholders' equity, December 31, 2000		281,157	720,663	-355,792	281,157	711,255	-285,278
Exchange-rate differences		-	8,911	-9,178	-	-	-
Treatment of profit/loss in preceding year		-	-285,278	285,278	-	-285,278	285,278
Transfers between restricted and non-restricted equity		-	-1,302	1,302	-	-	-
Loss for the year		-	-	33,022	-	-	69,932
Group contribution		-	-	-	-	-	-170,640
Shareholders' equity, December 31, 2001		281,157	442,994	-45,368	281,157	425,977	-100,708
Exchange-rate differences		-	-9,426	9,801	-	-	-
Treatment of profit/loss in preceding year		-	-100,688	100,688	-	-100,708	100,708
Transfers between restricted and non-restricted equity		-	-70	70	-	-	-
Loss for the year		-	-	-298,891	-	-	-19,837
Group contribution		-	-	-	-	-	-289,200
Shareholders' equity, December 31, 2002		281,157	332,810	-233,700	281,157	325,269	-309,037
Exchange-rate differences		-	-8,768	8,960	-	-	-
Treatment of profit/loss in preceding year		-	-309,037	309,037	-	-309,037	309,037
Transfers between restricted and non-restricted equity		-	2,668	-2,668	-	-	-
Profit for the year		-	-	-307,599	-	-	-20,276
Reduction of share capital		-168,694	168,694	-	-168,694	168,694	-
New share issue		224,926	-	-8,208	224,926	-	-8,208
Group contribution		-	-	-	-	-	-291,600
Shareholders' equity, December 31, 2003		337,389	186,367	-234,178	337,389	184,926	-320,084

Cash-flow statement

SEK thousands	note 25	Group			Parent company		
		2003	2002	2001	2003	2002	2001
Operating activities							
Profit/loss after financial items		-306,987	-308,323	34,795	-19,664	-20,206	138,065
Adjustments for items not included in the cash flow, etc.		18,857	23,537	-315,229	2,911	5,382	-150,980
		-288,130	-284,786	-280,434	-16,753	-14,824	-12,915
Taxes paid		0	-916	-1,495	0	-319	-1,495
Cash flow from current operations before changes in working capital		-288,130	-285,702	-281,929	-16,753	-15,143	-14,410
Cash flow from changes in working capital							
Increase(-)/reduction(+) of inventories		-	-	-28,502	-	-	-
Increase(-)/reduction(+) in current receivables		8,595	-3,397	-32,507	6,845	-4,332	27,014
Increase(+)/reduction(-) in current liabilities		-9,294	-2,616	-11,685	-5,120	-4,340	-33,859
Cash flow from operating activities		-288,829	-291,715	-354,623	-15,028	-23,815	-21,255
Investment activities							
Shareholder contributions		-	-	-	-	-	-91,903
Sales of subsidiaries		-	-818	538,135	-	-	540,593
Sale of intangible fixed assets		-	-	655	-	-	-
Acquisition of tangible fixed assets		-67	-408	-30,182	-	-12	-63
Acquisition of financial fixed assets		-1,022	-	-	-1,022	-	-
Cash flow from investing activities		-1,089	-1,226	508,608	-1,022	-12	448,627
Financing activities							
New share issue		216,718	-	-	216,718	-	-
Loans raised		-	26,700	33,990	-	26,700	-
Amortisation of loans		-26,700	-	-	-26,700	-	-
Amortisation of financial leasing liabilities		-1,534	-508	-	-	-	-
Group contributions paid		-	-	-	-278,000	-270,000	-200,000
Cash flow from financing operations		188,484	26,192	33,990	-87,982	-243,300	-200,000
Cash flow for the year		-101,434	-266,749	187,975	-104,032	-267,127	227,372
Liquid funds, January 1		329,132	596,064	407,968	321,038	588,165	360,793
Exchange-rate differences in liquid funds		-133	-183	121	-	-	-
LIQUID FUNDS AT YEAR-END		227,565	329,132	596,064	217,006	321,038	588,165

Accounting principles

The Annual Report has been prepared in accordance with the Annual Accounts Act and the recommendations of the Swedish Financial Accounting Standards Council and its Emerging Issues Task Force. Active Biotech monitors and applies the accounting recommendations currently of relevance to the group.

Effective 2003, the following new recommendations of the Swedish Financial Accounting Standards Council:

- RR 22 Presentation of Financial Statements
- RR 25 Segment Reporting
- RR 26 Events after the Balance Sheet Date
- RR 27 Financial Instruments: Disclosures and Presentation

None of the recommendations introduced have entailed any changes in accounting principles and consequently no recalculation of comparative figures.

Amounts are expressed in SEK thousands, unless otherwise indicated.

Consolidated accounts

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

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

The assets and liabilities of acquired subsidiaries are entered at market value according to the established acquisition analysis. These market values, together with direct costs attributable to the acquisition, constitute the group's acquisition costs. The difference between the acquisition value of the subsidiary's shares and the acquisition value estimated by the acquisition analysis of acquired identifiable assets and liabilities are entered as consolidated good-

will, or alternatively, negative goodwill.

The earnings of acquired companies are included in the consolidated accounts from the time of acquisition.

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

Translation of foreign subsidiaries

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

Associated companies

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

Participations in associated companies are accounted for according to the equity method. The value of holdings in associated companies reported in the consolidated accounts is equivalent to the group's share in the shareholders' equity of the associated companies and any remaining consolidated surplus or deficit value. In the consolidated income statement, "Profit/loss from participations in associated companies" includes the group's participations in the earnings of associated companies after financial income and expenses, adjusted for any amortisation or reversals of acquired surplus or deficit values. The group's share of the reported taxes of the associated company is included directly in consolidated tax expenses. Participations in earnings generated following the acquisition of associated com-

panies not yet realised through dividends are placed in the equity method reserve, which forms part of the group's restricted shareholders' equity. The operations conducted by associated company Isogenica Ltd are fundamentally different from the group's other operations and is consequently reported after operating profit/loss.

Elimination of transactions between group companies

Intra-group receivables and liabilities, transactions between group companies and related unrealised gains are eliminated in their entirety. Unrealised losses are eliminated in the same way as unrealised gains, unless a need to conduct a writedown exists.

Classifications

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

Valuation principles

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

Intangible fixed assets

In accordance with the Swedish Financial Accounting Standards Council's recommendation RR 15 Intangible Assets, intangible assets are reported in the balance sheets when it is likely that the future financial benefits attributable to those assets will become available to the company and when the acquisition value of the assets can be calculated in a reliable manner.

Since the period in which the company's research and development projects are expected to be registered as pharmaceuticals lies well into the future, it is highly uncertain when possible future financial benefits will become avail-

able to the company. Development expenditure is only capitalized on the condition that it is technically and financially possible to realise the asset, that the intention is to utilize the asset in operations and that this is possible, or that the asset will be sold, and that its value can be calculated in a reliable manner. All research expenditure is charged against earnings on an ongoing basis.

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

Fixed assets and depreciation

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

In accordance with the Swedish Financial Accounting Standards Council's recommendation RR 17 Impairment of assets, an evaluation is made on each balance-sheet date as to whether there are any indications of a decline in value.

Straight-line depreciation is applied with the following percentages:

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

Shares and participations

Shares and participations are valued in accordance with the Annual Accounts Act at the lower of acquisition value and fair value item for item.

Short-term investments

Short-term investments are valued in accordance with the Annual Accounts Act at the lower of acquisition value and fair value item for item.

Financial instruments

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

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

A financial asset is removed from the balance sheets when the contractual rights have been realised, have matured or when the company loses control over them. The same applies for any part of a financial asset. A financial liability is removed from the balance sheets once the contractual commitments have been fulfilled or otherwise nullified. The same applies to any part of a financial liability.

Valuation of receivables and liabilities

Receivables have been included in the amounts in which they are expected to be received. Liabilities have been included in nominal amounts.

Receivables and liabilities in foreign currencies have been translated at the exchange rate on the balance-sheet date in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 8 The Effects of

Changes in Foreign Exchange Rates. Exchange-rate differences on current receivables and liabilities are included in operating loss/ profit, while differences pertaining to financial receivables and liabilities are included among financial items.

Borrowing costs

Borrowing costs are reported in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 21 Borrowing Costs, and are charged against earnings in the period to which they pertain, regardless of how the borrowed funds have been used. The company does not capitalize borrowing costs.

Reporting of revenues

Active Biotech currently receives marginal revenues for invoiced research services. These are reported as revenue in the reporting period during which the work is conducted.

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

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

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

Income taxes

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

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

Leasing

The Swedish Financial Accounting Standards Council's recommendation RR 6:99 Leasing Agreements, is applied in the consolidated accounts for leasing agreements that have been entered into. Leasing is classified in the consolidated accounts as either financial or operational leasing. Financial leasing applies when the financial risks and benefits associated with ownership have, to all intents and purposes, been transferred to the lessee. Where this is not the case, operational leasing applies. Assets leased through financial leasing agreements have been reported as assets in the consolidated balance sheet. The commitment to pay future leasing fees has been reported as long-term and current liabilities. These assets are subject to straight-line depreciation while leasing fees are reported as interest and amortisation of liabilities.

Items affecting comparability

The Swedish Financial Accounting Standards Council's recommendation RR 4 Reporting of Extraordinary Revenues and Expenses and Comparative Information is applied, with the result that the effect on earnings of special events and transactions is reported separately in the income statement.

Segment reporting

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

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

Employee remunerations

Both defined-benefit and defined-contribution pension plans exist within the group. 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.

Active Biotech has chosen to subscribe to the Alecta pension plan for all salaried employees of the company. This means that the company shall report its proportional share of the managed assets and costs associated with the plan. Alecta is currently unable to provide sufficient information for the group to be able to report its proportional share of definedbenefit commitments and the managed assets and costs associated with the plan. Consequently, information pertaining to the group's proportional share of surplus or deficit in the plan is also lacking. For this reason, the plan is reported as if it were a defined-contribution plan, although the ITP plan is actually a defined-benefit plan. Surpluses occurring in the plan are determined by the General Board of Alecta. Surpluses are primarily used to index-link the value of pensions and for paid-up policies. The group's future premiums may be affected by future premium reductions determined by Alecta.

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

Provisions

In accordance with the Swedish Financial Accounting Standards Council's recommendation RR 16 Provisions, Contingent Liabilities and Contingent Assets, provisions are reported when the group has, or may be considered to have a commitment as the result of events and it is likely that payment will be demanded to meet that commitment. A condition for this is that it is possible to make a reliable estimate of the amount that is to be paid.

Contingent liabilities

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

Transactions with closely-related parties*Close relationships entailing influence over decisions*

The parent company has a close relationship with its subsidiaries entailing influence over decisions, see Note 14.

Closely-related party transactions*Group*

With regard to salaries, other remunerations, costs and commitments related to pensions and similar benefits, as well as severance agreements for the members of the Board, the President and other Senior Executives, see Note 5.

Associated companies

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

Group contributions

Group contributions are reported against shareholders' equity among earnings carried forward.

Write-downs

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

Group details

Of the parent company's total purchases during 2003, measured in SEK, 0 percent of purchases (0 percent 2002 and 2001) and 100 percent of sales (54 percent 2002, 98 percent 2001) are attributable to other companies within the entire group of companies to which the company belongs.

Notes to the financial statements

■ Note 1 Net sales

Net sales per market				Net sales per type of revenue			
SEK thousands	Group			SEK thousands	Group		
	2003	2002	2001		2003	2002	2001
Sweden	335	3,608	94,597	Research services	335	819	597
Denmark	–	108	591	Licensing revenues	–	3,028	109
Rest of Europe	–	63	7,070	Sale of vaccine	–	–	101,552
Total Europe	335	3,779	102,258	Total	335	3,847	102,258
Rest of the world	–	68	–				
Total	335	3,847	102,258				

■ Note 2 Depreciation according to plan

SEK thousands	Group								
	2003			2002			2001		
	Intangible assets	Tangible assets	Total assets	Intangible assets	Tangible assets	Total assets	Intangible assets	Tangible assets	Total assets
Distribution by function									
Production	–	–	–	–	–	–	–	6,530	6,530
Sales	–	–	–	–	–	–	–	111	111
Administration	–	40	40	–	164	164	–	457	457
Research and development	–	15,445	15,445	–	17,491	17,491	1,782	17,919	19,701
Total depreciation	0	15,485	15,485	0	17,655	17,655	1,782	25,017	26,799
Type of assets									
Patents, licenses and trademarks	–	–	–	–	–	–	1,782	–	1,782
Equipment, tools, fixtures and fittings	–	15,457	15,457	–	17,626	17,626	–	25,001	25,001
Land improvements	–	28	28	–	29	29	–	16	16
Total depreciation	0	15,485	15,485	0	17,655	17,655	1,782	25,017	26,799

Depreciation for financial leasing assets in the group has been entered at SEK 2,087 thousands (842 thousands 2002 and 0 thousands 2001) and refers to equipment, tools, fixtures and fittings within the research and development function.

Parent company

The parent company's depreciation for 2003 amounted to SEK 40 thousands (109 thousands 2002 and 162 thousands 2001) and related to equipment, tools, fixtures and fittings within the administration.

■ Note 3 Auditors' remuneration

SEK thousands	Group and Parent company		
	2003	2002	2001
KPMG, auditing assignments	661	333	654
KPMG, other assignments	846	115	245

■ Note 4 Items affecting comparability

SEK thousands	Group			Parent company		
	2003	2002	2001	2003	2002	2001
Remunerations for affirmed lack of guarantees in sale of subsidiary Peltor AB in 1996	-19,707	-	-	-19,707	-	-
Buyback of future commercial rights	-	-26,484	-	-	-26,484	-
Capital gains from divestment of subsidiaries	-	-799	-	-	-	-
Total costs affecting comparability	-19,707	-27,283	0	-19,707	-26,484	0
Capital gain from sale of subsidiary	-	-	341,724	-	-	-
Capital gain from sale of property	-	-	255	-	-	-
Reversal of allocated costs in connection with divestment of subsidiaries	-	2,698	-	-	-	-
Total revenues affecting comparability	0	2,698	341,979	0	0	0

In 1996, Active Biotech sold its subsidiary Peltor Holding AB to Aero Corporation of the US. The buyer's claims for lack of guarantees concerned additional taxes levied against Peltor Holding AB subsidiary Peltor AB in accordance with a ruling by the Administrative Court of Appeal in February 2002. The ruling was appealed to the Supreme Administrative Court, which announced in 2003 that the appeal had not been granted. This confirmed the earlier ruling by the Administrative Court of Appeal. As announced in the new share-issue prospectus in 2003, Active Biotech has accepted responsibility for the payment of the tax amount levied.

The main reason for the company choosing to classify the cost as an item affecting comparability is the fact that Peltor Holding AB's operations are of an entirely different nature than those currently conducted by Active Biotech and that the divestment occurred before Active Biotech's current focus of operations was established.

■ Note 5 Employees, personnel expenses and Board members' fees

Personnel, number of employees	2003		2002		2001	
	Number of employees	of which, women	Number of employees	of which, women	Number of employees	of which, women
Parent Company						
Sweden	7	2 (29%)	7	2 (29%)	6	1 (17%)
Parent Company total	7	2 (29%)	7	2 (29%)	6	1 (17%)
Subsidiary						
Sweden	172	105 (61%)	176	108 (61%)	252	161 (64%)
Group total	179	107 (60%)	183	110 (60%)	258	162 (63%)

Gender distribution in Senior Management

Proportion women	2003	2002	2001
Parent Company			
Board of Directors	(13%)	(13%)	(11%)
Other Senior Management	(20%)	(20%)	(0%)
Group total			
Board of Directors	(13%)	(13%)	(11%)
Other Senior Management	(20%)	(20%)	(0%)

Personnel, absence due to illness

Personnel, absence due to illness	Group total	
	1/7-31/12	1/1-31/12
Sick leave in percent	2003	2001
All employees	3.1%	3.0%
Men	1.3%	2.0%
Women	4.2%	3.7%
Employees under 30 years of age	2.3%	1.7%
Employees 30-49 years of age	2.3%	2.2%
Employees over 49 years of age	5.1%	5.4%
Absence of at least 60 days as % of total absence due to illness	53.2%	54.0%

Salaries, other remunerations and social security costs

SEK thousands	Group								
	2003			2002			2001		
	Board and CEO	Of which earnings-related salary	Other employees	Board and CEO	Of which earnings-related salary	Other employees	Board and CEO	Of which earnings-related salary	Other employees
Parent Company									
Sweden	4,253	–	7,254	4,653	–	6,687	5,470	–	7,257
Total Parent Company	4,253	0	7,254	4,653	0	6,687	5,470	0	7,257
Subsidiaries in Sweden	–	–	62,418	–	–	61,802	–	–	80,858
Total subsidiaries	0	0	62,418	0	0	61,802	0	0	80,858
Group total	4,253	0	69,672	4,653	0	68,489	5,470	0	88,115

SEK thousands	Group			Parent company		
	2003	2002	2001	2003	2002	2001
Board and CEO	4,253	4,653	5,470	4,253	4,653	5,470
Other employees	69,672	68,489	88,115	7,254	6,687	7,257
Total salaries and remunerations	73,925	73,142	93,585	11,507	11,340	12,727
Social security costs	41,429	39,217	49,091	7,969	8,199	6,658
of which, pension costs	16,742	14,781	16,284	4,223	4,476	2,409
(of which, to Board and CEO)	1,292	1,007	1,007	1,292	1,007	1,007
Total payroll costs	115,354	112,359	142,676	19,476	19,539	19,385

Senior management's conditions of employment

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

The Board: In accordance with a resolution of the Annual General Meeting, a total fee of SEK 750,000 was paid during 2003 to Board Members who are not employed within Active Biotech. The Chairman of the Board received a fee of SEK 250,000. The other members of the Board not employed by the company received fees of SEK 125,000 each (four members). The members of the Board have not received any other remuneration.

President & CEO: In 2003, the President & CEO Sven Andréasson received remuneration and other benefits of SEK 3,290,763 (of which other benefits amounted to SEK 2,720). Retirement is at 65 years of age with a defined-contribution pension. Pension premiums shall amount to 30% of pensionable income, which consists of basic salary. A mutual period of notice of 12 months applies to both the company and the President & CEO. According to his contract Sven Andréasson has, under certain conditions, the right to severance payment corresponding to 12 months' salary following the termination of employment. There are no loans. In December 2003, the President & CEO was allocated 11,200 Series 1 employee stock options, in accordance with a decision by the Extraordinary General Meeting on December 8.

Other senior executives: The four other senior executives received remuneration and other benefits of SEK 6,107,282 (of which other benefits amounted to SEK 233,251). A mutual period of notice of six months applies to both the company and the senior executives. No severance pay will be paid. Pension benefits for other senior executives are payable in the interval between ITP conditions and up to 25

percent of salary. Retirement age is between 60 and 65 years of age with defined-contribution pensions. Senior executives have not been granted any loans. In December 2003, the other senior executives were together allocated 30,000 Series 1 employee stock options.

Incentive programs from 1998 and 2000

On each of two occasions, April 16, 1998 and April 12, 2000, the Annual General Meeting has resolved to issue at most 500,000 warrants for sale to employees of the Active Biotech group.

On the first occasion, 489,350 warrants were issued, generating proceeds of SEK 4,775 thousands for the group. Each warrant entitled the holder to subscribe for one Class B share during the period November 25, 2002 to February 25, 2003 at an exercise price of SEK 314.

On the second occasion, 389,700 warrants were issued, generating proceeds of SEK 1,007 thousands for the group. Each warrant entitled the holder to subscribe for a Class B share during the period November 25, 2002 to February 25, 2003 at an exercise price of SEK 282.

Accordingly, both warrants programs expired during 2003 and no warrants were exercised to subscribe for shares.

Incentive program from 2003

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

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

Series 1 employee stock options were issued in December 2003 and grant employees the opportunity to acquire at most 330,000 shares during the period June 1, 2006 to May 31, 2009. Series 2 and 3 employee stock options will be issued in June 2005 and June 2006 and will grant employees the opportunity to acquire at most 330,000 shares during the period June 1, 2007 to May 31, 2010, and at most 340,000 shares during the period June 1, 2008 to May 31, 2011.

The exercise price for the Series 1 employee stock options has been set at SEK 90.70. The exercise price for Series 2 and 3 employee stock options will be set at 120 percent of the average share price during the final five trading days of May 2005 and May 2006 respectively.

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

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

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

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

Each Series 1 option entitles the holder to subscribe for one share during the period June 1, 2006 to May 31, 2009 at an exercise price of SEK 90.70.

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

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

In the event that the Articles of Association permit the issue of different classes of shares at the time at which the subscription price

and the exercise of the options are determined, the subscription price and the shares purchased using the options shall be Class B shares.

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

Dilution effect and costs for the program

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

Valuation of options

At the request of the Board, Handelsbanken Capital Markets has valued the options. Applying the customary valuation model (Black & Scholes) and without consideration for limitations on the right of disposition, the value of the options allotted in December 2003 is calculated at SEK 21.10 per option, giving a combined value of approximately SEK 7.0 million. The value of the options to be allotted in 2005 and 2006 is calculated in the same way and assuming a share price on each occasion of allotment of SEK 69 and SEK 76 respectively, amounts to SEK 27.30 and SEK 30.10 per option respectively, totalling SEK 19.2 million. Consequently, the total value of all options allocated through the program can be calculated at approximately SEK 26.2 million.

The reasons for the proposal

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

■ Note 6 Participations in the earnings of associated companies

Pertains to the Active Biotech group's share in the earnings of the associated company Isogenica Ltd and the parent company's write-down of its shares in associated companies. Isogenica Ltd has reported no tax expense for 2003.

■ Note 7 Earnings from shares in subsidiaries

SEK thousands	Group			Parent company		
	2003	2002	2001	2003	2002	2001
Reversal of cost provisions in connection with divestment of subsidiaries	-	-	-	-	2,699	-
Capital gains from sale of subsidiaries	-	-	-	-	-	151,142
	0	0	0	0	2,699	151,142

■ Note 8 Interest revenues and similar profit/loss items

SEK thousands	Group			Parent company		
	2003	2002	2001	2003	2002	2001
Dividend	26,002	561	717	26,002	561	717
Interest	4,498	8,999	9,165	4,066	8,516	8,624
Exchange-rate differences	1,629	1,252	2,311	-	15	-
Capital gains on the sale of securities	2,582	27,417	8,165	2,582	27,417	8,165
	34,711	38,229	20,358	32,650	36,509	17,506

No interest revenues have been received from subsidiaries.

■ Note 9 Interest expenses and similar profit/loss items

SEK thousands	Group			Parent company		
	2003	2002	2001	2003	2002	2001
Interest	-766	-304	-960	-383	-182	-180
Exchange-rate differences	-1,994	-2,121	-674	-	-	-9
	-2,760	-2,425	-1,634	-383	-182	-189

No interest expenses have been paid to subsidiaries.

■ Note 10 Exchange-rate differences affecting earnings

SEK thousands	Group			Parent company		
	2003	2002	2001	2003	2002	2001
Exchange-rate differences affecting earnings	51	305	424	55	-	11
Financial exchange-rate differences	-365	-869	1,637	-	15	-9
	-314	-564	2,061	55	15	2

■ Note 11 Tax

SEK thousands	Group			Parent company		
	2003	2002	2001	2003	2002	2001
Current tax expenses (-) / tax income (+)						
Tax expenses/tax income for the period	-	-	-	-	-	-66,360
Tax adjustments brought forward from previous years	-612	9,432	-1,773	-612	369	-1,773
	-612	9,432	-1,773	-612	369	-68,133

SEK thousands	Group		
	2003	2002	2001
Reconciliation of effective tax			
Profit/loss before tax	-306,987	-308,323	34,795
Tax on the parent company according to current rates	85,956	86,331	-9,743
Effect of other tax rates for foreign subsidiaries	45	57	-3
Other non-deductible expenses	-6,726	-1,586	-955
Non-taxable revenues	13	11	54,342
Increase in loss carryforward without equivalent capitalisation of deferred taxes	81,104	86,236	43,641
Reduction of temporary differences for which deferred tax has not previously been capitalized	1,816	1,423	0
Tax attributable to prior years	-612	9,432	-1,773
Reported effective tax	-612	9,432	-1,773

In 2003, the parent company reported a pre-tax loss and a negative taxable loss before tax. As a result, the parent company has not reported any current tax expenses for 2003. As the parent company does not capitalize loss carryforwards, there was no deferred tax income in 2003.

Because of the group's activities with considerable research and development costs, the company is not liable for tax. At the end of 2003, the group's accumulated loss carryforwards amounted to SEK 980 million and are attributable to the group's Swedish companies. The time of the company's expected revenues cannot yet be specified in accordance with RR 9, and for this reason, no deferred tax demands can be booked.

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

■ Note 12 Earnings per share

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

New share issue:

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

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

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

The date for the detachment of subscription rights was April 23.

The value of the ordinary shares immediately prior to the detachment of subscription rights on April 23, was SEK 12.20 each.

Employee stock options:

The number of potential ordinary shares after the decision by the Extraordinary General Meeting on December 8 amounts to 1,330,000.

Calculation of the number of shares during 2002

The new share issue carried out during 2003 was a rights issue for existing shareholders where the issue price was lower than the actual value of the shares. This gives rise to a bonus issue element with the

consequence that the number of ordinary shares used in the calculation of earnings per share for periods preceding the issue shall be adjusted in accordance with the following: The number of shares outstanding at the time of issue, adjusted by the fair value of ordinary shares immediately prior to the detachment of the subscription rights in relation to the theoretical value of the ordinary shares after the detachment of the subscription rights.

The theoretical value of ordinary shares is calculated in accordance with the following formula:

$$\frac{\text{Fair value of all outstanding ordinary shares} + \text{proceeds of new share issue}}{\text{Number of shares prior to new share issue} + \text{number of newly issued shares.}}$$

giving a theoretical value of SEK 10.73 for ordinary shares following the detachment of subscription rights.

The bonus issue element (adjustment factor) is calculated in accordance with the following:

$$\frac{\text{Actual value of ordinary shares immediately prior to detachment of subscription rights}}{\text{Theoretical value of ordinary shares after detachment of subscription rights}}$$

giving a bonus issue element of 1.13665.

The adjusted number of shares for 2002 is calculated as 11,246,292 multiplied by the bonus issue element, giving 12,783,098 shares.

Calculation of the number of shares in 2003

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

Earnings per share after dilution

Outstanding options have not resulted in any dilution in the calculation of the number of shares after full dilution.

Summary of share data

	2003	2002	2001
Profit/loss for the year	-307,598,529	-298,890,844	33,022,139
Weighted average number of ordinary shares before dilution	26,062,252	12,783,098	12,783,098
Weighted average number of ordinary shares after dilution	26,062,252	12,783,098	12,783,098
Earnings per share before and after dilution	-11.80	-23.38	2.58
Number of shares at end of period ¹	33,738,876	12,783,098	12,783,098
Number of shares at end of period, including warrants ¹	35,068,876	12,783,098	12,783,098

¹ For comparison years 2002 and 2001 the number of shares have been recalculated, see above.

■ Note 13 Tangible assets

SEK thousands	Group									
	2003			2002			2001			
	Land improvements	Equipment, tools, fixtures and fittings	Total	Land improvements	Equipment, tools, fixtures and fittings	Total	Land improvements	Equipment, tools, fixtures and fittings	Constructions in progress and advances	Total
Opening acquisition values	564	149,499	150,063	564	146,852	147,416	0	273,793	30,993	304,786
Acquisitions	–	5,592	5,592	–	3,595	3,595	286	22,108	7,788	30,182
Divestments/scrappings	–	–	0	–	–948	–948	–	–149,049	–38,503	–187,552
Reclassifications	–	–	0	–	–	0	278	–	–278	0
Closing accumulated acquisition values	564	155,091	155,655	564	149,499	150,063	564	146,852	0	147,416
Opening depreciation	45	89,822	89,867	16	73,144	73,160	0	107,339	0	107,339
Divestments/scrappings	–	–	0	–	–948	–948	–	–59,196	–	–59,196
Depreciation according to plan for the year	28	15,457	15,485	29	17,626	17,655	16	25,001	–	25,017
Closing accumulated depreciation according to plan	73	105,279	105,352	45	89,822	89,867	16	73,144	0	73,160
Closing residual value according to plan	491	49,812	50,303	519	59,677	60,196	548	73,708	0	74,256

During 2003, tangible fixed assets for SEK 5,592 thousands were acquired, of which SEK 5,525 thousands was financed through financial leasing agreements.

Financial leasing in the group

In 2002, the company and a leasing company signed an agreement on financial leasing of machinery and other technical facilities. The main terms of the agreement are as follows: rental period 36-60 months, final residual value three percent of the acquisition cost and an interest rate linked to a floating market rate. The group has also signed agreements on the financial leasing of cars. Property leased through the above-mentioned agreements is entered in the consolidated balance sheet under equipment, tools, fixtures and fittings. At December 31, 2003 the book value of property covered by financial leasing agreements amounted to SEK 5 784 thousands (SEK 2 346 thousands 2002-12-31). See also Note 20, Long-term interest-bearing liabilities. Variable fees are included in 2003's earnings in the amount of SEK 359 thousands (SEK 83 thousands 2002).

Operational leasing in the group

Active Biotech and Active Bitoech Reaserch AB rent the building Stockholmsledet 7, Lund, where Active Biotech conducts its research operations. The building is owned by the Stockholmsledet 7 limited partnership, in which Active Biotech is a limited partner with a partnership share of SEK 40 million. The rental agreement is valid until January 31, 2009. In the event that notification of termination of the contract is not issued at the latest three years before the end of the rental period, the contract will be extended by a further ten years. However, Active Biotech and Active Biotech Research AB may only cancel the contract on the condition that the financing of the limited partnership company can be arranged independently from the partner with limited liability, Nordisk Renting AB (publ), which currently guarantees financing. Conditions remain unchanged for any extensions of the contract. During 2003, rent of SEK 21 million was paid. Estimated future rent payments, provided that the rental agreement is not extended, are due as follows: SEK 21 million within one year; later than one year but within five years SEK 90 million; and later than five years SEK 0 million (calculated on the basis of an assumed price index and unchanged interest rates). Between January 31, 2006 and January 31, 2009, Active Biotech AB will, under certain circumstances, be entitled to acquire remaining shares in the limited partnership.

SEK thousands	Parent company					
	2003		2002		2001	
	Equipment, tools, fixtures and fittings	Total	Equipment, tools, fixtures and fittings	Total	Equipment, tools, fixtures and fittings	Total
Opening acquisition values	1,012	1,012	1,893	1,893	1,830	1,830
Acquisitions	–	0	12	12	63	63
Divestments/scrappings	–	0	–893	–893	–	0
Closing accumulated acquisition values	1,012	1,012	1,012	1,012	1,893	1,893
Opening depreciation	492	492	1,276	1,276	1,114	1,114
Divestments/scrappings	–	0	–893	–893	–	0
Depreciation according to plan for the year	40	40	109	109	162	162
Closing accumulated depreciation according to plan	532	532	492	492	1,276	1,276
Closing residual value according to plan	480	480	520	520	617	617

■ Note 14 Shares in subsidiaries and participations in associated companies and other long-term holdings of securities

Shares in subsidiaries

2003 12 31 (SEK thousands)	Corp.Reg.No.	Registered office	No. of shares	Proportion	Nominal value	Book value
Lund Research Center AB	556168-8515	Lund	200	100%	200	350,781
Active Biotech Research AB	556541-8323	Lund	1,000	100%	100	100
Actinova Ltd		Cambridge	4,500,000	100%	450,000,GBP	0
Actinova AB	556532-8860	Lund	1,000	100%	100	
Movera Holding AB	556157-8385	Lund	500	100%	100	26,950
Transport AB Movera	556256-9441	Lund	45,667,000	100%	45,667	
Active Security Trading AB	556092-7096	Lund	400	100%	400	
Active i Malmö AB	556254-0947	Lund	1,000	100%	100	
						377,831

Book values are the same as at December 31, 2002 and 2001.

Participations in associated companies

SEK thousands	Corp.Reg.No.	Registered office	No. of shares	Proportion	Nominal value	Book value
Isogenica Ltd, 2003 12 31	3571781	Cambridge	1,453,011	23,8%	648,967,GBP	2,767
Isogenica Ltd, 2002 12 31	3571781	Cambridge	571,429	23,8%	571,429,GBP	4,616
Isogenica Ltd, 2001 12 31	3571781	Cambridge	571,429	23,8%	571,429,GBP	8,655

The group's book value for Isogenica Ltd was 7 630 December 31, 2001

SEK thousands	Group			Parent company		
	2003	2002	2001	2003	2002	2001
Accumulated acquisition values						
Opening balance	4,616	7,630	0	8,655	8,655	0
New share issue	1,022	–	8,655	1,022	–	8,655
Participations in earnings of associated companies for the year	–2,501	–3,014	–1,025	–	–	–
Exchange-rate differences for the year	–370	–	–	–	–	–
	2,767	4,616	7,630	9,677	8,655	8,655
Accumulated depreciation						
Opening balance	0	0	0	–4,039	–	–
Depreciation for the year	–	–	–	–2,871	–4,039	–
	0	0	0	–6,910	–4,039	0
Residual value at close of period	2,767	4,616	7,630	2,767	4,616	8,655

In the parent company, participations have, from the financial year 2002, been written-down to correspond to the parent company's share in the shareholders' equity of the associated company.

Other long-term securities

Other long-term securities pertain to the holding in the limited partnership Stockholmsledet 7 (Corp.Reg.No.969646-1677). See also Note 13 on operational leasing.

■ Note 15 Other receivables

SEK thousands	Group			Parent company		
	2003	2002	2001	2003	2002	2001
VAT receivable	5,130	10,725	6,033	576	6,523	338
Other current receivables	2,933	1,106	2,962	2,537	606	2,325
	8,063	11,831	8,995	3,113	7,129	2,663

■ Note 16 Pre-paid expenses and accrued revenues

SEK thousands	Group			Parent company		
	2003	2002	2001	2003	2002	2001
Interest	1,424	1,714	1,838	1,424	1,714	1,698
Pre-paid rent	4,936	5,645	5,410	26	5	48
Pre-paid insurance	599	452	321	362	174	181
Other pre-paid expenses	2,941	4,683	4,224	122	206	321
	9,900	12,494	11,793	1,934	2,099	2,248

■ Note 17 Short-term investments

SEK thousands	Group			Parent company		
	2003	2002	2001	2003	2002	2001
Interest-rate hedge fund	176,048	117,522	260,000	176,048	117,522	260,000
Swedish interest-bearing bonds	6,224	6,224	154,664	6,224	6,224	154,664
Swedish listed shares	–	36,233	56,296	–	36,233	56,296
Total short-term investments	182,272	159,979	470,960	182,272	159,979	470,960
Market value, short-term investments	211,376	196,351	493,850	211,376	196,351	493,850

■ Note 18 Available liquid funds

SEK thousands	Group			Parent company		
	2003	2002	2001	2003	2002	2001
Cash and bank balances	45,293	169,153	125,104	34,734	161,059	117,205
Short-term investments	182,272	159,979	470,960	182,272	159,979	470,960
Total liquid funds	227,565	329,132	596,064	217,006	321,038	588,165
Blocked bank balances	–3,000	–	–	–3,000	–	–
Available liquid funds	224,565	329,132	596,064	214,006	321,038	588,165

■ Note 19 Shareholders' equity

Restricted reserves

Restricted reserves may not be diminished through payment of dividends.

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

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

Unrestricted shareholders' equity

Unrestricted reserves These comprise the unrestricted shareholders' equity of prior years following transfers to the statutory reserve and after the payment of any dividends. In combination with the profit/loss for the year, forms total unrestricted shareholders' equity, that is, the amount available for distribution to shareholders.

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

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

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

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

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

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

- Series 1 employee stock options were allocated in December 2003 and grant the employees the opportunity to acquire at most 330,000 shares during the period June 1, 2006 to May 31, 2009. Series 2 and 3 employee stock options will be allocated in June 2005 and June 2006 respectively and grant the employees the opportunity to acquire at most 330,000 shares during the period June 1, 2007 to May 31 2010 and at most 340,000 shares during the period June 1 2008 to May 31, 2011.
- The exercise price for Series 1 employee stock options has been set at SEK 90.70. The exercise price for the Series 2 and 3 employee stock options will be set at 120 percent of the average share price during the final five trading days of May 2005 and May 2006 respectively.

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

Previously adopted warrant program

On each of two occasions, April 16, 1998 and April 12, 2000, the Annual General Meeting has resolved to issue at most 500,000 warrants for sale to employees of the Active Biotech group.

On the first occasion, 489,350 warrants were subscribed providing proceeds of SEK 4,775,000 for the group. Each warrant entitled the owner to subscribe for one Class B share during the period November 25, 2002 to February 25, 2003 at an exercise price of SEK 314. On the second occasion, 389,700 warrants were subscribed, pro-

viding proceeds of SEK 1,007,000 for the group. Each warrant entitled the owner to subscribe for one Class B share during the period November 25, 2002 to February 25, 2003 at an exercise price of SEK 282. Both warrant programs have matured with no shares being subscribed.

Restricted reserves	Parent company			
	SEK thousands	2003	2002	2001
Statutory reserve	184,926	30,674	30,674	
Share premium reserve	0	294,595	395,303	
	184,926	325,269	425,977	

Specification of exchange-rate differences on shareholders' equity for the year

SEK thousands	Group		
	2003	2002	2001
Exchange-rate difference in foreign subsidiaries for the year	562	375	-267
Exchange-rate difference in foreign associated companies for the year	-370	-	-
	192	375	-267

Specification of accumulated exchange-rate differences in shareholders' Equity

SEK thousands	Group		
	2003	2002	2001
Accumulated exchange-rate difference, January 1	904	529	796
Exchange-rate difference in foreign subsidiaries	562	375	-267
Exchange-rate difference in foreign associated companies	-370	-	-
Accumulated exchange-rate differences at year-end	1,096	904	529

■ Note 20 Long-term interest-bearing liabilities

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

SEK thousands	Amortisation	Interest	Total payment
	Within one year	1,739	399
Between one and five years	4,930	991	5,921
Later than five years	-	-	-
	6,669	1,390	8,059

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

■ Note 21 Financial instruments and financial risk management

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

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

Currency risks

Currency risk comprises the risk that changes in exchange rates will have a negative impact on the group's income statement, balance sheet and/or cash flow. Exchangerate 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 336.8 million, of which approximately 22 percent consisted of costs in foreign currencies.

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

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

Credit risks

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

Interest-rate risks

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

Outstanding interest-bearing liabilities are reported in Note 20.

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

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

Outstanding interest-bearing investments are reported in note 17.

■ Note 22 Other current liabilities

SEK thousands	Group			Parent company		
	2003	2002	2001	2003	2002	2001
Personnel tax at source	2,186	1,893	2,266	277	68	487
Current interest-bearing liabilities	1,739	–	–	–	–	–
Other current liabilities	802	830	3,450	802	805	4,720
	4,727	2,723	5,716	1,079	873	5,207

■ Note 23 Accrued expenses and pre-paid revenues

SEK thousands	Group			Parent company		
	2003	2002	2001	2003	2002	2001
Accrued vacation liability	8,911	7,187	6,691	2,076	1,403	1,139
Accrued employer's contributions	1,993	1,963	1,992	269	271	351
Other accrued personnel costs	2,988	2,830	2,235	735	937	481
Other items	3,988	7,698	12,399	1,557	1,613	9,445
	17,880	19,678	23,317	4,637	4,224	11,416

■ Note 24 Pledged assets and contingent liabilities

SEK thousands	Group			Parent company		
	2003	2002	2001	2003	2002	2001
Assets pledged						
For liabilities to credit institutions	3,000	40,347	–	3,000	40,347	–
	3,000	40,347	0	3,000	40,347	0
Contingent liabilities						
Guarantees for the benefit of Group companies	–	–	–	7,575	5,992	17,116
Guarantee commitments	–	18,374	535	–	18,374	–
	0	18,374	535	7,575	24,366	17,116
Total pledged assets and contingent liabilities	3,000	58,721	535	10,575	64,713	17,116
Pledged assets for liabilities to credit institutions						
Blocked bank balance	3,000	5,148	–	3,000	5,148	–
Other shares	–	35,199	–	–	35,199	–
	3,000	40,347	0	3,000	40,347	0

■ Note 25 Supplementary data to the cash-flow statement

SEK thousands	Group			Parent company		
	2003	2002	2001	2003	2002	2001
Interest paid and dividends received						
Dividends received	26,002	561	717	26,002	561	717
Interest received	4,788	8,983	9,064	4,356	8,500	8,523
Interest paid	–783	–287	–960	–400	–165	–180
Total	30,007	9,257	8,821	29,958	8,896	9,060
Adjustments for items not included in the cash flow						
Depreciation and write-down of assets	15,485	18,890	26,799	2,911	5,382	162
Deduction for participations in earnings of associated companies	2,501	3,014	1,025	–	–	–
Result of sale of fixed assets	–	–	–255	–	–	–
Gain/loss on sale of subsidiaries	–	799	–341,725	–	–	–151,142
Unrealised exchange-rate differences	871	834	–1,073	–	–	–
Total	18,857	23,537	–315,229	2,911	5,382	–150,980
Transactions not involving payment						
Acquisition of assets through financial leasing	5,525	3,187	–			

SEK thousands	Group			Parent company		
	2003	2002	2001	2003	2002	2001
Sales of subsidiaries and other business units						
Sold assets and liabilities:						
Intangible fixed assets	–	–	44,959			
Tangible fixed assets	–	–	128,356			
Fixed asset investments	–	–	–			
Inventories	–	–	91,950			
Short-term receivables	–	–	107,765			
Liquid funds	–	818	2,458			
Total assets	0	818	375,488			
Provisions	–	–	26,734			
Long-term liabilities	–	–	33,990			
Current liabilities	–	19	115,896			
Total liabilities and provisions	0	19	176,620			
Sale price	–	0	540,593			
Deductions:						
Non-cash issue	–	–	–			
Other assets received in cash	–	–	–			
Vendor promissory notes	–	–	–			
Purchase price received	0	0	540,593			
Deductions:						
Liquid funds in divested operations	–	–818	–2,458			
Affect on liquid funds	0	–818	538,135			
Liquid funds						
Liquid funds consist of the following components:						
Cash and bank balances	45,293	169,153	125,104	34,734	161,059	117,205
Current investments classifiable as liquid funds	182,272	159,979	470,960	182,272	159,979	470,960
Total	227,565	329,132	596,064	217,006	321,038	588,165

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

- They are subject to insignificant risk for value fluctuations.
- They are easily converted to cash (with the exception of an amount of SEK 3 million for 2003, which is not available for use).
- They have a maturity of at most three months from the time of acquisition.

Auditors' statement for Active Biotech AB (publ)

Corporate Reg. No. 556223-9227

In our capacity as auditors of Active Biotech AB (publ), we have reviewed this prospectus. With the exception stated below regarding forecasts and forward-looking assessments, our review has been carried out in accordance with the recommendation issued by FAR (the institute for the accountancy profession in Sweden). Information corresponding to an interim review has been subject to a limited review.

Information in the prospectus regarding forecasts and forward-looking assessments has not been reviewed by us. The pro-forma accounts included in the prospectus have been prepared in accordance with the stipulations given on page 28. The details in the pro-forma accounts taken from the regular accounts have been presented correctly.

The Annual Reports for 2001, 2002 and 2003 have been audited by KPMG Bohlins AB, with the undersigned being primarily responsible. We have issued auditors' reports for fiscal 2001, 2002 and 2003. The details in this prospectus taken from the Annual Report have been correctly presented.

Nothing has come to our attention that causes us to believe that this prospectus does not comply with the provisions for prospectuses in accordance with the Swedish Financial Instruments Trading Act.

Stockholm, 8 November 2004

KPMG Bohlins AB
Stefan Holmström
Authorized Public Accountant

Glossary

Adenocarcinoma: carcinoma emanating from glandular tissue or whose cells form clearly gland-like structures.

Animal model: disease developed in an animal, closely resembling a human disease.

Angiogenesis: the formation of new blood vessels.

Antibody: a protein secreted by a certain type of cell in the immune defence and which recognises a specific antigen.

Antigen: a molecule capable of activating the immune defence by being recognised by, among other things, antibodies. An antigen can be, for example, a bacteria or a virus.

Antigenicity: antibody-binding capacity.

Antiviral: inhibiting the propagation of a virus.

Apoptosis: programmed cell death.

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.

Biomarker: a specific antigen on the surface of a cell, for example PSA, which is used in the diagnosis of prostate cancer.

Biopsy: tissue sample.

Bronchoscopy: an optical instrument is inserted into the airways for examination, treatment or operation purposes.

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

Carcinoma: cancer tumor that arises in epithelium.

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

Cytostatics: cell toxins.

Cytotoxic T-lymphocytes: white blood cells that act as highly selective killer cells.

Discovery: explorative research.

EEC: European Economic Community.

EMA: The European Medicines Agency.

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

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

Glatirameracetate: a blend of polypeptides, consisting of the amino-acids glutamine, alanine, lysine and tyrosine in random sequences and of varying length.

Histology: the examination and study of tissues.

ICH: International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human use.

Incidence: the number of new cases of a disease during a given period and in a specified population.

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 localised damage.

Infusion: the intravenous supply of a pharmaceutical.

Interferons: glyco-proteins with an anti-viral effect. Cells normally secrete interferons when infected with a virus. Various types of interferons are used as pharmaceuticals, for example, interferon beta, which is used in the treatment of MS.

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

Lesion: wound, damage.

Malign: malignant

Metastases: secondary tumors in cancer diseases.

Migration: movement.

MRI: Magnetic Resonance Imaging, an imaging technology used for diagnosis, treatment and review.

MS: multiple sclerosis, a chronic autoimmune disease

Myelin: a fatty substance that surrounds the nerve fibres in the brain and other places.

NDA: New Drug Application, registration application, submitted to the pharmaceuticals authority for the evaluation and approval of a drug.

NSAIDs: non-steroid anti-inflammatory drugs. Drugs with anti-inflammatory, pain-relieving or fever-reducing effects. Examples include ibuprofen and Naproxen.

Oral: by mouth.

Orally administered (per oral): a drug taken through the mouth in tablet or liquid form.

Patent: exclusive rights to a discovery or invention.

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

Pharmacology: the study of pharmaceuticals.

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.

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

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

Proof of principle: when a candidate drug has a proven biological effect in humans.

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

SAIK: Substances for Autoimmune diseases/Ketoamides, Active Biotech's concept for the treatment of autoimmune diseases such as MS.

Solid tumor: tumor that grows in the form of a lump; as against blood cancer, which grows through individual cells in the circulation.

SLE: Systemic Lupus Erythematosus. A life-threatening autoimmune disease.

Squamos-epithelium cancer: A form of non-small cell lung cancer. As this type of cancer grows, plate epithelium is formed, a type of tissue with layer upon layer of flat, plate-like cells.

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

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

Thorax: the chest region of the upper torso.

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

TNF-alpha: Tumor Necrosis Factor alpha, a signalling substance in the body's immune defence system.

Toxicology: the study of poisons or toxins and toxicity.

Tumor cell: a cell that divides uncontrollably.

TTS: Tumor Targeted Superantigens, Active Biotech's method of treating cancer.

Terms and conditions for Active Biotech AB (publ)'s convertible debenture loan 2004/2009

§ 1 DEFINITIONS

As used in these terms and conditions, the following terms shall have the meaning set forth below.

"banking day"	a day in Sweden, which is not a Sunday or other public holiday, or which, with respect to the payment of debt instruments, is not the equivalent of a public holiday in Sweden;
"the Bank"	Alfred Berg Fondkommission AB, corp reg no 556214-5473;
"the Company"	Active Biotech AB (publ), corp reg no 556223-9227;
"conversion"	the exchange of a convertible debenture for new shares in the Company;
"conversion price"	the price at which conversion may take place;
"debenture"	refers to claims entitled with a right of conversion in accordance with Chapter 5 of the Swedish Companies Act (1975:1385);
"debt obligation"	payment obligation of the Company according to these terms and conditions;
"holder"	holder of a debenture;
"market quotation"	quotation of shares in the Company on a stock exchange, other authorized market place or other regulated market place;
"VPC"	VPC AB or other central securities depository in accordance with Chapter 2 of the Swedish Financial Instruments Registration Act (1998:1479).

§ 2 AMOUNT OF THE LOAN, MATURITY DATE, INTEREST AND PAYMENT UNDERTAKING

The loan amounts to SEK 149,950,560.

The loan matures on 30 June 2009 except to the extent of prior conversion.

The loan carries an annual interest rate of 2 per cent from 1 January 2005. The interest is due for payment annually on 31 December, starting on 31 December 2005, and on the maturity date of the loan, 30 June 2009. When calculating the interest according to the above, a year shall be considered to consist of 12 months each with 30 days. As stated in § 9 below, the right to interest from the preceding interest due date cease at conversion under certain terms.

The Company assumes liability for payment of the loan and undertakes to effect payment in accordance with the terms stated herein.

§ 3 RECORD KEEPING INSTITUTION, REGISTRATION, ETC.

The debt obligation shall be registered by VPC in a control account pursuant to Chapter 4 of the Financial Instruments Registration Act (SFS 1998:1479) and consequently no physical securities will be issued.

The nominal amount of each debt obligation shall be SEK 40 or multiples thereof.

The loan is registered on behalf of the holder on an account in the Company's securities register. The requisite registration measures with respect to the account are executed by the Bank or another record keeping institution.

§ 4 SUBORDINATED DEBT OBLIGATIONS

In the event of insolvent liquidation or winding up of the Company, the debt obligation shall rank as to payment from the Company's assets after non-subordinated obligations and pari passu to other subordinated obligations, which are not expressly subordinated this loan.

§ 5 PAYMENT OF INTEREST, REPAYMENT OF THE DEBT OBLIGATION AND PREMATURE REPAYMENT OF THE DEBT OBLIGATION

The interest and the principal is repaid by VPC to whoever is, on the fifth banking day before respective maturity date or on the banking day closer to the maturity date which commonly can be applied on the Swedish securities market (= record day for payment), registered on the account in the Company's securities register as holder or who otherwise is entitled to collect the interest and the principal.

If the holder - or the person who is registered on an account in the Company's securities register as a person otherwise entitled to collect interest and principal - has registered through the record keeping institution that the interest and the principal shall be deposited at a certain bank account, the deposit will be executed by VPC on the maturity date. Otherwise VPC will send the interest and the principal on the maturity date to the party concerned under

his address registered with VPC on the record day for payment. If the record day for payment is on a day which is not a banking day, the interest and the principal will be deposited or sent on the next following banking day.

Should VPC not be able to make the interest payment or the repayment of the debt obligation in accordance with the above, due to delay on behalf of the Company or due to other obstacle, the interest and the principal will, as soon as the obstacle has been removed, be paid by VPC to the person who was registered as holder or registered as entitled to collect the interest and the principal on the record day for payment.

Interest is only accruing up to and including each respective due date for payment even if such day shall fall on a day that is not a banking day and even if the payment is delayed by such hindrances as are described in § 18 below. In the event that the Company should fail to make funds available to VPC in time for payment of the interest or principal due on the relevant due date for payment, despite the fact that there are no hindrances such as those described in § 18 below, interest shall be payable on the past due interest amount and the principal amount at the interest rate stated in § 2 above, from the due date for payment, up to and including the banking day upon which, no later than 10 a.m., funds have been made available to VPC.

The Company shall, under the conditions and circumstances below, be able to execute a premature repayment of the debt obligation. The Company shall notify the holders, giving the holders notice in accordance with Section 15 below not less than 30 nor more than 60 days before the day of premature repayment. Execution of premature repayment must include the entire outstanding convertible loan. Premature repayment shall include the outstanding principal amount and accrued interest until and including the date of repayment. Premature repayment may be executed at any time after 1 January 2007, provided that the middle market quotations of an Active Biotech share on Stockholmsbörsens O-list on each of 30 consecutive dealing days shall have been at least 130 per cent of the conversion price (as adjusted).

§ 6 CONVERSION

Holders shall have the right to demand conversion of their loan into new shares in the Company.

The conversion price shall be SEK 40 per share. The conversion price may be adjusted in the circumstances described in § 10 below.

On conversion the holder obtains one new share for every amount corresponding to the conversion price of the aggregate nominal amount of the convertible debt which one and the same holder wishes to convert at the same time. If this amount is not evenly divisible by the conversion price, the surplus cash amount will be paid in connection with the settlement of the convertible debt no later than the maturity date.

§ 7 REQUEST FOR CONVERSION

Request for conversion can be made during the period beginning on the date of registration of these terms and conditions by the Swedish Companies Registration Office, up to and including 15 June 2009, or such earlier date which may follow from § 10 subsection K, L or M, below.

When making a request for conversion, a registration form duly filled out shall, for registration purposes, be submitted to the Bank, or to a record keeping institution which forwards the registration form to the Bank.

A request for conversion is binding and cannot be revoked by the holder.

The holder shall pay taxes and charges which may occur in connection with transfer, holding or conversion of convertible debt according to Swedish or foreign legislation or to decisions by Swedish or foreign authorities.

If conversion is not requested within the time period set out above, the right of conversion of the convertible debt ceases.

§ 8 ENTRY INTO SHARE LEDGER, ETC.

Conversion is executed by the end of each calendar month, by the new shares being registered on share accounts as interim shares. If an excess cash amount exists after such conversion according to the above such amount shall be repaid no later than the maturity date of the convertible debt. When registration with the Swedish Companies Registration Office has been effected, the registration on the share accounts becomes final. As follows from §§ 9 and 10 below, the date for such final registration can in some situations be delayed.

§ 9 INTEREST AND DIVIDEND IN CONNECTION WITH CONVERSION

Shares, which are issued upon conversion, will entitle to dividends for the first time on the record day for dividends that falls nearest after the execution of the conversion.

Shares, which have been issued as a result of conversion effected from and including the day of payment of interest regarding a certain year, still do not entitle to dividends on the record day for dividends that year. Final registration on the share account is not made until after the mentioned record day for dividends. Final registration on the share account for dividends attributable to one financial year that are paid on more than one occasion, shall be made after the last record day for such dividends.

**§ 10
ADJUSTMENT OF CONVERSION PRICE, ETC.**

The following shall apply with respect to the rights which shall belong to holders in the circumstances set forth in Chapter 5, § 4, first paragraph, subsection 8 of the Swedish Companies Act as well as in certain other circumstances:

- A. Where the Company carries out a bonus issue of shares, conversion shall, if the notification of subscription is made at such time that it cannot be executed at the latest on the tenth day prior to the shareholders' meeting to decide upon the bonus issue, be executed only after the shareholders' meeting has resolved to carry out the bonus issue. Shares which are issued as a consequence of conversion executed after the resolution to carry out the issue shall be registered on an interim basis in the share account, which means that the holders of such shares are not entitled to participate in the issue. Final registration in the share account shall take place after the record date for the issue.

In conjunction with conversion which are executed after the resolution on a bonus issue, a re-calculated conversion price shall apply. Re-calculations shall be made by the Bank in accordance with the following formula:

$$\text{Re-calculated conversion price} = \frac{\text{the previous conversion price} \times \text{the number of shares prior to the bonus issue}}{\text{the number of shares after the bonus issue}}$$

The conversion price re-calculated in accordance with the above shall be determined by the Bank as soon as possible following the adoption by the shareholders' meeting of the resolution to carry out the bonus issue, but shall be applied only after the record date for the issue.

- B. If the Company undertakes a reverse share split or a share split, subsection A above shall apply mutatis mutandis, whereupon the record date shall be deemed to be the date on which the reverse share split or share split, upon request of the Company, is effected by VPC.
- C. If the Company carries out a new issue of shares, with a preferential right for shareholders to subscribe for new shares in exchange for cash payment, the following shall apply with respect to the right to participate in the issue for shares which are issued as a result of conversion:

1. Where the board of directors resolves to carry out the issue, contingent upon shareholder approval or pursuant to authorisation by the shareholders, the resolution to carry out the issue and the public notice of the resolution shall set forth the last date on which conversion shall be executed in order for shares, which are issued as a consequence of such conversion, shall entitle the holders to participate in the issue. Such date may not be earlier than ten calendar days after the publication of the notice.
2. Where the resolution to carry out the issue is adopted by the shareholders, conversions, for which application is made at such time that the conversion cannot be executed on or before the tenth calendar day prior to the shareholders' meeting, at which the issue is resolved, shall be executed only after the Bank has effected re-calculation in accordance with the second last paragraph of this subsection C. Shares which are issued as a consequence of such conversions shall be registered on an interim basis in the share account and shall not entitle the holders to participate in the issue.

Where conversion is effected at such time that no right to participate in the new issue arises, a re-calculated conversion price shall apply. Re-calculations shall be made by the Bank in accordance with the following formula:

$$\text{Re-calculated conversion price} = \frac{\text{the previous conversion price} \times \text{the average market price of the share during the subscription period set forth in the issue resolution (average exchange price of the share)}}{\text{the average exchange price of the share increased by the theoretical value of the subscription right calculated on the basis thereof.}}$$

The average exchange price of the share shall be deemed to correspond to the average for each trading day during the subscription period of the calculated mean value of the highest and lowest price paid on market quotation. In the absence of a quoted closing price, the final bid price shall form the basis for the calculation. Days on which no closing price or bid price is quoted shall be excluded from the calculation.

The theoretical value of the subscription right shall be calculated according to the following formula:

$$\text{The value of a subscription right} = \frac{\text{The maximum number of new shares which may be issued pursuant to the issue resolution} \times (\text{the average exchange price of the share price} - \text{the issue price for the new share})}{\text{The number of shares prior to the issue resolution}}$$

In connection with re-calculation according to the above-stated calculation, shares held by the Company itself shall not be included. In the event that a negative value is arrived at, the theoretical value of the subscription right shall be deemed to be zero.

If the Company's shares are not subject to market quotation, a re-calculation of the conversion price shall be made by the Bank in accordance with the principles set forth in this paragraph. The re-calculation shall aim to keep the value of the convertible debts unchanged.

The re-calculated conversion price as set forth above shall be determined by the Bank two banking days after the expiration of the subscription period and shall apply to conversions executed thereafter.

During the period prior to the determination of the re-calculated conversion price, conversion shall only be executed on a preliminary basis, whereupon the number of shares which each debenture entitles to conversion into prior to the re-calculation shall be recorded in the control account on an interim basis. In addition, a separate note shall be made that each debenture, after re-calculation, may entitle the holder to additional shares. Final registration on the share account shall be effected following re-calculation.

- D. Where the Company carries out – with preferential rights for the shareholders and in return for cash payment – an issue pursuant to Chapter 5 of the Swedish Companies Act, the provisions set forth in subsection C, first section 1. and 2. above shall apply mutatis mutandis with respect to the right to participate in the issue for share which has been issued as a consequence of conversion.

Where conversion is made at such time that no right to participate in the new issue arises, a re-calculated conversion price shall be applied. Re-calculations shall be made by the Bank in accordance with the following formula:

$$\text{Re-calculated conversion price} = \frac{\text{Previous conversion price} \times \text{the average exchange price of the share during the subscription period set forth in the issue resolution (average exchange price of the share)}}{\text{the average exchange price of the share increased by the value of the subscription right.}}$$

The average exchange price of the share is calculated in accordance with the provisions set forth in subsection C. above.

The value of the subscription right shall be deemed to correspond to the average for each trading day during the subscription period of the calculated mean value of the highest and lowest price paid on market quotation. In the absence of a quoted closing price, the final bid price shall form the basis for the calculation. Days on which no closing price or bid price is quoted, shall be excluded from the calculation.

If the Company's shares are not subject to market quotation at the time of the issue resolution, a re-calculation of the conversion price shall be made in accordance with the principles set forth in this paragraph by the Bank. The re-calculation shall aim to keep the value of the convertible debts unchanged.

The re-calculated conversion price shall be determined by the Bank two banking days after the expiration of the subscription period and shall apply to conversion executed thereafter.

In relation to conversions effected during the period until the re-calculated conversion price has been determined, the provisions set forth in the final paragraph of subsection C. above shall apply mutatis mutandis.

- E. In the event the Company, under circumstances other than those set forth in subsections A – D above, directs an offer to the shareholders, with a preferential right pursuant to the principles set forth in Chapter 4, § 2 of the Swedish Companies Act, to purchase securities or rights of any sort from the Company, or where the Company resolves, pursuant to the above-stated principles, to distribute to its shareholders such securities or rights without consideration (the offer), a re-calculated conversion price shall be applied in conjunction with subscriptions which are effected at such time that the shares acquired as a consequence thereof do not entitle the holder to participate in the offer. The re-calculations shall be made by the Bank in accordance with the following formula:

$$\text{Re-calculated conversion price} = \frac{\text{Previous conversion price} \times \text{the average exchange price for the share during the subscription period set forth in the issue resolution (the average exchange price of the share)}}{\text{Average exchange price of the share increased by the value of the right to participate in the offer (the value of the purchase right)}}$$

The average exchange price of the share is calculated in accordance with the provisions set forth in subsection C. above.

In the event the shareholders have received purchase rights and trading in such rights has taken place, the value of the right to participate in the offer shall be deemed to be equivalent to the value of the purchase right. The value of the purchase right in such circumstances shall be deemed to correspond to the average during the subscription period of the calculated mean values for each trading day of the highest and lowest prices paid for the purchase right on market quotation. In the event no closing price is quoted, the bid price quoted as the closing price shall form the basis of such calculation. Days on which no closing price or bid price is quoted, shall be excluded from such calculation.

In the event the shareholders have not received purchase rights or where such trading in purchase rights mentioned in the first paragraph has not taken place, re-calculation of the conversion price shall take place by applying, to the greatest extent possible, the principles set forth above in this subsection E, whereupon the following shall apply. If the securities or rights which are offered to the shareholders are listed, the value of the right to participate in the offer shall be deemed to correspond to the average of the calculated mean values, for each trading day during a period of 25 trading days commencing on the first day for listing, of the highest and lowest price paid during the said day, for transactions in these securities or rights on the marketplace, where applicable decreased by any consideration paid for such securities or rights in connection with the offer. In the absence of a quoted closing price, the final bid price shall form the basis for the calculation. Days on which no closing price or bid price is quoted, shall be excluded from the calculation. In the re-calculation of conversion price pursuant to this subsection, the mentioned period of 25 trading day shall be considered the subscription period determined in the offer pursuant to the first paragraph of this Section E above.

Where no listing takes place of such securities or rights offered to the shareholders, the value of the right to participate in the offer shall, to the greatest extent possible, be determined based upon the change in the market value of the Company's shares, which may be deemed to have occurred as a consequence of the offer.

If the Company's shares are not subject to market quotation, a re-calculation of the conversion price shall be made in accordance with the principles set forth in this paragraph by the Bank. The re-calculation shall aim to keep the value of the convertible debts unchanged.

The conversion price re-calculated in accordance with the above shall be determined by the Bank as soon as possible after the end of the period during the securities or rights are offered and shall be applied on conversions which are effected after such determination.

In relation to conversions, which are effected during the period until the re-calculated conversion price have been determined, the provisions set forth in the final paragraph of subsection C above shall apply mutatis mutandis.

- F. Where the Company carries out a new stock issue or an issue pursuant to Chapter 5 of the Swedish Companies Act, with preferential rights for shareholders to subscribe for new shares in exchange for cash payment, the Company shall be entitled to grant all holders the same pre-emptive rights which vest in the shareholders pursuant to the resolution. In conjunction therewith, each holder, irrespective of whether conversion has been effected, shall be deemed to be the owner of the number of shares which such holder would have received, had conversion on the basis of the debenture been effected in respect of the conversion price in effect at the time of the resolution to carry out the share issue. The fact that the holder might also have been entitled to receive a cash amount in accordance with § 6 above shall not give rise to any preferential rights in this case.

In the event the Company resolves to direct an offer to the shareholders as specified in subsection E. above, what have been stated in the preceding paragraph shall apply mutatis mutandis. However, the number of shares of which each holder shall be deemed to be the owner shall, in such circumstances, be determined on the basis of the conversion price in effect at the time of the resolution to carry out the offer.

In the event the Company resolves to grant the holders preferential rights in accordance with the provisions set forth in this Section F, no re-calculation as set out in Sections C., D., or E. above of the conversion price shall be carried out.

- G. If a cash dividend to shareholders is resolved such that the shareholders receive, combined with other dividends paid during the same fiscal year, a total dividend exceeding 5 percent of the exchange average price of the share during a period of 25 trading days immediately preceding the day on which the Company's board of directors announced its intention to propose that the shareholders' meeting approve such a dividend, a re-calculation of the conversion price shall be made regarding conversions requested at such a time, that the shares thereby received do not carry rights to receive such dividend. The re-calculation shall be based upon such part of the total dividend, which exceeds 5 percent of the average exchange price of the shares during the above-mentioned period (extraordinary dividend).

The re-calculation shall be made by the Company in accordance with the following formula:

$$\text{Re-calculated conversion} = \frac{\text{Previous conversion price} \times \text{the average market price of the share during a period of 25 trading days calculated from the day on which the share is listed without any right to extra-ordinary dividend (the average exchange price of the share)}}{\text{Average exchange price of the share increased by the extra-ordinary dividend paid per share}}$$

The average exchange price of the share shall be deemed to correspond to the average during the period of 25 trading days of the calculated mean value for each trading day of the highest and lowest price paid on market quotation. In the event no closing price is quoted, the final bid price shall form the basis of the calculation. Days on which no closing price or bid price is quoted, shall be excluded from the calculation.

If the Company's shares are not subject to market quotation at the time of the cash dividend resolution meaning that the shareholders receive dividends which, in conjunction with other dividend payments during the fiscal year at hand, exceeds 100 percent of the Company's earnings after taxes that fiscal year and 5 percent of the Company's value, shall, on conversion that have been called for at such time that thereby received share is not entitled to such dividend, a re-calculated conversion price be applied. The

re-calculation shall be based on the part of the total dividend exceeding 100 percent of the Company's earnings after taxes for the fiscal year and 5 percent of the value of the Company and shall be conducted pursuant to the principles set forth in this Section by the Company.

The re-calculated conversion price shall be determined by the Bank two banking days after the expiration of the period of 25 trading days calculated from the day on which the share is listed without any right to extra-ordinary dividend and shall apply to conversions executed thereafter.

- H. In the event the Company's share capital is reduced through a repayment to the shareholders, and such reduction is compulsory, a re-calculated conversion price shall be applied. The re-calculations shall be carried out by the Bank in accordance with the following formula:

$$\text{Re-calculated conversion price} = \frac{\text{Previous conversion price} \times \text{the average exchange price of the share during a period of 25 trading days calculated from the day on which the share is listed without any right to participate in the distribution (the average exchange price of the share)}}{\text{Average exchange price of the share increased by the amount repaid per share}}$$

The average exchange price of the share is calculated in accordance with the provisions set forth in subsection C above.

In carrying out the re-calculation according to the above and where the reduction is carried out through redemption of shares, instead of using the actual amount which is repaid for each share, an amount calculated as follows shall be applied:

$$\text{Calculated amount to be repaid for each share} = \frac{\text{the actual amount repaid for each redeemed share reduced by the average market price of the share during a period of 25 trading days immediately prior to the day on which the share is listed without any right to participate in the reduction (the average exchange price)}}{\text{the number of shares of the Company which entitle to the redemption of one share, reduced by 1}}$$

The average exchange price is calculated in accordance with the provisions set forth in subsection C. above.

The re-calculated conversion price pursuant to the above shall be determined by the Bank two banking days after the expiration of the above-stated period of 25 trading days, and shall apply to conversions executed after such time.

In case the Company's share capital should be reduced with compensation in the form of securities or rights of any form from the Company, the actual amount repaid per share shall be determined in accordance with, to the extent possible, the principles regarding the valuation of participation in an offer to the shareholders stated in subsection E. above.

Conversion will not be executed during the period starting on the day when it is resolved that the Company's share capital shall be reduced until and including the day the re-calculated conversion price has been determined according to the above.

In case the Company's share capital should be reduced through redemption of shares with repayment to the shareholders, where such reduction is not compulsory, but where, in the opinion of the Company, the reduction due to its technical structure and its financial effects, is equivalent to a compulsory reduction, the re-calculation of the conversion price shall be made in accordance with, to the extent possible, the principles stated above in this subsection H.

If the Company's shares are not subject to market quotation, a re-calculation of the conversion price shall be made by the Bank in accordance with the principles set forth in this paragraph. The re-calculation shall aim to keep the value of the convertible debts unchanged.

- I. Should the Company take actions such as those stipulated in subsections A.-E., G. or H. above and if, in the Bank's opinion, application of the conversion formula established for such action, taking into account the technical framework of such action or for other reasons, could not occur or would result in the holders receiving, in relation to the shareholders, economic compensation that is not reasonable, the Bank shall, subject to prior written approval by the board of directors of the Company, make the adjustment of the conversion price in such a manner that the Bank determines is appropriate to ensure that the adjustment of the conversion price gives a reasonable result.
- J. Upon re-calculation pursuant to the above, the conversion price shall be rounded to the nearest 10 öre, whereupon 5 öre shall be rounded upwards.
- K. In the event it is resolved the Company shall enter into liquidation according to Chapter 13 of the Swedish Companies Act application for conversions may not thereafter be made regardless of the grounds for such liquidation. The right to apply for conversion shall terminate immediately upon the entry of an order placing the Company in liquidation, notwithstanding that such order may not be final. The holders shall be entitled to in the aforementioned instances demand immediate payment of the principal and accrued interest of the debenture. This right comes into force if the liquidation is decided by resolution of the shareholders from the day after the shareholders' meeting and, otherwise, from the day after the Court's order placing the Company in liquidation is made final. Within one week thereafter, the Company shall inform the holders by notice pursuant to § 15 below about their right to demand such immediate payment.

Not later than two months prior to the adoption of a resolution at the shareholders' meeting in respect of whether the Company shall be placed into voluntary liquidation pursuant to Chapter 13, § 1 of the Swedish Companies Act, the holders shall be notified in writing of the intended liquidation pursuant to § 15 below. Such notice shall contain a reminder to the known holders that conversion may not be made following the adoption of a final resolution in respect of a liquidation.

In the event the Company gives notice of the intended liquidation pursuant to the above, the holders shall, notwithstanding the provisions set forth in § 6 above regarding an earlier point in time for making applications for conversion, be entitled to apply for conversion commencing on the day on which the notice is given, provided that conversion may be effected not later than the tenth calendar day prior to the shareholders' meeting at which the resolution regarding the liquidation of the Company shall be addressed.

- L. In the event the shareholders' meeting, pursuant to Chapter 14, § 10 of the Swedish Companies Act, approves a merger plan pursuant to which the Company shall be merged into another company, applications for conversion may not be made thereafter. However, the holder has the right, during a period of two months from the date of such approval, to demand immediate payment of the principal amount of the debt obligation, plus interest accrued to the date of payment. Within one week thereafter, the Company shall inform the holders by notice pursuant to § 15 below about their right to demand such immediate payment. Nothing contained herein shall impair rights that may legally accrue to the holders in their capacity as creditors in conjunction with a merger.

The holders shall be entitled to in the aforementioned instances demand immediate payment of the principal and accrued interest of the debenture. This right comes into force if the liquidation is decided by resolution of the shareholders from the day after the shareholders' meeting and, otherwise, from the day after the Court's order placing the Company in liquidation is made final.

Not later than two months before the Company adopts a final position regarding a merger as set forth above, the holders shall be notified in writing pursuant to § 15 below of the merger plans. Such notice shall contain a summary of the principal contents of the intended merger plan and the holders shall be reminded that applications for conversion may not be made after a final resolution has been adopted regarding a merger in accordance with the provisions set forth in the preceding paragraph.

In the event the Company gives notice of a planned merger in accordance with the preceding provisions, the holders shall, notwithstanding the provisions set forth in § 6 regarding an earlier point in time for making applications for conversion, be entitled to apply for conversion commencing on the day on which the notice of the merger plans is given, provided that conversion may not be effected later than the tenth calendar day prior to the shareholders' meeting at which the plan regarding the merger of the Company into another company is to be approved.

- M. The following shall apply in the event the Company's board of directors decides on a merger plan pursuant to Chapter 14, § 22 of the Swedish Companies Act pursuant to which the Company shall be merged into another company or where the Company's shares are subject to compulsory acquisition pursuant to Chapter 14, §§ 31-35 of the above-stated Act.

Where a Swedish company owns all of the shares in the Company and where the Company's board of directors intends to decide on merger plan in accordance with the legislation referred to in the preceding paragraph, the Company shall, in the event that the final day for application for conversion pursuant to § 3 above occurs after such intentions exist, determine a new final date for application for conversion (expiration date). The expiration date shall occur within 60 days of the day on which such intention existed, or if the intention has been made public, the publication.

Where a shareholder (majority holder), alone or together with subsidiaries, owns such a proportion of the Company's shares that the majority holder, in accordance with the legislation applicable at the time may invoke a compulsory acquisition of the rest of the Company's shares, and where the majority holder publishes its intention to invoke such compulsory acquisition procedures, the provisions set forth in the preceding paragraph regarding the expiration date shall apply *mutatis mutandis*.

Holders are entitled to demand immediate payment of the principal and accrued interest of the debenture. Such demand shall be made within 60 days from the day of the aforementioned publication.

In the event that publication has been made as set forth in the previous paragraphs of this subsection M., the holders shall, notwithstanding the provisions set forth in § 6 regarding an earlier point in time for making applications for conversion, be entitled to apply for conversion until the expiration date. Not later than four weeks prior to the expiration date, the Company shall notify the known holders pursuant to § 15 below of such right and that applications for subscription may not be made after the expiration date. Furthermore, the holders shall be informed by the notice about their right to demand immediate payment as set forth in the previous paragraph.

- N. Notwithstanding what is stated in subsections K, L and M above to the effect that conversions may not be made after adoption of a resolution to place the Company into liquidation, approve a merger plan, or the close of a new expiration date in relation to merger, the right to apply for conversion shall be reinstated where the liquidation is terminated or where the merger plan is not executed.
- O. In the event the Company is placed into insolvent liquidation, application for conversion may not thereafter be made. Where, however, the order placing the Company in insolvent liquidation is quashed by a court of higher instance, applications for conversion may thereafter be made.

§ 11 COVENANTS BY THE COMPANY

The company covenants that it will confer with the Bank in due time before it takes actions such as those mentioned in § 10 above.

The Company further covenants not to undertake any measure described in § 10 above that would result in an adjustment of the exercise price to an amount less than the nominal value of the Company's shares.

§ 12 LIMITATION

The right to receive payment of the loan is subject to limitation ten years after the date of maturity of the loan. The right to receive interest on the loan is subject to limitation three years from the due date of each payment of interest. Funds, which have been reserved for repayment of the loan but become subject to limitation will come to the Company.

§ 13 ALLOCATION OF AVAILABLE FUNDS

If interest payments as well as the principal have fallen due and available funds are not sufficient for payment thereof, the funds shall primarily be used for interest payment and secondarily for payment of the loan.

§ 14 NOMINEE REGISTRATION

In respect of a convertible debenture that is nominee registered in accordance with the Financial Instruments Registration Act the nominee shall be considered as the holder of the debenture when applying these terms and conditions.

§ 15 NOTICES

Notices concerning the loan shall be given to each registered holder and other holders of rights registered in the Company's VPC register and be published in a daily newspaper in Stockholm. If the loan is registered with the Stockholmsbörsen AB notification shall also be given to Stockholmsbörsen AB and to the Swedish newsagent Tidningarnas Telegrambyrå.

§ 16 AMENDMENTS IN THE TERMS AND CONDITIONS

The Company is entitled to decide on amendments to these terms and conditions to the extent that legislation or decisions by courts and authorities so requires or if it in other respects - according to the opinion of the Company - for practical reasons is suitable or necessary and the creditors' right is not adversely affected in any material respect.

§ 17 CONFIDENTIALITY

The Company, the Bank or VPC may not provide information on holders of debentures to third parties. The Company is entitled to receive certain information about holders of debt obligations from the VPC debt register.

§ 18 LIMITATION OF THE LIABILITY OF THE BANK AND VPC

With respect to the measures incumbent on the Bank and VPC, the Bank and VPC shall - in the case of VPC, subject to the provisions of the Financial Instruments Registration Act (SFS 1998:1479) - not be deemed liable for loss due to Swedish or foreign legal decrees, Swedish or foreign actions by public authorities, acts of war, strikes, blockades, boycotts, lockouts or other similar cause. The reservations with respect to strikes, blockades, boycotts and lockouts apply even if the Bank or VPC itself undertake, or is the object of, such actions.

The Bank or VPC shall not be obliged to provide compensation for loss arising in other situations, if the Bank or VPC has exercised normal prudence. The Bank shall not in any case be liable for indirect damages.

If the Bank or VPC is obstructed to take actions in accordance with the terms and conditions herein due to circumstances set out in the first paragraph, such action may be deferred until the obstruction has ceased to exist. In case of deferred payment, the Company shall pay interest in accordance with the interest rate applicable at the due date.

§ 19 GOVERNING LAW

The convertible debentures, and any associated legal issues, shall be governed by the laws of Sweden. Legal proceedings regarding the convertible debenture shall be commenced in the Malmö District Court or any other forum the jurisdiction of which is accepted by the Company in writing.



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