

## **Annual General Meeting April 19, 2007**

### ***Item 8 – Address by the President & CEO***

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

**Active Biotech continues to develop from an early research operation into a more mature company. Following continued successes in our clinical projects, we now have a balanced and relatively advanced research portfolio.**

**For Active Biotech, 2006 was another year characterized by successful projects – all five projects in the clinical phase proceeded according to plan and achieved all set milestones during the year.**

### **SLIDE 10**

**The market values of the indication areas we work with are considerable.**

**Multiple Sclerosis mainly affects young people, and more women than men. The average age of onset of the disease is about 30. It is estimated that more than 2 million people throughout the world suffer from the disease. MS is a progressive, demyelinating disease of the central nervous system that affects the brain, spinal cord and optic nerves. For those affected by MS, the disease often entails an impact on social life and the general quality of life.**

**In 2006, the market for MS drugs amounted to slightly more than USD 5 billion and it is increasing by double percentage figures each year. Forecasts of the future market size vary somewhat, but they indicate a doubling within the next five-year period.**

**SLE is a disease of the connective tissues that can cause inflammation and damage to the connective tissue in many different organs. The disease, which progresses in “flare-ups” interspersed by relatively symptom-free periods, primarily affects women of child-bearing age. Progress and symptoms of the disease vary widely, depending on the organs affected and it can therefore be difficult to diagnose. Without treatment, SLE can be life-threatening. More than 1 million people in the US and Europe are affected by some form of SLE. Accordingly, the market potential for the SLE indication can conservatively be estimated at not less than USD 6 billion – somewhat larger than today’s MS market.**

**RA (rheumatoid arthritis) is a chronic inflammatory disease, the cause of which remains unknown. The disease affects the body’s joints and causes inflammations. The inflammation damages joints, tendons and even articular cartilage and surrounding skeletal areas, which means that ultimately, the patient can be affected by a physically debilitating handicap. More than 2 million people in the US suffer from RA and the disease is more common among women. The market for drugs against RA is estimated at more than USD 4 billion.**

**Renal cancer affects nearly 40,000 people in the US each year and about 200,000 worldwide. The usual age of onset of the disease is between 50 and 70, and it affects more men than women. Some 50 percent of patients are affected by metastases. When the disease has metastasized, average**

survival is one year. Five-year survival for non-metastatic forms of the disease is approximately 64 percent. If the disease has metastasized to the lymphatic glands, five-year survival declines to 5–15 percent. The market for treatment of renal cancer is estimated at about USD 1 billion.

Prostate cancer has highly varying degrees of severity. Despite a relatively good prognosis, prostate cancer is the cancer form that is the second most common cause of death among men. In 2006, it is estimated that 2.2 million cases were diagnosed in the US alone. The disease principally affects men in their 50s and older. In its 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. The pharmaceutical market for prostate cancer is estimated at more than USD 3 billion a year.

## **SLIDE 11**

Our partner Teva successfully concluded the additional Phase II study of laquinimod to establish the optimal dose for pivotal Phase III studies. The study met its primary endpoint and demonstrated that daily treatment with one tablet of laquinimod 0.6 mg significantly reduced the rate of disease activity compared with placebo. In addition, the study showed a strong trend toward a reduction in the number of flare-ups/relapses, despite the short duration of the study.

The study was conducted over a period of nine months and encompassed more than 300 patients with relapsing multiple sclerosis, MS. It was a clinical, double-blind (that

**is, blind for both the physician and patient), placebo-controlled, multi-center, Phase IIb study that was performed in nine countries on patients with relapsing MS. Safety and side-effect data confirmed the favorable safety profile that was seen in earlier Phase II studies.**

**These results will be presented shortly, on May 1, at the American Academy of Neurology in Boston – the largest annual conference for MS physicians from all over the world.**

**Based on the results from this study, the pivotal Phase III program will be performed with the aim of documenting laquinimod's efficacy and safety in the treatment of relapsing MS.**

## **SLIDE 12**

**Intensive activities are underway to initiate Phase III studies in the US and Europe, and recruitment is scheduled to commence during the year.**

**Essentially, all patients included in the Phase IIb study have continued in an extension study that will be conducted for a further nine months. This study remains blind, but the patients in the main study that were administered placebo now receive laquinimod (0.3 or 0.6 mg) and no more placebo. A further extension of this study will also be conducted in which all patients will receive laquinimod 0.6 mg. This latter part is an open-label study, that is, it is no longer blind, and the patient and physician are aware that laquinimod is being administered and in what dose.**

**Through these expanded studies, which will run in parallel with the Phase III program, a database is built up that provides us with more information about the clinical parameters (flare-ups or relapses, disease progression and so forth) and documents long-term safety. The patients that participate in full will be treated and monitored over many years.**

### **SLIDE 13**

**We already have data from nearly 400 patients that have been treated with laquinimod in various Phase II studies.**

**All of this data generated further strengthens the fact that laquinimod has a unique mode of action.**

**It also gives laquinimod a distinctly attractive profile compared with competing oral compounds under development, which are all immunosuppressive.**

**Following the report on the positive results obtained from the Phase II study, Teva made a milestone payment of SEK 51.2 million – which means that we have received payments of approximately SEK 90 million from Teva related to laquinimod.**

**Teva will make further payments to us on fulfillment of various milestones. The total of all payments amounts to approximately SEK 650 million, or USD 92 million.**

**Teva manages and bears the expenses of all development of laquinimod and invests heavily in the clinical development in an amount that, in our estimation, exceeds SEK 1.5 billion.**

**We will also receive tiered, double-digit royalty payments on future sales of the product in the market.**

**The goal for all involved is to bring the product to market in the most rapid manner possible, and to maximize the probability of success through well-designed, high-quality clinical studies accepted by both the FDA and EMEA.**

**Teva is a professional and highly committed partner and laquinimod has the highest priority.**

## **SLIDE 14**

**At the end of 2006, Active Biotech initiated a randomized clinical Phase II/III study of ANYARA in combination with interferon-alpha in patients with advanced renal cancer.**

**This is the final stage of ANYARA's development towards being an approved pharmaceutical product.**

**We have subsequently published the building blocks in a "pharmacological proof of concept" for ANYARA. This comprises numerous results that all indicate that the treatment concept works and has fulfilled the criteria established for the development of ANYARA.**

**We have documented the maximum tolerable dose, which shows that we can administer a dose that is 100 – 200 times higher than in the first generation.**

**Biomarkers related to prolonged survival and an increase in the number of ANYARA-reactive T-lymphocytes following treatment, underlines ANYARA's selective immunostimulatory properties in cancer patients.**

**We have also conducted a PET study, which confirmed that ANYARA is specifically targeted to tumors of cancer patients.**

**Finally, we performed a combination study of ANYARA with Taxotere, a cytotoxic drug that is well-established for the treatment of such diseases as non-small cell lung cancer.**

**Positive survival data for renal cancer patients treated with first generation ANYARA was published. Survival was considerably longer than expected.**

**Consequently, as we now have initiated a major Phase II/III-study of ANYARA, we have an extensive documentation as support.**

**The study is being performed at 45 clinics in Europe.**

**The primary endpoint is survival and the study will include approximately 500 patients. An interim analysis based on approximately 200 patients is scheduled for mid-2008. If this analysis is positive, the study will continue with the same protocol, which will then become pivotal, and can result in the submission of a registration application in 2009/2010.**

**Naturally, a positive interim analysis will lead to an increase in the value of the project and will also facilitate discussions with commercial partners concerning agreements relating to ANYARA.**

**SLIDE 15**

**In the TASQ project, we are developing a compound for the oral treatment of prostate cancer.**

**In November 2004, an initial clinical Phase I study commenced in Sweden comprising prostate cancer patients with so-called hormone-refractory prostate cancer. This is an advanced stage of prostate cancer where the tumor cells no longer respond to hormone treatment.**

**In September 2006, we presented the results of an interim analysis. The analysis demonstrated a treatment effect for all evaluated patients.**

**The results also showed that treatment was well tolerated by patients with mild and transient side effects.**

**The main aim of the study was to evaluate the safety of TASQ in increasing doses, but as in the majority of cancer studies, we examine the treatment effects as early as possible.**

**Following this initial analysis, a larger number of patients were treated with a higher dose and all patients are monitored over an extended period. The trend remains positive. Consequently, we have decided to move forward with the clinical development and expect to initiate a Phase II study before year-end.**

**This study will be conducted in the US under the designation IND (Investigational New Drug, a study application submitted to the FDA).**

## **SLIDE 16**

**Market awareness concerning the disease Systematic Lupus Erythematosus has increased considerably in recent years.**

**The Phase Ib study with SLE (lupus) and RA (rheumatoid arthritis) patients is now in the final stages.**

**The primary objective of this study is to document how the compound is tolerated by patients and its pharmacokinetic properties, but it will also monitor a number of effect parameters and biological markers. We expect to commence Phase II this year.**

**The scientific observations we have compiled from the project with regard to the mode of action of quinoline compounds makes 57-57 even more interesting than before and has significantly increased the project's value.**

## **SLIDE 17**

**RhuDex® is a “first in class” co-called “CD 80-antagonist,” and is also a product that is orally administered.**

**It is primarily intended for the treatment of RA. Following a positive result from concluded Phase I studies in healthy volunteers, a dose-escalation study in patients with RA was successfully performed. A clinical Phase IIa study commenced at the beginning of 2007 and is currently being performed on RA patients. The project was originally out-licensed to Avidex in Oxford. This company was acquired last year by the German company MediGene and is one of the highest prioritized projects.**

**There is an intense demand in the market for RA products with new modes of action, especially since many major products within the Cox-2 segment have encountered problems with an increasing number of side effects and are currently being re-examined by the FDA. As recently as a few days ago, a new product from Merck in this area was rejected by the FDA's advisory committee.**

## **SLIDE 18**

**The preclinical project I-3D is intended for several autoimmune indications, but primarily RA.**

**In May 2006, we signed a partnership agreement with the US company, Chelsea Therapeutics, concerning the development and commercialization of I-3D. Chelsea is specialized in RA and has considerable clinical expertise within this field. The agreement entails joint development work with shared costs and market rights.**

**The purpose is the development of a product with a significantly improved side-effect profile than an existing product (Arava from Sanofi-Aventis) with maintained efficacy.**

**The aim is the selection of a candidate drug in 2007 with the subsequent initiation of clinical trials.**

## **SLIDE 19**

**The project concerning the mode of action of quinoline compounds has been successful.**

**A large pharmaceutical company would probably first have researched the mode of action and subsequently taken the project into clinical trials, but as a small company, we chose to conduct these two stages in parallel.**

**The exact mode of action was previously unknown, but since the year 2000, we have worked with elucidating this mechanism in parallel with development of the clinical projects. At the end of March 2006, we submitted an extremely important patent application concerning the**

**mode of action of quinoline compounds. The patent is relevant for the laquinimod, 57-57 and TASQ projects.**

**Many immunoregulatory compounds only regulate the immune defense in a quantitative manner and are immunosuppressive, that is, they suppress and “shut down” the immune defense.**

**Quinolines are immunomodulatory, and instead, affect the immune defense qualitatively. Consequently, it is of considerable interest to elucidate the mode of action of quinoline compounds and describe how they differ from other compounds in clinical development.**

**The results significantly strengthens documentation and the value of the clinical quinoline project. It is also a base upon which to develop entirely new drugs against autoimmune diseases.**

**Information concerning quinoline compound’s target molecules will subsequently be published when the patent applications have been fully documented.**

**Research is being conducted with partial financing from Vinnova, from which we received a grant totaling SEK 5 million during the year from the “Research & Grow” program.**

**Together with such partners as Lund University, we have now formed the basis for an entirely new and epoch-making research program derived from quinolines, which will grow in the years to come.**

## **SLIDE 20**

**The milestones for 2007 remain.**

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

**\* Publication of the mode of action of quinoline compounds.**

**\* Start of Phase III program with laquinimod for the indication MS in Europe and the US.**

## **SLIDE 21**

**\* Continuation of Phase II/III study in renal cancer patients for ANYARA.**

**\* Reporting of complete Phase I data for TASQ.**

**\* Start of Phase II program in prostate cancer patients for TASQ.**

## **SLIDE 22**

**\* Publication of the mode of action of quinoline compounds.**

**\* Reporting of Phase I data in Lupus and RA patients.**

**\* Start of Phase II studies in Lupus patients for 57-57.**

**\* Continuation of Phase IIa studies in RA patients for RhuDex®.**

**\* Selection of candidate drug for I-3D project prior to start of Phase I studies.**

## **SLIDE 23**

**Before moving forward to the financial outcome, I would like to show a slide that summarizes how Active Biotech's projects have been financed to date.**

**For the projects that have their origin in Pharmacia, mainly comprising the quinolines (laquinimod, TASQ and 57-57) and ANYARA, the historical costs borne by Pharmacia prior to Active Biotech's formation amounted to approximately SEK 1.8 billion.**

**Over the years, we have sold off assets (properties and operations) for SEK 1.6 billion.**

**The first new share issue, which was conducted in conjunction with the acquisition of the Lund Research Center in 1998, yielded slightly less than SEK 500 million.**

**During the period following 1998 until the year 2006, we conducted three issues, which yielded further capital infusions amounting to SEK 520 million.**

**Accordingly, up to year-end 2006, we have financed research projects through issues totaling approximately SEK 1 billion. Additional contributions were obtained through divestments totaling about SEK 1.6 billion, and added to this are the historical expenses borne by Pharmacia amounting to SEK 1.8 billion.**

**According to this simple calculation, the investment in the projects total SEK 4.4 billion to date.**

## **SLIDE 24**

**On December 15, 2006, the Board resolved to implement a preferential rights issue totaling SEK 240 million. The issue was concluded in February 2007, and yielded the company SEK 234.2 million. Of the offered shares, 99.1 percent were subscribed for with the support of subscription rights and the issue was oversubscribed by 53 percent.**

**In addition, the Board resolved to exercise its entitlement to request premature repayment of a convertible loan raised in 2004 through the issuance of a convertible debenture. The loan was set to mature for repayment in 2009. The formal conditions for premature repayment were fulfilled at the beginning of 2007.**

**At the beginning of February, the loan amount outstanding totaled SEK 125.5 million and a full 98.4 percent was subsequently converted, which meant that the amount repaid by the company totaled only SEK 1.9 million.**

**For the holders of convertibles, this entailed that they received shares with a value that was approximately double the nominal amount.**

**Following the implementation of the preferential rights issue and conversions, the number of shares in Active Biotech totals 47.3 million.**

## **SLIDE 25**

**In 2006, consolidated operating loss totaled SEK 124.6 million, compared with SEK 133.2 million in the preceding year – an improvement of SEK 8.6 million. However, it should be noted that earnings in the preceding year included a capital gain of SEK 54.7 million, with no cash effect, which is why the actual earnings improvement was obviously significantly better (approximately SEK 63 million).**

**Sales in 2006 totaled SEK 66.4 million, compared with SEK 9.2 million for 2005.**

**Of this amount, revenues from Teva totaled SEK 51.2 million. In addition, there were revenues from Chelsea Therapeutics totaling SEK 7.2 million, and service and rental revenues.**

**The operation's research, development and administration costs amounted to SEK 190.9 million, a decrease from SEK 197.1 million compared with the preceding year. Of the clinical product portfolio, three projects are financed by Active Biotech and two by our partners Teva and MediGene. A preclinical project is jointly financed with Chelsea Therapeutics.**

**Net financial items amounted to a loss of SEK 17.3 million compared with a loss of SEK 16.1 million in the preceding year. Net financial items include interest expenses attributable to the convertible loan of SEK 11.5 million and costs relating to financing of the purchase of our property in Lund in the amount of SEK 7.2 million.**

## **SLIDE 26**

**At year-end 2006, the Group's total assets amounted to SEK 462.4 million compared with SEK 567.9 million in the year-earlier period.**

**Following the sales of land in 2006, fixed assets totaled SEK 350.5 million and principally comprised the property and associated equipment, tools and fixtures and fittings.**

**Current assets amounted to SEK 111.9 million, of which cash and cash equivalents amounted to SEK 97.9 million compared with SEK 178.4 million at year-end 2005.**

**Total liabilities at year-end amounted to SEK 402.0 million, of which the property loan amounted to SEK 256.1 million and the convertible loan SEK 98.2 million.**

#### **SLIDE 27**

**The Group's negative cash flow for the year amounted to SEK 80.5 million compared with a negative SEK 36.4 million in the preceding year. The development is attributable to an improvement of the cash flow from operating activities of SEK 92.4 million to a negative SEK 100.1 million, compared with a negative SEK 192.5 million. Revenues from the sale of land in Lund generated SEK 25 million kronor.**

#### **SLIDE 28**

***Affärsvärlden's* biotechnology index, in which the Active Biotech share is included, increased in 2006 by about 25 percent. During the same period, the Active Biotech share fell by approximately 5 percent, from SEK 81.75 at the beginning of the year, to SEK 78.00 at December 31, 2006.**

**At year-end 2006, Active Biotech's market capitalization was slightly more than SEK 3.1 billion, compared with SEK 3.2 billion at year-end 2005. Following the recently concluded share issue and conversion of the debenture loan, the market capitalization is currently SEK 3.7 billion.**

## **SLIDE 29**

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

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

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

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

**We can look forward to another exciting year. All five clinical projects are now taking important steps on the path towards finally developed drugs and a sixth is approaching the clinical phase. In addition, we have the new preclinical program based on quinolines in development. In conjunction with scientific advances, we are also approaching new commercial successes.**

**I would like to thank you all for your attention.  
The next financial report will be published on May 4.  
I will now happily answer any questions.**